Date: April 27, 2022 / 9:00 a.m. (EDT)

Principal(s):
- George D. Schindler, President and Chief Executive Officer
- François Boulanger, Executive Vice-President and Chief Financial Officer
- Kevin Linder, Senior Vice-President, Finance and Treasury, and Head of Investor Relations

Moderator: Good morning ladies and gentlemen. Welcome to CGI's second quarter fiscal 2022 conference call. I would now like to turn the meeting over to Mr. Kevin Linder, SVP Finance and Treasury and Head of Investor Relations. Please go ahead Mr. Linder.

Kevin Linder: Thank you Julie and good morning. With me to discuss CGI's second quarter fiscal 2022 results are George Schindler, our President and CEO, and François Boulanger, Executive Vice-President and CFO. This call is being broadcast on cgi.com and recorded live at 9:00 am Eastern Time on Wednesday April 27th, 2022. Supplemental slides as well as the press release we issued earlier this morning are available for download along with our Q2 MD&A, financial statements and accompanying notes, all of which have been filed with both Sedar and Edgar.

Please note that some statements made on the call may be forward-looking. Actual events or results may differ materially from those expressed or implied and CGI disclaims any intent or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The complete safe-harbour statement is available in both our MD&A and press release, as well as on cgi.com. We recommend our investors read it in its entirety.

We are reporting our financial results in accordance with International Financial Reporting Standards or IFRS. As always we will also discuss non-GAAP performance measures which should be viewed as supplemental. The MD&A contains definitions of each one used in our reporting. All of the dollar figures expressed on this call are Canadian unless otherwise noted.

I'll now turn it over to François to review our Q2 financials and then George will comment on our business and market outlook. François.
François Boulanger: Thank you Kevin and good morning everyone. I am pleased to share with you the results of our second quarter of fiscal 2022. In Q2 we delivered double digit constant currency growth as demand for our services continues to accelerate and bookings remain strong. We also generated 14% EPS accretion despite a strong Canadian dollar causing headwinds in our reporting currency, mainly by the Euro.

We recorded revenue of 3.3 billion dollars, up 10% year over year, on a constant currency basis, driven by strong growth in the following segments: Asia Pacific up 20%, U.S. Commercial and State government up 17.6%, Western and Southern Europe up 16.7%, Canada up 11.6%, U.S. Federal up 9.7% and Central and Eastern Europe up 8.5%. In fact, eight of our nine segments delivered positive constant currency growth in the quarter.

Headcount increased year over year by more than 7,000, for a total of 84,000 consultants and professionals across the globe.

Total bookings were 3.3 billion dollars representing a book-to-bill of 101% for the quarter and 109% on a trailing 12 months basis, compared to 113% for the prior year. On a trailing 12 month basis, seven of our eight proximity segments have a book-to-bill above 100%, led by Finland, Poland and Baltics at 153% and U.K. and Australia at 125%.

IP bookings were very strong in the quarter, up 89% year over year on a constant currency basis. I would like to highlight certain segments with significant IP bookings in the quarter. U.S. Federal with IP bookings of approximately 400 million dollars, leveraging our momentum ERP and CATS, our global case management solutions, Canada with IP bookings over 130 million dollars driven by solutions primarily in the financial services sector, and U.S. Commercial and State Government with IP bookings of about 150 million dollars driven by our advantage state and local government ERP solution.

Our global backlog remains strong at 23.1 billion dollars, representing 1.9 times revenue, the vast majority of which is comprised of long-term managed services and digital transformation engagements.

With respect to profitability, adjusted EBIT in Q2 was 523.6 million dollars while EBIT margins increased to 16%, up 20 basis points compared to Q2 last year. The year over year increase was largely due to a more profitable revenue mix, particularly within U.S. Federal, as well as additional tax credits in Western and Southern Europe. This was in part offset by reorganizational costs to improve our Scandinavian operations.

We delivered strong EBIT margins in the following segments: Asia Pacific at 29.7%, Canada at 21.9%, U.K. and Australia at 16.7%, U.S. Federal at 16.2% and Western and Southern Europe at 15.4%.

Our effective tax rate in Q2 was 25.4%, compared to 25.7% in the prior year. We continue to expect our tax rate for future quarters to be in the range of 24.5 to 26.5%.

