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CIBC CAPITAL MARKETS

EQUITY RESEARCH

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December 11, 2022 **Earnings Revision**

2023 Software & Services Outlook

Expecting Costs Optimization And A Continuation Of M&A

Our Conclusion

After several years of pandemic-fuelled growth, the software sector had a difficult 2022. Rising rates coupled with inflation and an uncertain macro environment led the stocks under our coverage to decline 31% Y/Y. At this point, we see signs of a bottom for tech stocks, with SaaS names now trading at an average EV/Sales multiple that is roughly in line with mature software names. That being said, the timing of a recovery remains uncertain and hinges on greater certainty on the timing and extent of a shift to a more dovish rate posture. As a result, we are taking a barbell approach to our top picks, with lower-risk options GIB.A and CSU at one end of the spectrum and higher-growth (but profitable) options KXS and MAGT at the other.

Key Points

S&P/TSX Info Tech Index Declined 31% In 2022: Our coverage universe declined 31% in 2022, underperforming the S&P/TSX, which contracted 4%. The best-performing names under coverage were MAGT (+21%) and GIB.A (+6%) while the weakest were QFOR (-74%) and DND (-71%). Looking into 2023 we expect debt/equity-fuelled consolidators will continue to underperform unless they can prove integration abilities, and even in an improving tech market, investors will focus on profitability.

Adjusting To An Uncertain Environment: Our tech names staffed up for growth in 2021 but, given an increased cost of capital in 2022, many companies under coverage have reprioritized profitability and cash flow. DCBO turned EBITDA positive in Q3/22, slightly ahead of schedule, while QFOR and DND announced workforce restructurings. While firms refocused on profitability, fundamental demand in the sector remains solid, with the Street forecasting 13% revenue growth in 2023E (down 5% from expectations at the beginning of the year) and 22% margins (down 80 bps).

2022 A Record M&A Year, Expect A Continuation In 2023: Our universe accelerated its M&A spending in 2022, with transformational deals from OTEX, CSU and TIXT. We believe the focus at these companies will turn towards integration in 2023 to drive top-line growth and margin improvement. That being said, with 40% of our coverage universe in a net cash position and 70% at sub-2x leverage, we expect M&A to continue into 2023 as firms take advantage of attractive valuations and put their cash to use.

Valuations Appear Close To A Floor: While we hesitate to call a bottom, there is an argument to be made that we are close to trough tech multiples. The average EV/NTM sales adjusted for growth (ERAG) multiple within our coverage is 0.34x, roughly in line with the 15-year average of 0.33x. SaaS and mature software valuations have converged to a spread of 0.5x on an EV/Sales basis, the narrowest gap since the 2017/2018 timeframe, when cloud deployments and digitization initiatives were much less prevalent.

Sector:

Information Technology

Key Changes

Price Target Changes

- CGI Inc. ↑
- Constellation Software Inc. ↑
- Converge Technology Solutions Corp. ↓
- Docebo Inc. ↑
- Kinaxis Inc. ↑
- Magnet Forensics Inc. ↑
- Q4 Inc ↓
- Softchoice Corporation ↓
- TELUS International (CDA) Inc. ↓

All figures in Canadian dollars otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on pages 14-15.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 17.

Remaining Defensive – But Foresee Potential Upside

After several very strong, pandemic-fuelled growth years, the technology sector has underperformed the S&P/TSX year to date in 2022, with the TSX Info Tech Index returning -31% in the year versus the overall S&P/TSX at -4%. Our coverage universe followed the broader technology trend, with only Magnet and CGI posting positive returns in 2022 year-to-date.

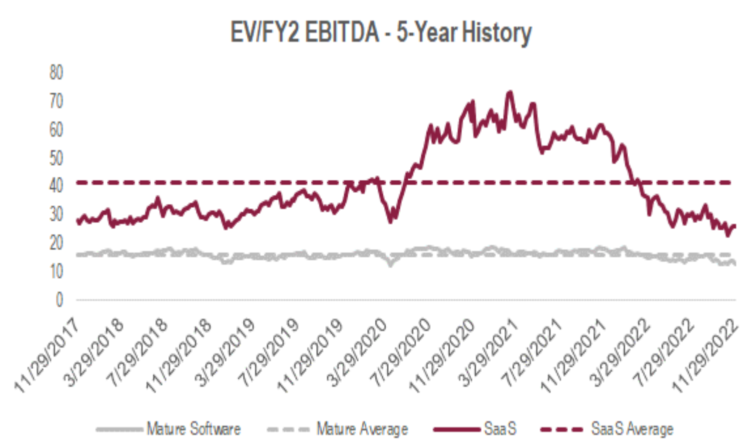
Exhibit 1: Software/Services Coverage – Returns & Valuation, 2021 – Current

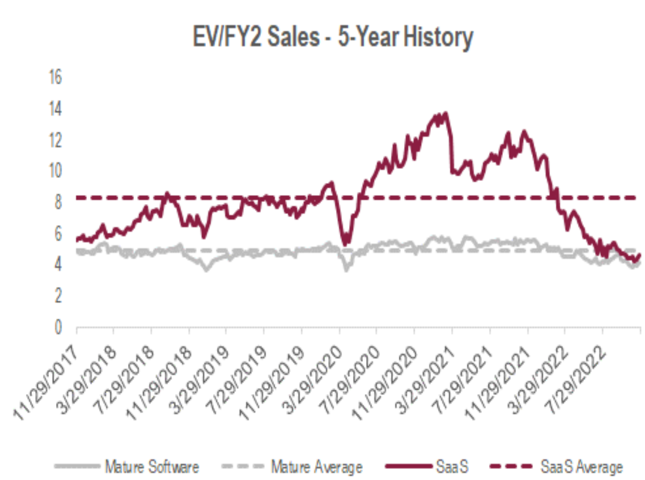
Company	Stock Performance		EV/Sales		
	2021	2022	12/31/2021	12/5/2022	% Change
Altus Group	44%	-24%	4.6x	3.5x	-23%
CGI Inc.	11%	6%	2.3x	2.2x	-4%
Constellation Software	42%	-10%	6.8x	4.6x	-33%
Converge	119%	-55%	0.9x	0.4x	-52%
Descartes	41%	-17%	14.5x	10.6x	-27%
Docebo	3%	-51%	13.6x	4.4x	-67%
Dye & Durham	-11%	-71%	6.4x	3.6x	-44%
Enghouse	-21%	-35%	4.7x	3.5x	-25%
Kinaxis	-2%	-15%	11.5x	7.1x	-38%
Magnet	41%	21%	10.7x	8.7x	-19%
Open Text	4%	-41%	4.5x	2.9x	-36%
TELUS International	9%	-38%	NA	2.3x	NA
Softchoice	1%	-30%	NA	NA	NA
Q4 Inc.	-21%	-74%	NA	0.0x	NA
Average	**19%**	**-31%**	**7.3x**	**4.2x**	**-33%**
Median	**7%**	**-33%**	**6.4x**	**3.5x**	**-33%**

Source: FactSet and CIBC World Markets Inc.

