MCGILL STLAURENT: THE FUTURE PERPETUAL CONSULTANCY

Asper School of Business

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KEY ISSUE

How does McGill StLaurant become the disrupter not the disrupted in the commodity trade industry?

Define   Analyze   Evaluate   Recommend   Implement   Risks & Mitigate

CRITICAL CHALLENGES

Trade Industry
- Slow to change
- Stone-age practices

Volatile Commodities
- Predictability
- Price fluctuations

Large Competitors
- The big four
- Global presence

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate

STRATEGIC GOALS

Develop the next generation of trading	Ensure Strong Financials	Maintain Competitive Advantage
Responsible	**$50 MM in GM**	**Differentiation**
Entrepreneurial	**$17-18 EBITDA**	**Global Player**

Define → Analyze → Evaluate → Recommend → Implement → Risks & Mitigate

RECOMMENDATION

Leverage AI and trading capabilities to create a managed services platform for supply chain optimization.

Create

Leverage

Lead

Define | Analyze | Evaluate | **Recommend** | Implement | Risks & Mitigate

MCGILL STLAURANT CORE COMPETENCIES

- Supply & Demand
- Logistics
- Trading
- Back to Back Inventory

Internal Expertise

Relationship Management

Entrepreneurial Spirit

- Your People
- The trust of your customers and Suppliers
- Deliver on your promises

- AI Team
- Machine learning
- Big Data Expertise

| Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate |

THE WORLD AROUND US

- Digital Platforms
- No Inventory
- No Fixed Assets

The Disrupters. The Leaders of the Future.
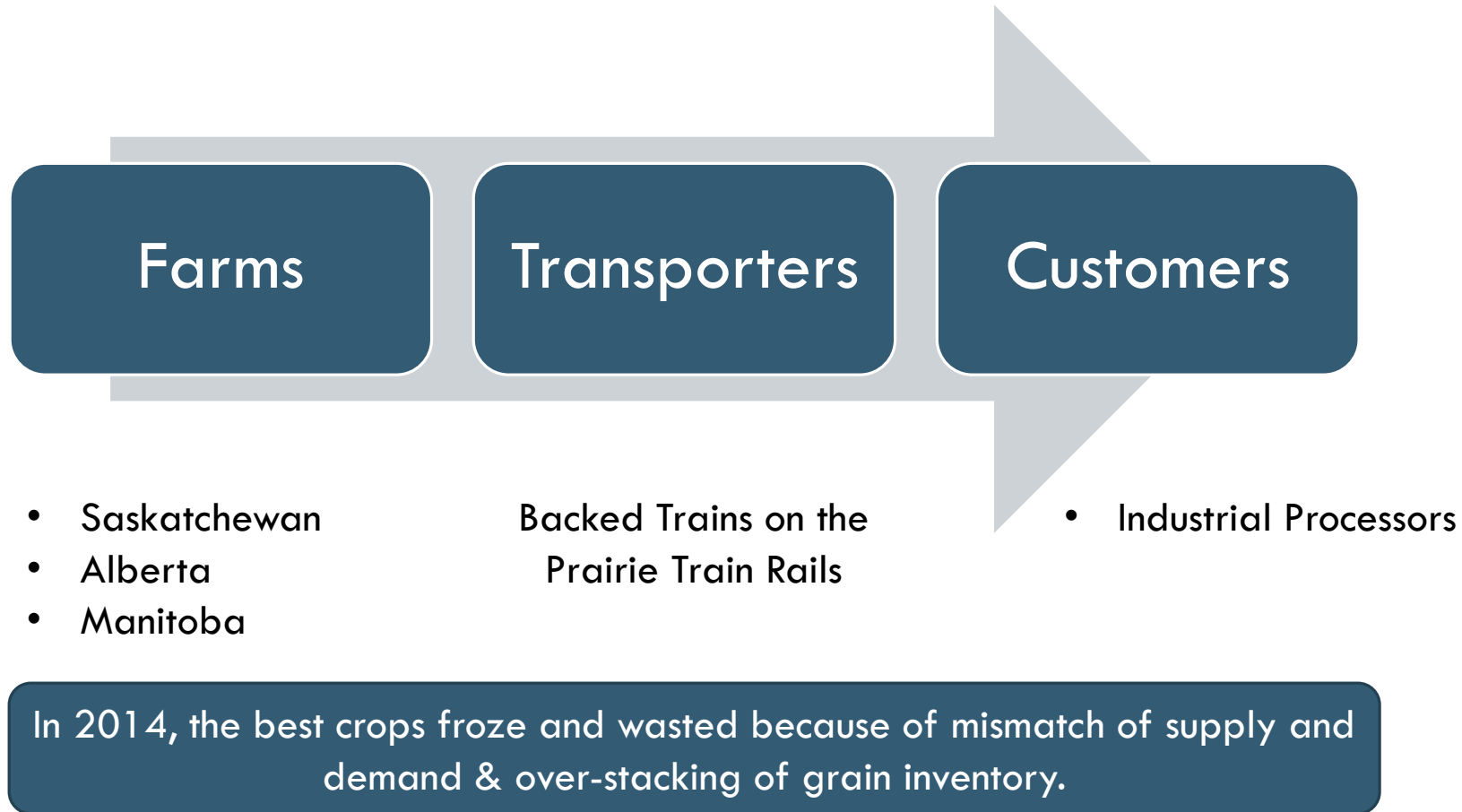
Facebook