Net earnings were 372 million dollars and diluted earnings per share were at $1.53, representing an increase of 14.2% year over year. This improvement was mainly due to revenue growth and EBIT margin improvements as outlined earlier.

Excluding integration costs, net earnings were 374 million dollars, reflecting a margin of 11.4% and diluted earnings per share were $1.53, an accretion of 13.3% when compared to $1.35 in the same quarter last year.
In the quarter, cash provided by operating activities was 473 million dollars, compared to 573 million dollars in the prior year, which benefitted from reduced variable compensation payments related to the impact of the pandemic. As a percentage of revenue, our cash generation continues to be strong at 14.5%. DSO was 42 days compared to 39 days last year, well within our target.

For the last 12 months, cash provided by operating activities was 1.9 billion dollars or 15.4% of revenue. This represents $7.70 in cash per share.

In the quarter we deployed 125 million dollars in our Build and Buy profitable growth strategy, mainly in our IP and for the closing of the Unico acquisition, a technology consultancy and systems integrator, headquartered in Australia.

In Q2 we invested 400 million dollars in buying back approximately 400 million shares at a weighted average price of $100.80. As of the end of March, we had the authorization to buy back up to an additional 14.8 million shares under our current NCIB program.

In addition, on March 11th, we announced entering into an agreement for the acquisition of all the shares of Umanis, a French-based company specializing in data, digital and business solutions. This merger will further our presence and positioning across Western and Southern Europe.

We expect to acquire approximately 70% of shares through a block purchase by the end of Q3. Following this we intend to launch a mandatory tender offer to acquire the remaining shares of Umanis. Subject to legal and regulatory conditions being met, our plan is to implement a squeeze-out transaction to acquire all remaining shares not already tendered as part of the offer by the end of Q4.

In Q2 we delivered a return on invested capital of 15.7%, compared to 12.8% in the year ago period, representing a return to pre-pandemic levels.

Looking ahead our focus continues to be on delivering optimal returns to our shareholders through investing in our business, pursuing accretive acquisitions and buying back our stock.

The cornerstone of CGI’s Build and Buy profitable growth strategy is our strong balance sheet position. At the end of March our net debt to capitalization ratio was 28.7% and we have 2.6 billion dollars of cash readily available, with access to more if needed.

Before turning the call over to George I would like to highlight a few adjustments we made effective in Q3 to strengthen our operations and, as a result, created two new reporting segments. The former “Scandinavia” and “Central and Eastern Europe” segments are now “Scandinavia and Central Europe” comprised of Germany, Sweden and Norway, and “Northwest and Central-East Europe” comprised of The Netherlands, Belgium, Denmark, Czech Republic and Slovakia.

Starting next quarter, we will begin reporting on this new structure and we will provide restated historical data at that time.

Now I’ll turn the call over to George. George?

George Schindler: Thank you, François, and good morning everyone. I want to begin my remarks today by acknowledging the tragic events happening in Ukraine and the resulting humanitarian crisis. CGI does not have any client proximity offices in Ukraine, Russia or Belarus and there is no direct business impact to CGI. However, we do have employees who are from Ukraine or
who have family there. In partnership with the International Committee of the Red Cross, CGI and our employees donated a total one million dollars to provide emergency shelter, food and clean water to the region.

Additionally, we supported employee volunteers with grassroots activities to aid refugees. And, as a leading global employer, we are helping refugees find jobs with CGI through proactive recruitment initiatives in Northern, Western and Southern Europe, as well as the U.S. and here in Canada. This unwavering commitment to always do our part to help those in need and build a better world reflects the CGI culture.

Turning now to CGI’s performance… I am pleased with our team’s disciplined execution of our Build and Buy profitable growth strategy during the second quarter and throughout the first half of the fiscal year. At the halfway mark of the fiscal year, we continue to deliver on our profitable growth plan. First half EPS accretion was 13.2%. This is in line with our commitment to deliver double digit earnings accretion and, with a higher proportion driven by revenue growth. In the first half, revenue was up 263 million dollars over the same time last year, ending the second quarter with broad-based double digit constant currency revenue growth.

From an end-to-end services perspective, Q2 constant currency revenue growth was up 13% in systems integration and consulting, and 7% in managed services. Globally the percentage of overall services revenue that was IP-based remained steady at 21% in the quarter, even as we on-boarded revenue from new mergers without IP. As François mentioned IP bookings were up significantly in the quarter, reaching a book-to-bill of nearly 125%.