At this point, we see some signs of a bottom for the tech sector, with SaaS names now trading roughly in line with mature software names on an EV/FY2 sales basis, with the current spread at 0.5x compared to 6.9x observed last November.

Exhibit 2: Mature Software Vs. SaaS – Five-year Valuation History, November 2017 - November 2022





Source: FactSet and CIBC World Markets Inc.

That being said, the timing of a recovery remains uncertain, hinging on when central banks will feel comfortable pulling back on their attempts to combat inflation. Given the uncertainty around both the timing and extent of the shift to a more dovish posture, we are taking a barbell approach to our top picks, with lower-risk options CGI and Constellation at one end of the spectrum and higher-growth options Kinaxis and Magnet at the other end.

CGI and Constellation have demonstrated that their businesses are resilient through economic cycles while Kinaxis and Magnet are both profitable names with secular tailwinds (supply chain/digital forensics).

Rolling Over To 2024 Valuation Year: With this outlook, we are introducing our 2024 estimates and rolling over our valuation year. Our updated estimates and price targets are noted in the table in Exhibit 3.

Exhibit 3: Software/Services Coverage – Price Target Changes

	Rating	Price Target ($)			Multiple			Estimates			Upside scenario ($)		Downside scenario ($)	
Company		Old	New	Return to Target	Basis	Old	New	F2024	Variance to Street	Y/Y Growth Est.	Old	New	Old	New
GIB.A (CAD$)	OP	135	140	20%	EPS	20.0x	20.0x	7.1	-2%	6%	160	164	85	87
CSU (US$)	OP	2,300	2,450	17%	SoTP EV/EBITDA	22.0x	20.0x	2,219	10%	17%	3,100	3,335	1,500	1,554
CTS (CAD$)	NT	7	5.25	10%	EV/EBITDA	9.0x	6.5x	203	-4%	13%	14	12	4	2
DCBO (US$)	OP	54	66	61%	EV/Sales	6.0x	5.5x	252	10%	32%	73	83	26	35
SFTC(US$)	NT	20	16	12%	EV/EBITDA	12.5x	9.0x	98	-8%	10%	34.0	31.0	7.0	5.5
KXS (US$)	OP	190	200	31%	EV/Sales	10.0x	8.5x	486	0%	20%	290	308	120	142
TIXT (US$)	OP	US$36.5	US$30	51%	EV/EBITDA	15.0x	12.0x	736	-7%	7%	50	50	20	17
MAGT (US$)	OP	33	50	22%	EV/Sales	6.5x	8.0x	170	4%	31%	41	66	13	20
QFOR (US$)	NT	4.5	2.75	27%	EV/Sales	1.5x	0.8x	71	-2%	25%	9	9	1	1

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

Key Themes For The Software & Services Sector

Theme 1: Adjusting To An Uncertain Growth Environment

An uncertain macroeconomic climate, combined with an increasing cost of capital, has led many tech companies to reassess growth plans and reprioritize profitability and cash flow. Companies under coverage have become more selective in their investments for future growth and increased their focus on lean operations and cost control. Layoffs and slowing headcount growth at the upper end of the marker are well under way, with Amazon, Twitter and Meta all announcing substantial layoffs last month. November was a difficult month for the tech sector, with more than 200 tech companies laying off more than 51,000 employees, surpassing the 27,000 layoffs at the height of the COVID-19 pandemic in April 2020, according to data from Layoff.fyi, a site tracking tech layoffs since 2020.

For more mature tech companies, moves to right-size their cost structures and preserve margins have been a priority given an uncertain growth outlook and inflationary pressure. Wage inflation has been of particular concern given that salaries typically comprise the largest percentage of operating expenses. A focus on profitability is even more critical for those companies that are not yet cash flow positive. In a more difficult funding environment, we expect that these firms will focus on achieving cash flow breakeven as quickly as possible to avoid having to source additional funding in a tighter money environment. We also believe that some of the unprofitable tech companies may become M&A targets as cash-rich mature tech firms look to deploy capital in a more attractive valuation environment.

Within our coverage universe, a number of companies have taken steps to improve unit economics and prioritize profitability. Docebo turned EBITDA and free cash flow positive in Q3/22 (slightly ahead of schedule), Q4 Inc. recently announced a restructuring of its workforce and is targeting profitability by the end of 2023, and Dye & Durham announced restructuring and is mandating a return to the office, with the expectation being that the directive results in further attrition.

While tech firms are right-sizing amid a tighter money environment, we have yet to see a rapid deceleration in growth, with 2022E Y/Y revenue growth averaging 24% and the adjusted Y/Y EBITDA margin averaging 22% for the companies under coverage. As we look to 2023E, the Street is expecting Y/Y revenue growth of 13%, down from 23% expected at the beginning of the year. Current Adjusted EBITDA margin expectations are down 80 bps from the beginning of the year for the same period. The minimal changes to Street estimates suggest that staffing adjustments at many firms are primarily a right-sizing of outsized growth expectations coming out of the pandemic, rather than a fundamental decline in demand.

