CIBC CAPITAL MARKETS

EQUITY RESEARCH

July 14, 2023 **Earnings Update**

TELUS INTERNATIONAL (CDA) INC.

Pre-announces Q2 And Reduces Full-year Guidance

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Our Conclusion: After market close Thursday, TI released preliminary Q2 results that were weaker than expected and revised its full-year guidance down. The midpoint of both the Q2 and FY revenue guides were ~8% below expectations, with the revenue reduction translating into reduced operating leverage. Q2 adj. EBITDA margins at the midpoint were 560 bps below expectations, although the company has put in place a series of cost savings measures that are expected to improve margins in H2 and beyond. While management's prior guide had incorporated an improving demand environment, Q2 was characterized by a reduction in demand from some of its larger clients, particularly in the technology vertical as clients focus on profitability. We are reducing our price target to US$20 (prior US$30) as we update our financial model. We retain our Outperformer rating given the stock's discounted valuation, currently trading at 8.9x 2024E EV/EBITDA vs. a blended peer average of 11.3x.

Key Points

Revenue Guidance Reduced: TI updated its Q2/23 revenue guidance to $660MM to $668MM, 8% below consensus of $719.9MM at the midpoint. The pre-announcement implies a 1% organic decline in the quarter versus our expectation of 7% organic growth. Full-year guidance was also revised to $2,700MM to $2,730MM, down from previous guidance of $2,970MM to $3,000MM and 9% below consensus of $2,970MM at the midpoint. The revised FY guidance implies organic growth of 1%-2%, down from the previous guidance of 10% to 12%. The company cited a difficult demand environment, particularly in the technology vertical, as a key factor, as well as delays and lower-than-expected activity in new business.

Less Operating Leverage As Cost Cuts Take Time: The revised Q2/23 adjusted EBITDA guidance of $117MM to $120MM was 30% below consensus of $168.7MM at the midpoint. Full-year adjusted EBITDA guidance was revised to $575MM to $600MM, 17% below consensus of $710.2MM at the midpoint. TI continues to see pressure in its European operations where the impact to profitability is compounded by delayed cost savings from labour reductions due to regional regulations. Demand has also been skewed towards lower margin onshore work, which compounds the impact to profitability. A cost efficiency program is expected to positively impact H2/23 with $40MM of in-year savings, but with full impact not realized until F2024. Management expects TI to exit Q4/23 with a 23% EBITDA margin, implying H2/23 improvement compared to the 17.7% to 18.0% Q2/23 guidance.

Leverage Remains Reasonable: TI's net debt to adjusted EBITDA leverage is expected to remain just under 3x, as per its credit agreement, despite the Y/Y decrease in guided adjusted EBITDA.

Outperformer

TIXT-NYSE, Sector: Information Technology

Current Price (7/13/23):	US$14.71
Price Target (12-18 mos.):	↓**US$20.00**
Previous:	US$30.00

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
Adj. EPS	1.01A	1.23A	0.90E	1.12E
Prior		1.23E	1.25E	1.50E
Adj. EBITDA(mln)	540.0A	607.0A	579.3E	701.3E
Prior		607.0E	707.7E	812.2E

Adj. EPS	Q1	Q2	Q3	Q4
2023	0.28A	0.16E	0.20E	0.27E
Prior		0.28E	0.34E	0.36E
2022	0.26A	0.30A	0.32A	0.35A

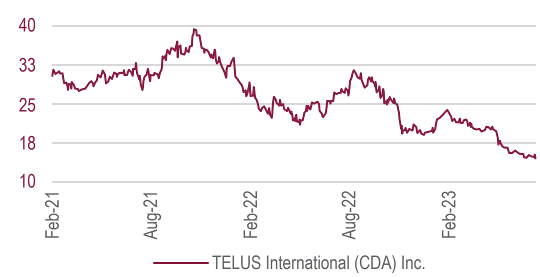
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	155.0A	118.0E	141.3E	164.9E
Prior		163.9E	190.3E	198.5E
2022	142.0A	150.0A	158.0A	157.0A

Valuation	2021	2022	2023	2024
P/E	14.6x	11.9x	16.4x	13.1x
EV/EBITDA	11.5x	10.2x	10.7x	8.9x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	148K	Shares O/S:	276.0M
Market Cap.:	US$4,060M	Float:	70.4M
52-wk Range:	JS$14.56 - US$31.48	Div. / Yield:	NIL/NIL

TIXT-NYSE



(Source: FactSet)

All figures in US 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.