From an industry perspective, every sector grew on a year-over-year constant currency basis. This marks the third consecutive quarter of growth in all industries. In Q2 we delivered growth of 16.1% in healthcare, led by Western and Southern Europe with 56% growth; and 10.4% in manufacturing, retail and consumer services driven by Finland, Poland and Baltics at 20% growth; 9.5 % in financial services, driven by Canada with nearly 20% growth; and 9.5% in government and 8.4% in communications, energy and utilities, both led by double digit growth within U.S. Commercial and State Government.

As François outlined, we recently made adjustments to some European operating segments and leadership. This new construct will allow us to better support clients given the strong trade relationships and complimentary industrial bases of the new CGI geographic segments. Going forward this change is planned to drive revenue growth and expanding profitability, particularly in the Scandinavian countries.

As predicted over the past year, we see a trend toward the longer-term consulting and systems integration engagements as clients continue to shift their digital strategies from one of ‘accessorizing’ customer touch points to addressing holistic, complex enterprise digitization.

Let me highlight a few examples of wins in the quarter that are reflective of this broader shift: Hydro Québec selected CGI as one of their preferred business consulting providers. Over the course of this new 7-year agreement CGI will offer strategic advisory, change management and continuous process improvement services to help them deploy their strategy and energy transition plan in Eastern North America.

The Dutch Ministry of Economic Affairs and Climate Policy awarded CGI a position on a new contract vehicle which will enable our consultants to deliver strategy IT consulting,
application development and cloud services projects. The 4-year vehicle has a total potential value of approximately 250 million Euros. And CAIH, France’s hospital IT purchasing centre, chose CGI to help support the digital transformation of their services across hospitals, central and local governments and health payers over the next four years.

We continue to see some of these longer-term systems integration engagements combined with managed services where we take on legacy operations, modernize the tools and applications, and subsequently manage the clients’ transformed environment. For example, in the U.K., a communications sector leader selected CGI for a 15-year, 287 million dollar contract. Our work will support end-to-end digital management of their IT and platform-as-a-service environments, with the aim to help them optimize operations and accelerate their residential fiber-to-the-premise business. And in the U.S., Southern Company, a large Southeast energy and utility company; expanded their partnership with CGI through a 7-year agreement where CGI will help manage a subset of their mission-critical enterprise systems. Our work will span application development, data analytics and digital services to help utility innovate and scale in support of their ongoing digital transformation.

CGI’s broad mix of end-to-end services, balanced geographic footprint and portfolio clients across industries creates a resilient foundation for us to be a partner of choice to our clients, particularly as they adapt to evolving market dynamics. Our investments in Build and Buy are made with this resilience in mind, so we continuously strengthen our position.

In the first half of the year, as planned, CGI has committed over 600 million dollars to advance our Buy strategy. These investments will deepen our presence, expand our client relationships and augment our capabilities in the domestic markets of the United States, Spain, Australia, and pending regulatory approvals for Umanis, in France. We look forward to welcoming Umanis employees and clients to CGI later this year.

And, just this morning, we announced the acquisition of Harwell, a management consulting firm operating primarily in the French market and serving financial services clients. This merger will increase CGI’s business consulting capabilities with 150 employees working across retail banking, corporate and investment banking, capital markets, insurance, and other specialized banking-related services, such as energy trading and asset management.

As macroeconomic pressures continue to expand, clients are responding by increasing their investments in digitization, in part to reduce costs in other areas of their operations. CGI’s proprietary research quantifies this. When we asked clients about their budget plans for the next year, nearly 80% of respondents indicated they plan to sustain or increase their IT budgets. A key factor driving these increases is clients’ plans to modernize their application portfolios. Over the next two years, clients plan to double the percentage of their applications that are modernized.

These findings are part of the preliminary insights we have identified based on more than 1,600 discussions with new and existing clients, more than half of whom are C-level business and IT executives. These discussions were initiated during the second quarter as part of our strategic planning and were concluded just a few weeks ago.

The early insights underscore the tight alignment between CGI’s investment priorities and those of our clients, supporting our positive business outlook for the growth opportunities ahead. In particular, three preliminary findings we heard from client executives will continue to drive end-to-end digital transformation.
First, meeting customer and citizen expectations for better digital experiences remains of paramount importance that continues to require greater investment in holistic digital transformation. The investments CGI is making, including in IP and managed services, are strategically focused on partnering with clients to address full-scale digital transformation.