Exhibit 4: Software/Services Coverage – Street Revenue And EBITDA Growth Estimates, 2023

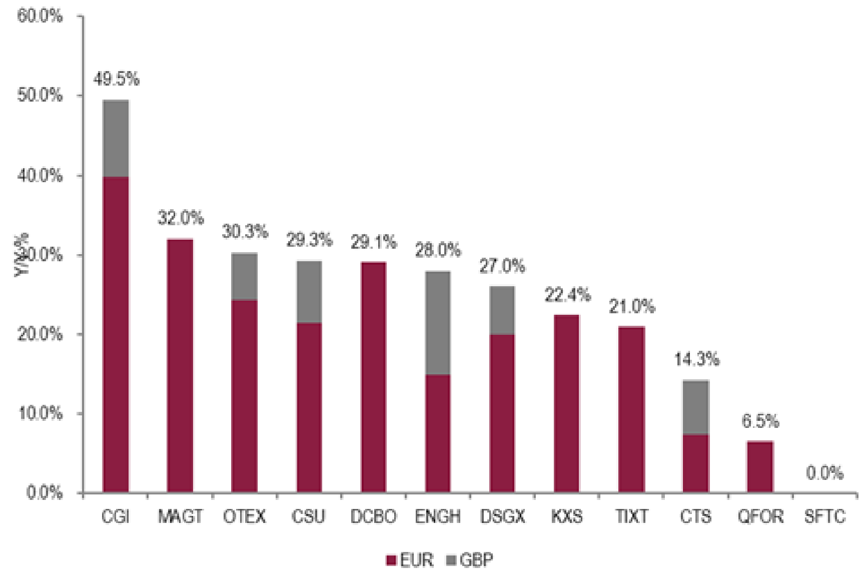
	Revenue Y/Y Growth %			EBITDA Margin		
	2022E	2023 Estimate (As Of December 2021)	2023 Estimate (Current)	2022E	2023 Estimate (As Of December 21)	2023 Estimate (Current)
AIF-CA	18%	5%	6%	18.4%	19.8%	18.3%
CSU-CA	29%	8%	17%	25.5%	29.3%	26.2%
CTS-CA	66%	-3%	23%	6.0%	9.0%	6.8%
DCBO-CA	37%	40%	29%	0.1%	4.0%	6.9%
DND-CA	39%	42%	4%	56.5%	57.9%	57.3%
DSGX-US	38%	10%	11%	43.8%	44.3%	44.2%
ENGH-CA	-9%	27%	2%	32.8%	34.8%	32.5%
GIB.A-CA	6%	1%	5%	5.2%	20.6%	20.1%
KXS-CA	47%	0%	13%	19.6%	21.9%	17.0%
MAGT-CA	38%	19%	30%	18.1%	17.6%	20.2%
OTEX-US	1%	6%	1%	36.1%	38.1%	36.6%
QFOR-CA	2%	65%	14%	-50.5%	-16.4%	-14.9%
SFTC-CA	9%	12%	7%	8.4%	10.0%	8.8%
TIXT-US	13%	17%	13%	24.5%	25.5%	24.9%
Average	24%	18%	13%	21.7%	22.6%	21.8%

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

Europe A Concern, But Appears Stable For Now: We expect that European software demand will remain a key focus in 2023, with European Union officials recently reducing growth forecasts for next year and predicting that the economy will continue to contract in Q1/23 against a backdrop of surging natural gas prices and the Russia/Ukraine war. That being said, the impact to date has been primarily FX related, with most management commentary noting a demand environment in Europe that is similar to the rest of the world.

Given the global nature of the software industry, a number of companies under our coverage derive a material amount of revenue from Europe and the U.K. CGI has the largest European/U.K. exposure, which we estimate at ~50% of revenue. Further, we estimate that Magnet, Open Text, Constellation, Docebo and Enghouse each derive roughly 30% of revenue from the region.

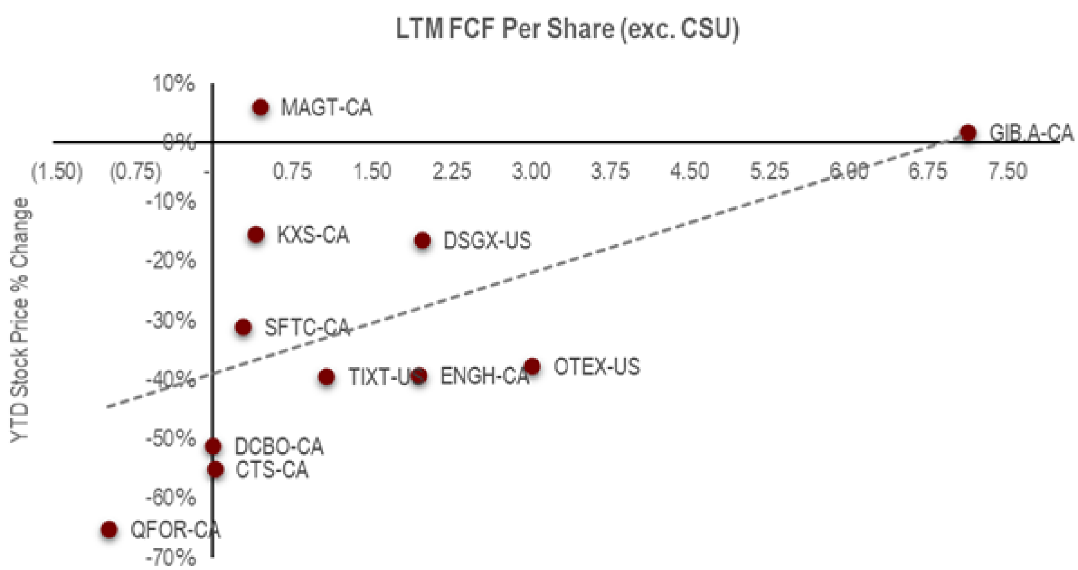
Exhibit 5: Software/Services Coverage – Euro And GBP Revenue Exposure, Current (%)



Source: Company reports and CIBC World Markets Inc.

In a more defensive environment, we believe that the focus should be on free cash flow, with Constellation ($69/share) and CGI ($7/share) scoring very well on those metrics.

Exhibit 6: LTM FCF Per Share Within Our Coverage List



Source: Company reports and CIBC World Markets Inc.