Uber

Airbnb

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate
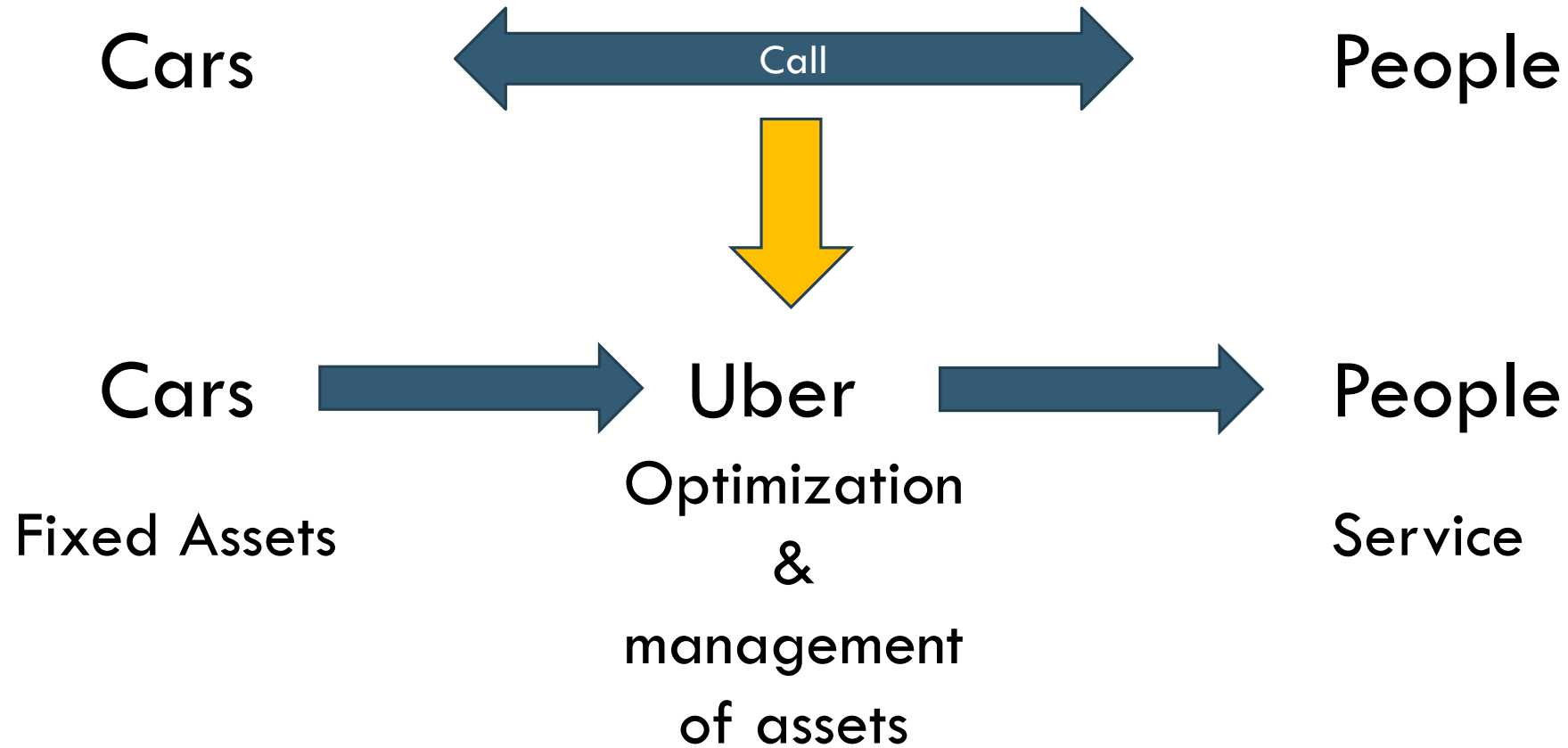
THE COMMODITY INDUSTRY CHALLENGES