In the second quarter we won several new engagements in line with addressing more holistic transformation for clients across industries, notably in healthcare, banking, government and retail and consumer services. Each of these wins leverage our IP as a managed service and are centered on helping clients optimize their operations, increase their agility and customer-centricity and reduce their costs.

The second preliminary finding we heard from client executives is that enabling collaboration emerge as a top priority, as clients extend their digitization initiatives across their value chains. Our investment in talent, the industry and technical expertise clients need, is at the heart of helping clients realize deeper and broader collaboration as part of their digital transformation.

In the quarter we continue to prioritize employee training as part of our full year plan to increase our investment by 33%. Re-skilling and upskilling acceleration programs have been launched across all operating segments, with a focus on both consulting and technology skills. Employee satisfaction with our training and development investment reached a record high in the second quarter. In fact, employee satisfaction continues to rise on every dimension we measure on both a quarter-over-quarter and year-over-year basis. As such our voluntary attrition rate continues to be below the IT services industry average and we added 2,000 net new employees on a sequential quarter basis.

This investment in talent allows us to help clients identify the cultural, process, and enabling technology changes required to remove silos, improve alignment between business and IT, and embed business agility. It also enables us to bring the expertise to help build and connect their desired digital environments.

For example, in the second quarter, P27 Nordics Payments, a joint initiative by Danske Bank, Handelsbanken, Nordea, OP Financial Group, SEB, and Swedbank, selected CGI to deliver a highly secure and available office IT environment in support of their aim to build the world’s first real-time cross-border payment system in multiple currencies. This sector requires the highest attention to compliance and security. Our position, relationships and reputation gave P27 the confidence to partner with CGI.

The third preliminary finding from our recent client executive conversations is that the use of newer technologies is maturing, reflecting the shift towards supporting more complex digitization goals. For example, relating to cloud technology, clients indicated they plan to increase investment in areas such as secure cloud by design and multi-cloud environment management. This has resulted in an increased demand, not only for CGI’s cloud migration services, but also for our services to deliver secure multi-cloud optimization, automation and risk mitigation.

Our investments to support this technology evolution extends to working closer with our external global alliance partners. This includes increasing employee certifications in partner platforms. We previously announced our plan to add over 15,000 employee certifications over the next three years. Already this year, we have completed more than 5,000 such certifications.
This investment is resulting in a growing percentage of new bookings that incorporate platforms from global alliance partners.

In closing let me re-emphasize our strong positioning and outlook for the second half of the year. We are now a team of 84,000 consultants and professionals worldwide, with the capacity, footprint, and expertise to help clients drive forward and accelerate their digital transformations. With client demand for more holistic digital transformation, we see increasing opportunities for our full range of end-to-end services. This includes generating larger, recurring revenue engagements, often incorporating IP, to drive growth, higher utilization and expanding profitability for CGI shareholders. And with a tailwind of two recently announced acquisitions, we are well positioned to continue executing on our plan and accelerating growth through our Buy strategy. We remain on track to meet our planned one billion dollar investment this year for merges with metro market services firms and/or with firms focused on delivering proprietary intellectual property.

Thank you for your continued interest and support. Let’s go to the questions now, Kevin.

Kevin Linder: Thank you, George. Julie, if you could please share with the participants the logistics for the questions please.

Moderator: Thank you. At this time, I would like to remind everyone in order to ask a question press * then the number 1 on your telephone keypad. And your first question comes from Stephanie Price from CIBC, please go ahead.

Question: Good morning. The IP bookings were very strong in the quarter. Can you get into a little bit more into what IP is seeing its strongest growth and what’s driving the acceleration here?

George Schindler: Yeah, we’re pleased with the double digit constant currency growth of course, but you know, it’s broad-based across all industries and geographies, but you know it’s still dominated from a services perspective by cloud, modernization, data analytics, cyber security, increasing for sure, automation; and then again, strong bookings in the CGI IP. So it’s really pretty broad-based. It’s broad-based not just in those services, but also across the various industries. I mentioned the growth we had across industries, but certainly banking is one of the areas that we see a lot of cloud modernization going on, but really all the industries are growing.