Theme 2: 2022 Was A Record M&A Year; Expecting More Of The Same In 2023

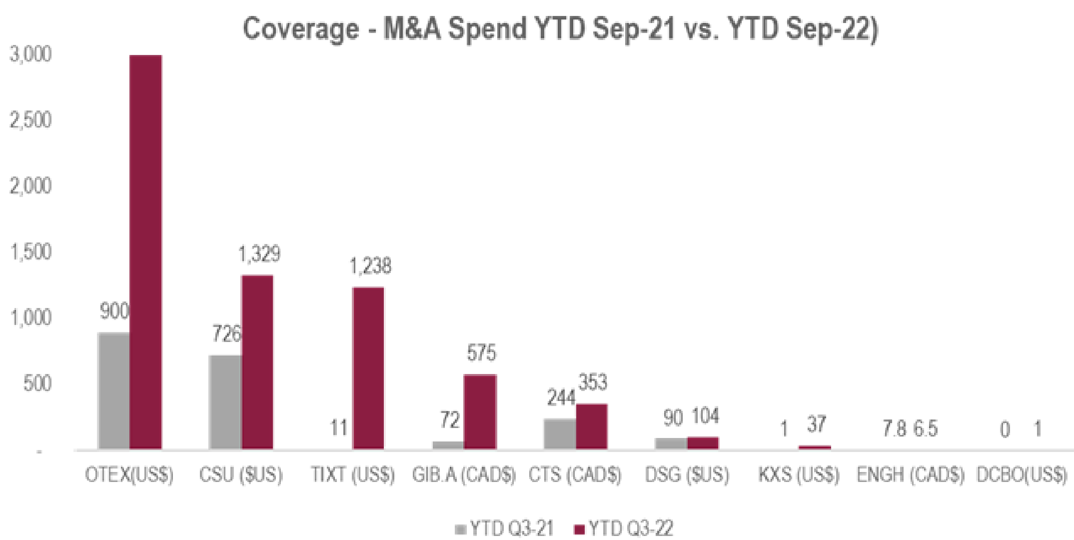
We expect vendor consolidation to be a trend that continues in 2023 as customers look to manage costs more effectively. We foresee this trend impacting smaller tech vendors, potentially leading to tuck-in M&A opportunities for larger firms that can offer more integrated solutions and those that target smaller acquisitions.

For example, a recent survey by Gartner UK found that 75% of organizations are pursuing security vendor consolidation in 2022, a significant increase from 29% in 2020. The survey found that 65% of respondents believe that consolidation of security vendors would result in an improved risk posture while 29% believe it will reduce spending on licenses while minimizing complexities. Some cybersecurity companies are already seeing this trend play out in their results. In Q3/22 Palo Alto Networks reported an earnings beat, specifically noting that customers are becoming more discerning with their spending and focusing on vendors that can bundle services to reduce costs. Within our coverage universe, we see larger firms such as CGI, TELUS International and Open Text benefitting from this development given the full stack of solutions they can provide.

M&A Integration To Be A Focus

With valuations compressing in 2022, companies within our coverage universe saw an acceleration in M&A activity, as illustrated in the bar chart in Exhibit 8. Commentary across our coverage universe has been that private equity is becoming less aggressive given interest rate hikes and the general market environment, allowing strategic acquirers with solid cash positions to bid more competitively on larger deals.

Exhibit 7: Software/Services Coverage – M&A Spend, 2021 - 2022



Note: Chart above presents companies with material M&A in 2021/2022

Source: Company reports and CIBC World Markets Inc.

Open Text, TELUS International, and Constellation made substantial acquisitions in 2022 and we expect these companies to focus on the integration of these businesses in the upcoming year. Deal-making has not been limited to large deals, with Converge increasing M&A and spending $353MM YTD on a number of acquisitions. Even Kinaxis, which has been primarily an organic growth story, turned to M&A to strengthen its product suite, acquiring MPO for US$45MM.

Expecting M&A To Continue In 2023

We foresee the opportunity for further M&A in 2023, with roughly half our coverage universe in a net cash position, as noted in the left-hand side of the table in Exhibit 9. We regard CGI, Descartes, Kinaxis and Enghouse as well positioned to continue M&A activity. From a defensive point of view, we see the possibility that increased M&A activity may also lead some of the companies under coverage to become M&A targets. We consider Enghouse, Q4 Inc. and Kinaxis as potential take-out candidates given solid cash flow generation (ENGH), attractive valuations (QFOR) and consolidating markets (KXS).

Exhibit 8: Software/Services Coverage Universe – Liquidity And M&A, 2022

Company	Available Liquidity ($MM)	Net Debt ($MM)	Leverage (Net Debt/LTM EBITDA)
ENGH (C$)	$226	($226)	NA
DCBO (US$)	213	(213)	NA
KXS (US$)	202	(202)	NA
DSGX (US$)	184	(184)	NA
MAGT (US$)	121	(121)	NA
QFOR (US$)	31	(31)	NA
CSU (US$)	1,160	1,160	0.7x
GIB.A (C$)	2,500	2,300	0.9x
CTS (C$)	724	200	1.5x
SFTC (US$)	200	145	1.9x
AIF (C$)	273	340	2.7x
TIXT (US$)*	142	1,800	3.0x
DND (C$)**	1,146	932	3.5x
OTEX (US$)*	550	8,426	3.9x
Average	**$385**	**$300**	**2.2x**

Company	2022 YTD Acquisition Spend (Announced & Closed) ($MM)	2022 YTD Notable Acquisitions
OTEX (US$)	$6,018	Micro Focus ($6B)
CSU (US$)	1,329	Allscripts Healthcare ($700MM)
TIXT (US$)	1,238	WillowTree ($1.2B)
GIB.A (C$)	575	Harewell ($46MM) and Umanis ($315MM)
CTS (C$)	353	12 acquisitions closed YTD
DSGX (US$)	104	Two acquisitions, XPS Ship ($65MM)
KXS (US$)	37	MPO ($34MM)
ENGH (C$)	7	Voiceport, NTW and Competella (~$6.5MM)
MAGT (US$)	2	Comae Technology
DCBO (US$)	1	
QFOR (US$)	0	
SFTC (US$)	0	
DND (C$)	0	
AIF (C$)	NA	Rethink (not disclosed)
Total ($)	**$9,664**	

* OTEX and TIXT net debt calculated on a pro forma basis including acquisitions, which are expected to close in Q1/C23.