TELUS International (CDA) Inc. (TIXT-NYSE) — Outperformer

Price (7/13/23) US$14.71 12-18 mo. Price Target US$20.00

Sector: Information Technology

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Key Financial Metrics	2021	2022	2023E	2024E
Sales Growth	32.6%	12.5%	9.9%	7.4%
Per Share Data	**2021**	**2022**	**2023E**	**2024E**
Diluted EPS	0.30	0.68	0.18	0.49
Adj. EPS Dil.	1.01	1.23	0.90	1.12
Wgt Avg # of Shares	261.7	266.0	273.0	273.0
FD Number of Shares	264.2	269.3	276.0	276.0
Income Statement	**2021**	**2022**	**2023E**	**2024E**
Revenue	**2,194**	**2,468**	**2,712**	**2,913**
Cost of Goods Sold	0	0	0	0
Gross Profit	**2,194**	**2,468**	**2,712**	**2,913**
Tot Operating Exp	1,752	1,926	2,210	2,261
OpEx (% of Revenue)	79.85%	78.04%	81.47%	77.61%
Adj. EBITDA	**540**	**607**	**579**	**701**
Adj EBITDA Margin	24.6%	24.6%	21.4%	24.1%
Net Income	**78**	**183**	**49**	**136**
Adjusted Net Income	**267**	**332**	**247**	**309**
Adjusted Net Margin	12.2%	13.5%	9.1%	10.6%
Cash Flow Statement	**2021**	**2022**	**2023E**	**2024E**
Net CFO	**282**	**437**	**308**	**336**
Capex	(99)	(105)	(104)	(120)
Free Cash Flow	**183**	**332**	**204**	**216**
Balance Sheet	**2021**	**2022**	**2023E**	**2024E**
Cash & ST Investment	115	125	154	154
Intangible Assets	1,158	1,008	1,624	1,435
Goodwill	1,380	1,350	1,966	1,966
Total Assets	**3,626**	**3,556**	**5,009**	**4,959**
ST Int-Bearing Debt	328	83	120	120
LT Int-Bearing Debt	820	881	2,111	1,983
Total Liabilities	**1,971**	**1,718**	**3,256**	**3,070**
Shareholders' Equity	**1,655**	**1,838**	**1,753**	**1,889**
Tot Liab & SE	**3,626**	**3,556**	**5,009**	**4,959**

Source: FactSet, Company Reports & CIBC World Markets Inc.

Company Profile

TELUS International is a provider of multilingual digital customer experience and digital IT solutions to global clients.

Investment Thesis

TI's focus on digital services and high-growth verticals provides a long runway for growth as the company improves its digital offerings and expands within the customer base.

Price Target (Base Case): US$20.00

Our Price Target is calculated using 15% revenue growth, 24.9% EBITDA margins and a 11.0x EV/EBITDA multiple

Upside Scenario: US$42.00

Our upside scenario is calculated using 20% revenue growth, 25.0% EBITDA margins and a 17.0x EV/EBITDA multiple

Downside Scenario: US$8.00

Our downside scenario is calculated using 10% revenue growth, 19.5% EBITDA margins and a 8.0x EV/EBITDA multiple

Scenario Analysis:

CIBC

Financial Summary

Exhibit 1: TIXT – Financial Summary, Q2/23E And F2023E

	Q2-F2023				F2023			
	Guidance	Cons.	Cons. vs. Guidance AThe Midpoint	CIBCe	Guidance	Cons.	Cons. vs. Guidance At The Midpoint	CIBCe
Consolidated								
Revenue ($mm)	660 - 668	719.9	-7.8%	663.0	2,700 - 2,730	2,970.0	-8.6%	2,712.2
Adj. EBITDA ($mm)	117 - 120	168.7	-29.8%	118.0	575 - 600	710.2	-17.3%	579.3
EBITDA Margin	17.7% - 18.0%	23.4%	-5.6%	17.8%	21.3% - 22.0%	23.9%	-2.3%	21.4%
Adjusted EPS ($)	0.15 – 0.17	0.27	-40.7%	0.16	0.90 – 0.97	$1.22	-23.4%	0.90

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

Changes To Our Model: We have updated our model to reflect the revised guidance, including decreased revenues, adj. EBITDA, and adj. EPS.