Question: Okay, great. And then with the acquisition of Umanis and Harwell announced this morning can you talk a little bit about the (inaudible) of the French markets that are attracted to CGI, both organically and from an M&A perspective here.

George Schindler: Yeah well you know obviously it’s a very strong market there in the European Union, taking the leadership role in many different ways. There’s a nice cultural affiliation with Québec, which kind of gives us an opportunity maybe to drive closer relationships. But again very strong brands, very large enterprise customers, and a talent base that’s really focused on innovation and broad-based, it’s not just based in Paris. Our business, and actually with Umanis, is across 17 different regions across the country. So it’s a very impressive market.
Question: Great, and then just one more for me. Can you touch on contracts pricing and your ability to push through those inflationary increases to clients? Has that changed at all?

George Schindler: No, it really hasn’t changed. We’ve talked about this on the call the last couple of quarters as inflation has reared its head. You know, we do have indexation in lots of our longer-term contracts which is certainly an enabler for us, but you know we’re also able in a lot of that systems integration work, there’s a faster turnover obviously in some of that work, and so we’re finding opportunities to raise our rates and have that pricing power.

But, you know, we also, Stephanie, can move people within and across projects into different labour categories. That’s certainly an opportunity for us. And then we’re growing our global delivery. We have an opportunity maybe a little bit differently than others because we’ve always had a broad global delivery approach that we can grow our offshore a little bit faster. And that enables us to handle some of the inflationary pressures as well.

Question: Great, thank you very much.

Moderator: Thank you. Our next question comes from Thanos Moschopoulos from BMO Capital Markets. Please go ahead.

Question: Hi, good morning. George, maybe expanding on that last point, how has the reopening dynamic shifted clients’ preference for local versus offshore if it has? I mean is it just a question of accessing talent wherever you can at this point given you know the war for talent? Or has there been any discernible change in terms of client preferences?

George Schindler: Yeah, I’ve actually seen a couple of changes. And we talked about this, Thanos, a couple of times in a couple of different ways, but I think those clients that maybe have been a little more narrow in their sourcing strategies, both internally and therefore externally, I think are more open to looking at some broader global delivery environments. And so we’re actually working with several clients in multiple geographies that are looking to expand and maybe even co-locate with some of the CGI global delivery networks that haven’t been leveraging that as an asset.

Conversely, you’ve got others, both in Europe as well as in North America, that are looking at some of the geopolitical risks, particularly associated with what’s going on with Ukraine, and looking at maybe de-risking some of what they do from a global basis and moving a little bit more closer to their headquarters operations. And in all those cases it’s not necessarily just proximity; there’s some proximity associated with that but there’s also some opportunity for, again, some of those global delivery centers of excellence and actually building some of those.

You know just to put a finer point on that, we are working with some enterprise clients that actually had business, either with partners or themselves, in the region most impacted by what’s going on. And certainly we’re helping move some of that work as well. So it’s a bit of a shifting environment if you will, not one-size-fits-all. But I would say in general, opportunities for CGI to grow.
Question: Great. And on the topic of organic growth I know you don’t disclose organic growth, but by my math it seems that I think it may have been in the high single digit range, so just wondering if you could confirm whether that was the case. And just given all the tailwinds that you called out, whether that’s the kind of growth that might be sustainable near-term. Thanks.

George Schindler: Yeah, thanks, Thanos. You’re right; we don’t disclose that. We’re pleased with the double digit constant currency growth across the board. Of course certainly that includes accelerating organic growth, and a tailwind of future inorganic growth. So certainly strong, we’re pleased and have strong organic growth and see positive prospects for both organic growth and inorganic growth in the second half of the year.

Question: All right, thanks, I’ll pass the line.

Moderator: Your next question comes from Paul Treiber from RBC Capital Markets, please go ahead.

Question: Hello, thanks very much and good morning. Just in regards to the new training investments that you’re making can you quantify the main two of those investments? And then also you know you mentioned turn being lower or employee turnover being lower than industry averages, you know have you seen an, on an absolute basis, increase you know even though it’s still better than the industry? And how has the turning investments helped maybe slow the rate of that increase?