**DND Leverage calculated on Adjusted EBITDA before adding back M&A costs.

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

Theme 3: Returning Capital

Share buybacks in the information technology sector have been trending upwards in recent years, with an 83% increase in total dollar spend on share repurchases for S&P/TSX Info Tech constituents between 2018 to 2021. This trend continued in 2022, with our coverage universe deploying $1.288MM on share repurchases year to date. CGI has engaged in the bulk of that buyback spending, returning ~$7.759B to shareholders over the past 10 years.

We expect the Canadian Minister of Finance's recent decision to implement a 2% tax on share buybacks in early 2024 to potentially influence capital allocation decisions in 2023. We expect share repurchases to continue being prioritized by companies with excess cash flow in the coming year to take advantage of this pre-tax window, especially if share prices remain weak.

Exhibit 9: Software/Services Coverage – Share Buybacks, 2021 To YTD 2022

Company	NCIB Status	NCIB Approval (% Of Float)	2021 Repurchase ($MM)	YTD Purchase ($MM)	Average Price/Share	Current Share Price	NCIB Shares Remaining (MM)	Net Debt	YTD Share Price %
CGI Inc.	Active – February 2023	10%	$1,534	$909	$105	$113	12	$2,300	6%
Open Text	Not Active	NA	184	177	NA	30	NA	8426*	-41%
Dye & Durham	Active – September 2023	5%	NA	199	16	13	7	932	-71%
Softchoice	Active – March 2023	10%	14	31	21	16	29	146	-32%
Converge	Active – August 2023	5%	NA	31	~$6	4	11	200	-55%
Enghouse	Active – May 2023	5%	NA	9	27	30	3	(226)	-35%
Altus Group	Active – February 2023	3%	NA	8	NA	54	13	340	-24%
Descartes Systems	Active – June 2023	10%	NA	0	NA	73	7	(184)	-17%

* OTEX net debt calculated on a pro forma basis including the Micro Focus acquisition, which is expected to close in Q1/C23.

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

In addition to share buybacks, tech names have been increasingly implementing dividends to return capital to shareholders, with Softchoice the most recent company under coverage to initiate a dividend and Enghouse and Open Text growing their dividends by +10% in 2022.

Exhibit 10: Software/Services Coverage – Dividends, Three-year History

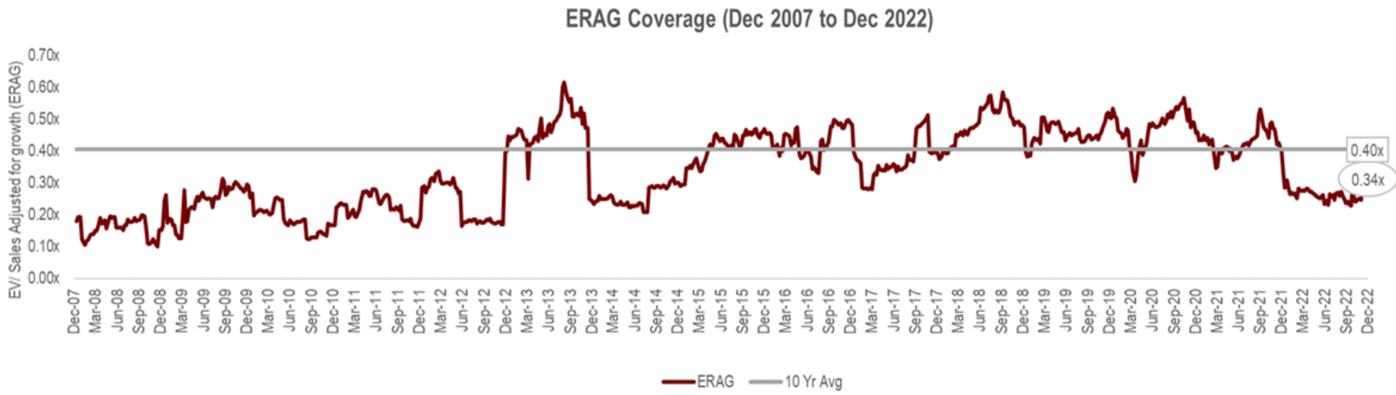
	LTM Dividend Yield	Dividend Growth (2022)	Three-year Growth Rate
Softchoice	$2.33	100%	100%
Enghouse	2.3	22%	47%
Open Text	3.23	11%	32%
Constellation	0.25	3%	-4%
Dye & Durham	0.58	0%	100%
Altus	1.14	0%	0%

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

Theme 4: Valuation Favours Growth Picks

Valuations in the tech sector have undergone a dramatic re-rating in 2022. The average EV/EBITDA multiple for the S&P 500 Info Tech Sector (FY2) is 14.3x, down from a peak of 25.3x in November 2021. As illustrated in the line chart in Exhibit 12, the current median EV/NTM sales adjusted for growth (ERAG) calculation for our coverage universe sits at 0.34x, below the 10-year average of 0.4x and roughly in line with the 15-year average of 0.33x. At these levels, we see the sector as potentially starting to find a floor. While there may be rational argument that sector valuations have bottomed, we remain hesitant in taking an overly bullish stance on the tech sector while the macroeconomic picture remains murky.

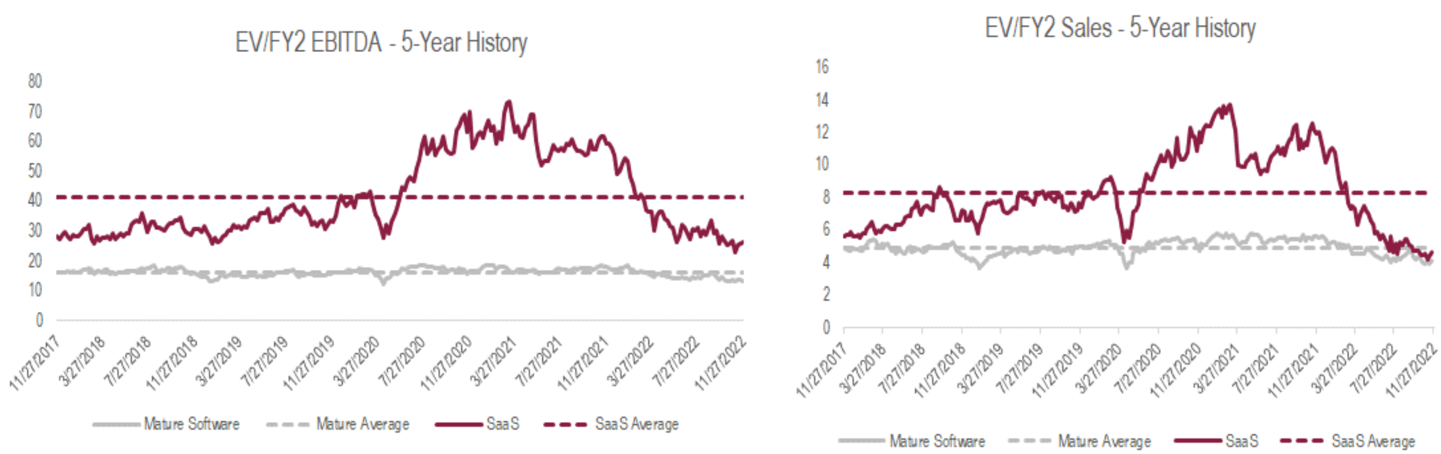
Exhibit 11: Software/Services Coverage – Median ERAG, December 2007 - December 2022