Exhibit 2: TIXT – Changes To Our Model, 2022 - 2024E

	Revenues ($MM)	Adjusted EBITDA ($MM)	Adjusted EPS ($)	CFO ($MM)
2022	2,468	607	1.23	437
2023E				
CIBC est. – new	2,712	579	0.90	308
CIBC est. – prior	2,970	708	1.25	432
Consensus	2,970	710	1.22	456
2024E				
CIBC est. – new	2,913	701	1.12	336
CIBC est. – prior	3,333	812	1.50	456
Consensus	3,388	824	1.44	556

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

Valuation: TI is trading at 8.9x EV/EBITDA, 2.4x below a blended peer average of 11.3x.

Exhibit 3: Digital Services, Business Process Management, And IT Services – Comp Table, 2022 - 2024E

	Enterprise Value ($mlns.)	EV/EBITDA			P/E			EV/S		
		C22	C23E	C24E	C22	C23E	C24E	C22	C23E	C24E
Next Generation Digital Services										
EPAM Systems, Inc.	12,541	14.2x	15.7x	13.9x	22.4x	24.6x	21.9x	2.6x	2.7x	0.4x
Globant SA	8,098	22.7x	19.5x	15.9x	38.4x	33.9x	27.9x	4.5x	3.9x	1.4x
Appen Ltd.	291	26.5x	NEG	18.0x	NEG	NEG	NEG	0.7x	1.0x	1.5x
Endava Plc Sponsored ADR Class A	3,200	18.9x	17.7x	15.5x	28.8x	26.9x	24.2x	4.4x	3.9x	0.5x
Next Generation Digital Services Average		**20.6x**	**17.6x**	**15.8x**	**29.9x**	**28.5x**	**24.7x**	**3.1x**	**2.9x**	**1.0x**
Value-Added Business Process Management										
Cognizant Technology Solutions Corporation Class A	33,377	9.4x	10.1x	9.3x	15.4x	15.9x	14.6x	1.7x	1.7x	1.6x
Genpact Limited	8,328	10.6x	10.0x	8.9x	14.2x	13.3x	11.8x	1.9x	1.8x	1.6x
Telus International	**6,217**	**10.2x**	**10.7x**	**8.9x**	**11.9x**	**16.4x**	**13.1x**	**2.5x**	**2.3x**	**2.1x**
Teleperformance SA (EUR)	10,866	6.2x	5.9x	5.4x	14.6x	10.8x	9.7x	1.3x	1.3x	1.2x
WNS (Holdings) Limited Sponsored ADR	3,541	12.2x	10.8x	9.6x	18.7x	16.9x	15.0x	3.1x	2.8x	2.5x
TaskUs, Inc. Class A	1,436	6.4x	6.5x	5.9x	9.6x	10.5x	9.2x	1.5x	1.5x	1.4x
Majorel Group Luxembourg S.A.	2,494	6.8x	6.6x	6.0x	17.2x	15.5x	14.1x	1.2x	1.1x	1.0x
Concentrix Corporation	7,023	6.8x	6.5x	6.1x	7.5x	NA	NA	1.1x	NA	NA
ExlService Holdings, Inc.	5,287	17.8x	15.5x	13.7x	26.2x	22.8x	20.1x	3.7x	3.3x	2.9x
Value-Added Business Process Management Average		**9.6x**	**9.2x**	**8.2x**	**15.0x**	**15.3x**	**13.4x**	**2.0x**	**2.0x**	**1.8x**
IT Services & Consulting										
CGI Inc. Class A (CAD)	**35,443**	**13.6x**	**12.5x**	**11.6x**	**22.3x**	**19.1x**	**18.1x**	**2.7x**	**2.4x**	**2.3x**
Accenture Plc Class A	203,954	17.8x	17.1x	15.9x	28.6x	26.5x	24.6x	3.3x	3.1x	2.9x
TTEC Holdings, Inc.	2,506	7.7x	8.2x	7.7x	9.4x	13.3x	12.0x	1.0x	1.0x	0.9x
Tata Consultancy Services Limited (INR)	12,223,610	21.1x	19.3x	17.4x	29.7x	26.9x	24.1x	5.6x	5.1x	4.7x
Infosys Limited (INR)	5,534,948	16.2x	14.8x	13.4x	24.0x	22.2x	19.9x	3.9x	3.6x	3.3x
IT Services & Consulting Average		**15.3x**	**14.4x**	**13.2x**	**22.8x**	**21.6x**	**19.7x**	**3.3x**	**3.0x**	**2.8x**
Overall Average		**13.6x**	**12.2x**	**11.3x**	**19.9x**	**19.7x**	**17.5x**	**2.6x**	**2.5x**	**1.9x**