Farms → **Transporters** → **Customers**

- Saskatchewan
- Alberta
- Manitoba

Backed Trains on the Prairie Train Rails

- Industrial Processors

In 2014, the best crops froze and wasted because of mismatch of supply and demand & over-stacking of grain inventory.

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate

DISRUPTION EXAMPLE

Cars ←——— Call ———→ People

Cars ——→ Uber ——→ People

Fixed Assets

Optimization
&
management
of assets

Service

Define | **Analyze** | Evaluate | Recommend | Implement | Risks & Mitigate

APPLY TO COMMODITY WORLD

Suppliers → Customers

Suppliers → ?????? → Customers

Cost Saving
Match Supply
Demand

Leverage
data & AI
Offload cost
Cost saving

Squeeze every dollar
Lean management
Just in time

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate

ALTERNATIVES

Acquisition

Grow Internally

Disruptive Innovation

Define › Analyze › **Evaluate** › Recommend › Implement › Risks & Mitigate

ALTERNATIVE 1: ACQUISITION

Horizontally diversify the business through acquisition.

Example: E-cobalt Mining

Pros

Cons

Timeliness

New Market

Capital Intensive

Disruptive Technologies

Risky

Define | Analyze | **Evaluate** | Recommend | Implement | Risks & Mitigate

ALTERNATIVE 2: GROW INTERNALLY

Add people and skills to allow for expansion and growth into new geographical markets.

Example: China

Pros

Cons

Geographic spread

Higher Margins

Talent Acquisition

Lack of Experience

Core Competency

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate

ALTERNATIVE 3: DISRUPTIVE INNOVATION

Leverage the current AI and trading capabilities to create a managed services platform for supply chain optimization.

Example: Virtual Trader

Pros

Cons

Core Competency

Market Potential

Disrupter

Slow Growth

Industry Pushback

Define | Analyze | **Evaluate** | Recommend | Implement | Risks & Mitigate

DECISION CRITERIA

Market Growth

Potential of the market.

Financial Feasibility

$50MM in Gross Margin by 2020
$17-18MM EBITDA in 3 years

Competitive Advantage

Utilize core competencies of trading and AI

Define | Analyze | **Evaluate** | Recommend | Implement | Risks & Mitigate

DECISION MATRIX

	Alternative 1: Acquisition *Example: E-Cobalt Mining*	**Alternative 2: Grow Internally** *Example: China*	**Alternative 3: Disruptive Innovation** *Example: Virtual Trader*
Market Growth *Potential*	🔴	🟢	🟢
Competitive Advantage Core Competencies	🔴	🔴	🟢
Financial Feasibility $50MM GM $17-18MM EBITDA	🟢	🔴	🟢