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

While we hesitate to call a bottom, there is an argument to be made that we are close to trough tech multiples. The average SaaS multiple is now trading at a 37% discount to the five-year average, compared to mature software names trading at a 19% discount over the same period. The SaaS and mature software names have converged since November 2021, with the current spread at 0.5x compared to 6.9x last November, the narrowest that gap has been since 2017-2018, a time when cloud deployments and corporate digitization initiatives were much less pervasive.

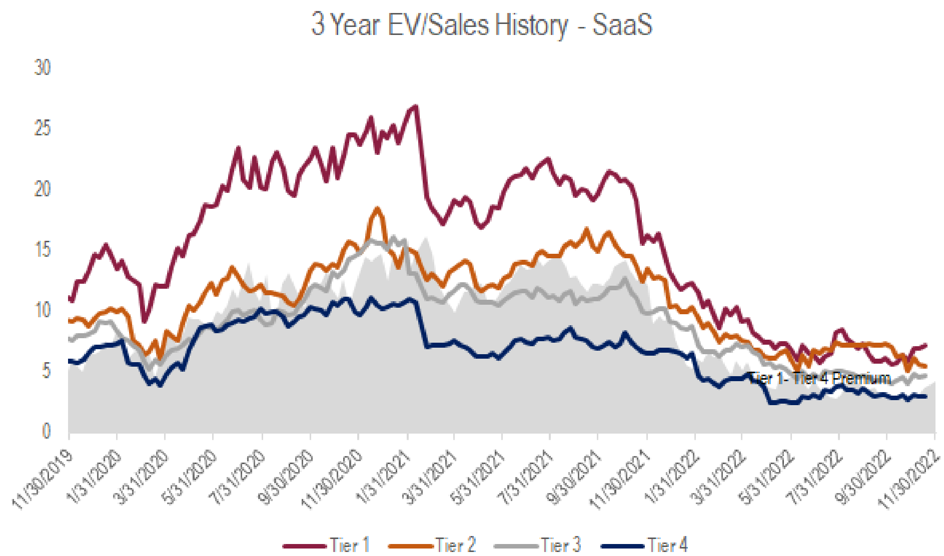
Exhibit 12: Mature Software Vs. SaaS – Five-year Valuation History, November 2017 - November 2022

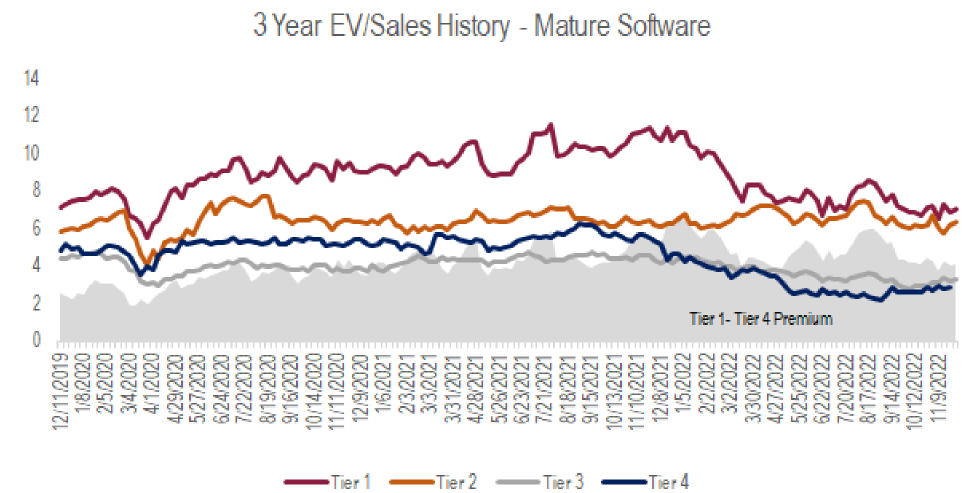


Source: FactSet and CIBC World Markets Inc.

A look at the SaaS names in more granular detail shows that the high-growth SaaS names have experienced the largest pullback. As illustrated in the line graph in Exhibit 14, the highest Rule-of-40 (revenue growth + FCF margin) names have seen the most devaluation and are now trading at an 8% premium to Tier 2 compared to a 130% premium in February 2020.

Exhibit 13: Mature Software Vs. SaaS – EV/S Valuation History, December 2019 - December 2022





Source: FactSet and CIBC World Markets Inc.

Our coverage universe is trading at an average multiple of 3.9x EV/Sales, down 1.5x from December 2021 levels. Average valuations are trading at a 1.5x discount to their two-year averages, with all companies with the exception of Descartes and Altus trading below their five-year averages.