George Schindler: Yeah, yeah. Thanks for the question. The investments are really around two areas for the talent. It’s really in the training, whether it’s boot camps, bringing on maybe an apprentice or an intern and new college hires and immediately putting them through highly educative of course but immediately putting them through some skills training particular to the digital transformations that our clients are going through and then immediately getting them billable in agile squads. And so that’s really where we’ve been doing a lot, focused a lot of that 33% increase in the training.

We also have increased our investments in enhanced tooling. And that’s also yielding results, again allowing higher utilization, rotating our talent to the highest demand projects and then, as I mentioned with Stephanie, allowing us to increase the rates appropriately. So it’s kind of closing a virtuous cycle with those investments.

Yes, you know, if you compare it to previous quarters the turnover has definitely ticked up. Now, remember the turnover went to a five-year low during the middle of the pandemic. So almost anything compared to that is going to go up. So we’re comparing mostly to 2019. And we’re right at the rates that we were; ticked up a little bit higher than pre-pandemic. But again it’s allowing for the skills development, the experiences that our members are looking for and the growth that they’re looking for that allows us to keep that down.

Question: Okay that’s helpful. Then – when you look at the longer-term margin profile for CGI over the next couple of years, I mean, there’s a number of moving parts, and in the past you talked about that there’s a possibility for margins to expand with a mix of IP and managed services.
Now do you see any change to that in the medium-term with this, you know, new sort of war for talent here?

George Schindler: No, I really don’t. I think there will be a bit of a reset, that’s natural as we go back to travelling, and I called that out the last couple of quarters. You’re seeing a little bit of that now, but overall I think both in the medium-term and longer-term we continue to see opportunities to expand our margins, on a quarter-over-quarter and year-over-year basis, through exactly the elements you talked about as far as the business mix and the growing base of our business. So we don’t see any concerns with that.

Question: And then just lastly and still on the line of inflation and higher costs, have you seen any changes from your clients in terms of an increased willingness to deploy IT services to help manage higher costs? Or conversely, do they see IT as a cost in and of itself and would they look to try to push our projects? How do you sort of see those two factors turning there?

George Schindler: Yeah, well I think it’s very clearly that they see IT as both a driver of their revenue growth and also as an opportunity to reduce their costs. You know a perfect example of the reducing costs is what we see in manufacturing, where supply chain optimization is really the focus. They’re turning to technology to find efficiencies and costs; where you go something like healthcare and life sciences, they’re turning to technology for bringing new products faster to market. You look at banking; they’re turning to technology obviously to modernize and increase their environment for their customers.

So it is as I mentioned, that’s why I called out what we saw in the most recent voice of our clients, that clients are planning to increase their budgets in the face of the rising costs themselves. So it really is an opportunity to continue to grow.

Question: Thank you. I’ll pass the line.

Moderator: Your next question comes from Brian Essex from Goldman Sachs, please go ahead.

Question: Hi, good morning and thank you for taking the question. I was wondering if I could maybe you know I guess first start with a you know follow up with a macro question: I would like to know like what your conversations with customers are like and maybe how they’ve changed. Is there any concern about you know potential macro weakness maybe towards the end of the year? How customers think about engaging in projects particularly those that are – that may be more consulting, SI-focused which may be more discretionary in nature. Or is there no concern at all at this point?

George Schindler: Yeah, no, it’s a great question. The conversations certainly do include concerns about the macro environment and certainly that’s a discussion I personally have with a number of the CEO’s. Having said that you now part of it is how to get closer with partners like CGI for all the reasons we just talked about; technology playing an important critical role. I would say that more than anything they’re concerned about making sure that they have the talent and the time that they need it, as part of the discussions that we’re certainly having with them, which is a good discussion to be having rather than the other discussion.

And you know it’s interesting; I called out three areas that we saw on the voice of the clients; the holistic digitization driving the larger, bigger projects, the tech maturation; again more complex deals, deeper investments, but I also called out the collaboration and that requires
both the industry and the technology skills. IP plays a role in that but I would say it’s a pretty strong environment right now for getting the consulting assistance that clients need. I called out several of the new wins that we had and even the duration of those. So it’s not – I’ve been talking about you know, that IT is becoming less and less of a discretionary spend. I’m hearing that in my conversations and I think you’re seeing that sum in the market.

Question: That great to hear. Maybe just as a follow-up, just by vertical I want to dig into a couple. It looks like you know particularly you know impressive strength in Telco, a little bit of weakness in health. Anything in those verticals? I mean the other ones I think make a lot of sense, but those in particular outsize moves. Anything in particular to call out there that we should know?