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

Environmental, Social and Governance (ESG) Metrics for TIXT-NYSE

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	NA	NA	NA	NA	3.7%
Board Gender Diversity	NA	NA	NA	13%	30%
Separation of Chair & CEO	NA	NA	NA	YES	YES
Dual-class Ownership?	NA	NA	NA	YES	YES
Disclose ESG Data?	NA	NA	NA	YES	YES

Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	NA	NA	NA	$1.9	$6.7
Diversity Targets	NA	NA	NA	YES	YES
Women Managers	NA	NA	NA	43%	NA

Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NA	NA	NA	YES	YES

*CEO Compensation is shown as per thousand dollars of market capitalization
**Emissions Itensity calculated as total emitted CO2e divided by million $ of CAD revenue

Sustainalytics ESG Risk Rating

14.8 Updated on May 23, 2023

+0.0 Momentum

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1st = lowest risk)	PERCENTILE (1st = lowest risk)
Global Universe	**1347**/15536	10th
Software & Services INDUSTRY	**57**/1074	6th
IT Consulting SUBINDUSTRY	**16**/235	7th

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score | Category	ESG Risk Management Score | Category	ESG Risk Rating Score | Category	Contribution to ESG Risk Rating

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	8	+1	Value	128	+5
Momentum	26	-1	Momentum	221	-8
Quality	8	-2	Quality	73	-17
Market	18	-2	Market	104	-8
Low Volatility	7	-2	Low Volatility	62	-6
Growth	11	-1	Growth	69	+1

Note: Ranking out of 26 stocks

Note: Ranking out of 227 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	NA	Momentum	D
Beta	0.88	MACD	C
Volatility	↓	Alpha (Sector)	D
Trend	↓	Alpha (Index)	D
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 $20.00 by applying a 11.0x EV/EBITDA to our 2024E EBITDA estimate based on the current capital structure. The 11.0x multiple is 1.0x discount to a blended average of Digital Services, BPO, and IT services peers

Key Risks To Price Target

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 integration future acquisitions; 5) increased competition from well capitalized peers

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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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Sector Ratings	Abbreviation	Description
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

For price and performance charts, please visit CIBC on the web at https://researchcentral.cibccm.com/#/disclaimer-central-new or write to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attn: Research Disclosure Chart Request.

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- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from these companies in the next 3 months: TELUS International (CDA) Inc.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by these companies: TELUS International (CDA) Inc.
- 12 The equity securities of these companies are subordinate voting shares: TELUS International (CDA) Inc.

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(as of 14 Jul 2023)	Count	Percent	Inv. Banking Relationships	Count	Percent
Outperformer	157	53%	Outperformer	156	99%
Neutral	127	43%	Neutral	127	100%
Underperformer	5	2%	Underperformer	5	100%
Tender	0	0%	Tender	0	0%
Restricted	6	2%	Restricted	6	100%

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