Exhibit 14: Software/Services Coverage – Historical Valuation, November 30, 2022

Company	EV/Sales (FY2)	Two-year Average	∆	Five-year Average	∆
Altus	3.58x	2.28x	1.30x	2.22x	1.36x
CGI Inc.	2.16x	2.28x	-0.12x	2.22x	-0.06x
Constellation	4.37x	5.38x	-1.01x	4.99x	-0.62x
Converge	0.39x	0.59x	-0.20x	NA	NA
Descartes	11.26x	12.08x	-0.82x	10.18x	1.08x
Dye & Durham	3.59x	5.71x	-2.12x	NA	NA
Enghouse	3.53x	4.58x	-1.05x	4.74x	-1.21x
Kinaxis	7.48x	10.26x	-2.78x	9.57x	-2.09x
Magnet	6.96x	NA	NA	NA	NA
Open Text	3.05x	4.15x	-1.11x	4.12x	-1.08x
Q4 Inc.	0.82x	NA	NA	NA	NA
Softchoice	0.94x	NA	NA	NA	NA
TELUS International	2.22x	NA	NA	NA	NA
Average	**3.89x**	**5.54x**	**-1.23x**	**5.13x**	**-0.25x**
Median	**3.58x**	**4.58x**	**-1.01x**	**4.43x**	**-0.34x**

Source: FactSet and CIBC World Markets Inc.

Our Best Ideas For 2023

After a difficult year for the technology names, the macro environment remains uncertain. We, therefore, expect many of the key themes from 2022 to persist in 2023. That being said, we see tech sector valuations as near bottom and expect greater certainty on the rate hike path and inflation to lead to a recovery in the sector. Given the uncertainty of the recovery, we have taken a barbell approach to our top picks for 2023. We include two defensive, mature software and services names (Constellation, CGI) and balance them with two more growth-oriented, profitable SaaS names with multi-year secular tailwinds (Kinaxis and Magnet).

Constellation (CSU)

Constellation has renewed its focus on capital deployment, spending $1,329MM on M&A year to date in 2022 versus its prior record spend of $726MM over the same period in 2021. We foresee upside to 2023 estimates as Constellation integrates Altera and we consider Constellation as well positioned to continue M&A in 2023. We calculate leverage of 0.7x and expect the company to have free cash flow of $1,486MM in 2023E. The M&A environment remains attractive to Constellation, with rising rates potentially reducing private equity competition for larger deals and lower valuations allowing the company an expanded pool of prospects that meet its hurdle rates. We estimate revenue growth of 13% and M&A spending of $24MM in 2023E. We calculate our $2,450 price target based on a sum-of-the-parts valuation, which values Constellation's 30% ownership of Topicus at market rates and the remainder of the business at 20x EBITDA.

CGI Inc. (GIB.A)

CGI is benefiting from digitization tailwinds and a client base that is looking for cost savings through managed services and IP solutions. CIBC's revenue growth expectations for F2023 are supported by a solid LTM book to bill (1.09x), which is trending slightly higher than the historical average (1.07x). We expect F2023 revenue growth of 4% and an adjusted EBIT margin of 16.3%, up 20 bps Y/Y as the company continues to upskill workers and increase its offshore headcount to offset wage inflation. CGI closed five acquisitions in F2022, spending just under $600MM, up significantly from a little under $100MM in F2021. M&A focused on establishing and supporting existing metro markets, with a focus on firms that bring their own IP. With future M&A not included in Street estimates, we estimate 4%-7% EPS accretion if CGI can accomplish $800MM to $1.2B in M&A in F2023, and further upside if it can undertake a larger deal. CGI has $2.5B in readily available liquidity and we calculate that it can spend up to $6B while remaining within its targeted 3x leverage range. CGI is trading at 18x earnings, below its pre-COVID-19 level of 21x forward earnings.

Kinaxis (KXS)

Kinaxis is well positioned to benefit from accelerated technology spending and supply chain digitization. We believe that potential clients put large-scale digitization efforts on hold through recent supply chain disruptions and we foresee upside as spending resumes post-supply-chain-related disruptions. In the interim, Kinaxis continues to see growth through its RapidStart program, which allows customers to select targeted RapidResponse implementations. We believe that the RapidStart program provides Kinaxis with a strong sales pipeline for broader implementations once the environment normalizes.

We expect 24% subscription revenue growth in 2023E as the company continues to benefit from RapidStart and an improving sales funnel post-COVID. Given that we expect 2023 to mark the trough of Kinaxis' three-year term license cycle, we do expect adjusted EBITDA margins to be down 160 bps Y/Y but regard this impact as timing related. Kinaxis had net cash of $202MM at the end of Q3 and was relatively quiet on the M&A front in 2022. We foresee upside from Kinaxis using its cash to pursue M&A to broaden the RapidResponse solution. We calculate our $200 price target by applying a 8.5x EV/Sales multiple to our 2024 revenue forecast, which models subscription revenue growth of 24% in 2024E. With Kinaxis trading below its two-year EV/Sales average (7.5x EV/Sales versus 10.25x), we consider it attractively valued at current levels.

MAGT (MGT)

Magnet is well positioned, in our view, to benefit from accelerated cybersecurity spending. We expect 34% revenue growth in 2023E as the company continues to benefit from secular tailwinds driving demand for its solutions. We also expect stronger term license revenue in 2023E, forecasting it to increase by 40% Y/Y to $39.2MM as the company transitions its user base off of perpetual licenses. We expect high-margin license revenue will also benefit adjusted EBITDA margins, which we expect to rise 510 bps Y/Y to 22.6%. Magnet had net cash of $120MM at the end of Q3 and was relatively quiet on the M&A front in 2022. We foresee upside from Magnet using its cash to pursue M&A and expect the company to primarily target tuck-in acquisitions that can add key technical talent and/or expand the company's presence in adjacent markets. We calculate our $50 price target by applying a 8.0x EV/Sales multiple to our 2024 revenue forecast, which is 0.5x discount to our Kinaxis multiple given Magnet's stronger revenue growth and adj. EBITDA margins but a smaller market cap and lower float.

Price Target Calculations And Key Risks To Price Targets

Price Target Calculation – CGI Inc.

Our price target of $140 (prior $135) is based on 20.0x 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) analysis 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 – CGI Inc.

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.

Price Target Calculation – Constellation Software

Our $2,450 price target (prior $2,300) is based on a sum-of-the-parts methodology. We value CSU (ex-TOI) at a 20x forward EBITDA multiple, a premium to enterprise software peers, and CSU's 30.35% ownership of TOI at market value.

Key Risks To Price Target – Constellation Software

The primary risks to our price target include the following: 1) ability to scale; 2) ability to acquire; 3) vertical market exposure; and, 4) lack of detailed disclosure.