George Schindler: No – I think in health, remember health includes some of the government health for us and that just moves at a slightly different pace, but certainly there’s strength in a lot of ways lot of activity going on in government health right now. But you know they’re struggling to kind of keep up if you will. And so that’s maybe why you see a little bit of it there, because CGI does have a significant presence in the government health as well as the provider payer and life sciences health. So that’s maybe what you see there.

Telecommunications I think there’s a lot going on there. And I think it’s more of a reflection of our deep relationships with some of the telco’s.

Question: Anything in particular to call inside those? I mean it is kind of like a 5G kind of consulting related spend or is this more on maybe the service provider side? Or how can we kind of contextualize this strength there?

George Schindler: I think it’s 5G but I think it’s broader modernization across the landscape and allowing them to be more competitive and grow their businesses. So it’s more on that front.

Question: Got it. Really helpful; thank you very much.

Moderator: And your next question comes from Richard Tse from National Bank, please go ahead.

Question: Yes, thank you. Just wondering if you could maybe elaborate on how you came about sort of creating these new reporting segments because I think you sort of talked about I mean changing them to sort of help accelerate growth going forward.

George Schindler: Yeah, yeah. Well as you’re I’m sure aware since we report by segment certainly Scandinavia was our weakest segment. And when we looked at how best to configure going forward we wanted to pair some of our strength in both from an industry perspective, from a talent perspective and from a leadership perspective, pair that up to accelerate the growth side.

I should add that we certainly have taken care of some of the elements that were causing some of the margin issues, and François called out, we did expense some restructuring in advance of this change because we wanted this change to really be focused on the future growth, and so we fixed some of the structural issues and now it’s really about surrounding them with likeminded individuals, where business can be shared. And therefore success can be achieved.
So that’s really the idea around that. So it’s partly trade relationships, partly the base of business and partly leadership involved.

**Question:** Okay, that’s helpful thanks. You know when it comes to the acquisitions, you know obviously you’re doing well obviously in your verticals and geography. So as you look to new opportunities are you thinking about just sort of fortifying the verticals and the solution sets that you’re currently in or would you consider sort of opening up new lanes whether it’s geographic or solution sets?

**George Schindler:** Yeah, it’s both. Certainly we’re pleased with the first half pace, if you will, and if I look at kind of the next five most active in our pipeline, they’re all of these larger sizes, average number of employees is probably right at or greater than 1,000 so these larger kind of mid-sized deals are in the sweet spot.

But having said that, yes we would be willing to open our aperture to look at some other adjacencies. Of course, that’s going to be with the focus to fully integrate. It’s part of the culture of CGI, it’s what makes us so successful in taking these M&A transactions and integrating them directly into the business and making it a catalyst for organic growth.

So and a little bit of both, but I can say that the most active pipeline probably looks more of fortifying what we have today.

**Question:** Okay. And just I guess the last one relates to acquisitions is your sort of view in terms of the financial metrics, whether it’s hurdle rates or payback, has that kind of changed at all in any way? You know I think the valuation’s obviously in the public markets has compressed meaningfully; I’m not sure what it’s like in terms of the private markets but you know would that sort of change any way you look at these names from a financial basis?

**George Schindler:** No, we really haven’t had to change that. You correctly point out the valuations, but maybe François, you can jump in here.

**François Boulanger:** No, Richard, you’re right. We didn’t change any hurdles, but you’re right that the evaluations did go down. So we are a lot more active in the pipeline at least. And we’re seeing a lot of them and like you were saying evaluation are making a lot more sense. So that’s why we’re comfortable still to think that we will do our target of a billion dollars of acquisition this year. And, you know, it’s going well on that line.

**Question:** Okay, great, thank you.

**Moderator:** And there are no further question at this time. I will turn the call back over to the presenters for closing remarks.

**Kevin Linder:** Okay, thank you Julie, and thanks everyone for participating. As a reminder a replay of the call will be available either via our website or by dialing 1-800-770-2030 and using the passcode: 8986313. As well a podcast of this call will be available for download within a few hours. Follow-up questions can be directed to me at 1-905-973-8363. Thanks again everyone and look forward to speaking soon. Thank you.

**Moderator:** This concludes today’s conference call.