Define ⟩ Analyze ⟩ **Evaluate** ⟩ Recommend ⟩ Implement ⟩ Risks & Mitigate

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FUTURE FORWARD

McGill St Laurent: The industry disrupter

Number 1 supply chain optimization platform

$ 50 MM in gross margin

Notice by the big four
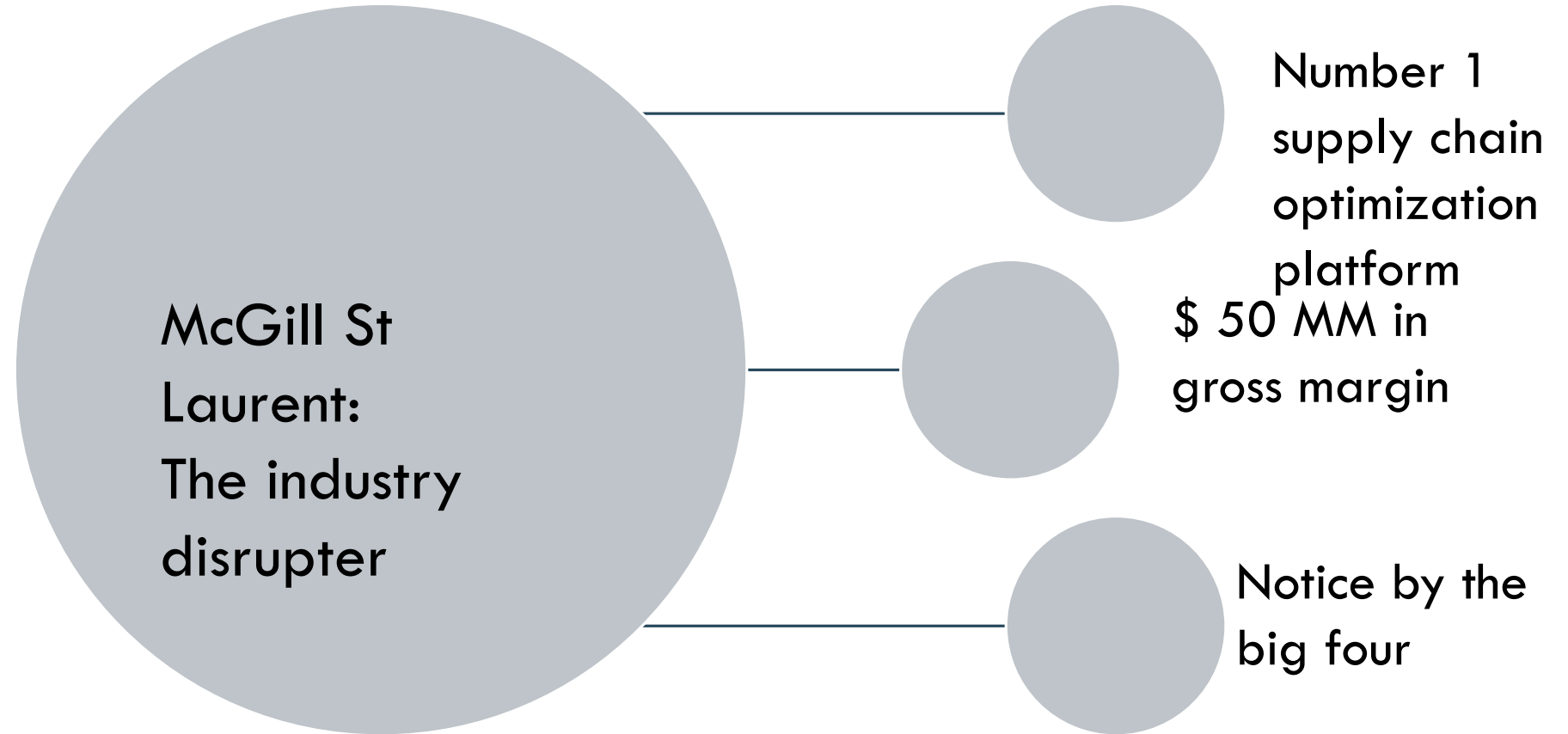
Define   Analyze   Evaluate   **Recommend**   Implement   Risks & Mitigate