Price Target Calculation – Converge Technology Solutions

We derive our price target of $5.25 (prior $7.00) by applying a 6.5x EV/EBITDA multiple to our 2024 EBITDA estimate based on the current capital structure.

Key Risks To Price Target – Converge Technology Solutions

The primary risks to our price target include the following: 1) the company's ability to acquire ITSPs at reasonable valuations; 2) increasing competition from other IT Solutions providers; 3) volatility in the global IT environment; 4) the company's ability to partner with leading technology providers; and, 5) the loss of key management or other employees.

Price Target Calculation – Docebo Inc.

Our price target of $66 (prior $54) is based on a 5.5x EV/Sales multiple applied to 2024E sales and based on the current capital structure. Our target multiple is in line with SaaS peers with similar Rule-Of-40 scores.

Key Risks To Price Target – Docebo Inc.

Primary risks to our price target include: 1) slower LMS cloud adoption; 2) lackluster product development; 3) competitive marketplace; and, 4) limited customer expansion.

Price Target Calculation – Kinaxis Inc.

We calculate Kinaxis' price target of $200 (prior $190) based on an 8.5x EV/Sales multiple on our 2024 revenue estimate under the current capital structure.

Key Risks To Price Target – Kinaxis Inc.

The primary risks to our price target include the following: 1) customer concentration risk; 2) economic conditions; 3) ability to scale; and, 4) competition.

Price Target Calculation – Magnet Forensics

We derive our price target of $50 (prior $33) by applying an 8x EV/Sales multiple to our 2024 sales estimate based on the current capital structure. The 8x multiple is 0.5x below other larger-cap Rule-of-40 peers.

Key Risks To Price Target – Magnet Forensics

The primary risks to our price target include the following: 1) competitive threats erode market share; 2) data/security concerns relating to data breach or privacy violation; 3) potential regulation on use of digital forensics tools; 4) acquisitions lead to margin pressure; and, 5) valuation environment worsens as interest rate outlook changes.

Price Target Calculation – Q4 Inc.

We derive our price target of $2.75 (prior $4.50) by applying a 0.8x EV/Sales multiple to our 2024 revenue estimate.

Key Risks To Price Target – Q4 Inc.

The primary risks to our price target include the following: 1) a lack of demand in foreign markets; 2) IPO market decelerates; 3) profitability remains a challenge; 4) lack of acquisition synergies; 5) upsell rates stagnate or shrink; and, 6) rising rates lead to software valuation contraction.

Price Target Calculation – Softchoice Corporation

We derive our price target of $16 (prior $20) by applying a 9x EV/EBITDA multiple to our 2024 EBITDA estimate based on the current capital structure. The 9x multiple is in line with software-focused IT Solution providers, including Softcat, Crayon, Bytes and SoftwareOne.

Key Risks To Price Target – Softchoice Corporation

The primary risks to our price target include the following: 1) volatility in the global IT environment; 2) increasing competition from other IT Solutions providers; 3) the company's ability to introduce new or updated technology in a timely manner; 4) the company's ability to partner with leading technology providers; and, 5) the loss of key management or other employees.

Price Target Calculation – TELUS International

We derive our price target of $30 (prior $36.50) by applying a 12.0x EV/EBITDA multiple to our 2024 EBITDA estimate based on the current capital structure. The 12.0x multiple is a blended average of Digital Services, BPO, and IT Services peers.

Key Risks To Price Target – TELUS International

The primary risks to our price target include the following: 1) risks related to the concentrated customer base; 2) an increase in employee attrition rates; 3) litigation related to the working conditions for content moderation team members; 4) challenges in integrating future acquisitions; and, 5) increased competition from well-capitalized peers.

CIBC Ratings and Price Targets

Ticker	Price	Price Target Prior	Price Target Current	Rating Prior	Rating Current
GIB.A-CA	C$116.16	C$135.00	C$140.00	Outperformer	Outperformer
CSU-CA	C$2088.99	C$2300.00	C$2450.00	Outperformer	Outperformer
CTS-CA	C$4.68	C$7.00	C$5.25	Neutral	Neutral
DCBO-CA	C$43.92	C$54.00	C$66.00	Outperformer	Outperformer
KXS-CA	C$148.42	C$190.00	C$200.00	Outperformer	Outperformer
MAGT-CA	C$41.68	C$33.00	C$50.00	Outperformer	Outperformer
QFOR-CA	C$2.09	C$4.50	C$2.75	Neutral	Neutral
SFTC-CA	C$15.90	C$20.00	C$16.00	Neutral	Neutral
TIXT-US	US$19.52	US$36.50	US$30.00	Outperformer	Outperformer

Source: Company reports and CIBC World Markets Inc.

Changes To CIBC Estimates

Ticker	Earnings Type	FYE	2022 Prior	2022 Current	2023 Prior	2023 Current	2024 Prior	2024 Current
GIB.A-CA	Adj. EPS	Sep	C$6.10	C$6.10	C$6.43	C$6.67	C$6.81	C$7.07
CSU-CA	EBITDA	Dec	US$1642.14	US$1642.14	US$1895.83	US$1895.83	--	US$2219.49
CTS-CA	Adj. EBITDA	Dec	C$134.66	C$134.66	C$180.20	C$180.20	--	C$202.80
DCBO-CA	Revenue	Dec	US$143.37	US$143.37	US$191.71	US$191.71	--	US$252.32
KXS-CA	Revenue	Dec	US$369.74	US$369.74	US$410.79	US$406.79	--	US$486.24
MAGT-CA	Revenue	Dec	US$97.02	US$97.02	US$129.75	US$129.75	--	US$169.81
QFOR-CA	Revenue	Dec	US$57.04	US$57.04	US$65.49	US$65.49	--	US$71.27
SFTC-CA	Adj. EBITDA	Dec	US$79.69	US$79.75	US$88.05	US$88.30	--	US$97.54
TIXT-US	Adj. EBITDA	Dec	US$604.10	US$604.10	US$688.21	US$688.21	--	US$736.29

Source: Company reports and CIBC World Markets Inc.

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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.
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CIBC World Markets Inc. Price Chart

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Underperformer	6	2%	Underperformer	6	100%
Tender	3	1%	Tender	3	100%
Restricted	10	3%	Restricted	10	100%

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