STRATEGIC IMPLEMENTATION
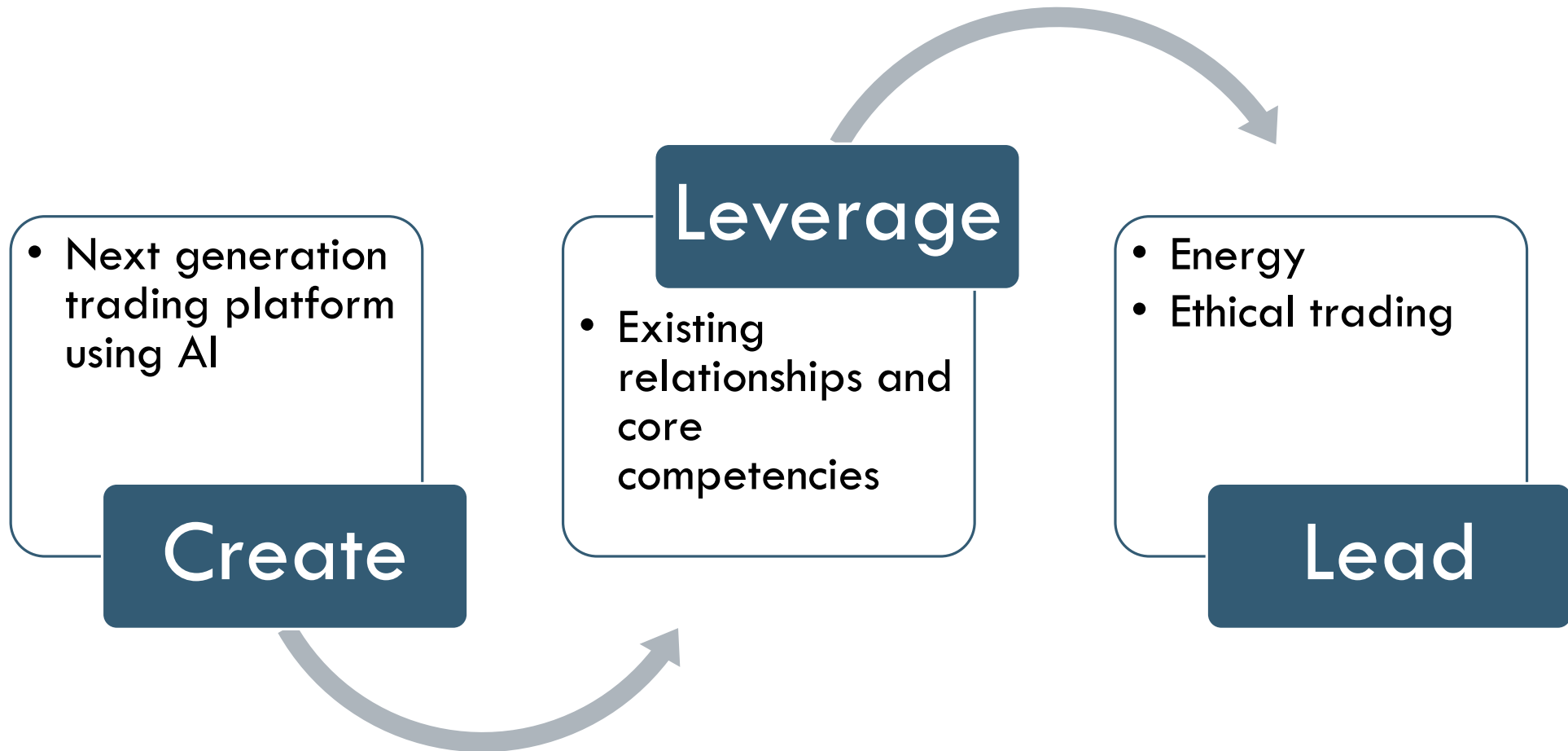
Create
- Next generation trading platform using AI

Leverage
- Existing relationships and core competencies

Lead
- Energy
- Ethical trading

Define › Analyze › Evaluate › Recommend › **Implement** › Risks & Mitigate

APPLY TO COMMODITY WORLD

Suppliers ➡️ Customers

Suppliers ➡️ Platform ➡️ Customers

Cost Saving
Match Supply
Demand

Leverage
data & AI
Offload cost
Cost saving

Squeeze every dollar
Lean management
Just in time

Define ❯ Analyze ❯ Evaluate ❯ Recommend ❯ **Implement** ❯ Risks & Mitigate

MANAGED SERVICES OFFERING PLATFORM

McGill
St Laurent

MSO
platform

Collects data from suppliers and customers

Match based on price, distance and time to delivery

Define › Analyze › Evaluate › Recommend › Implement › Risks & Mitigate

TRADITIONAL TRADING

Supplier → McGill St Laurent MSO platform ← Customer

Immediate and real time matching of suppliers to demand

Define | Analyze | Evaluate | Recommend | **Implement** | Risks & Mitigate

HOW TO GET THERE?

Create platform AI Lab

Analyze real time data

Create website and API for integration

Start in the wood segment

Expand to grain supply chain

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate

LEVERAGE RELATIONSHIPS

Value proposition

- Offload software cost
- Opportunity cost
- Management cost
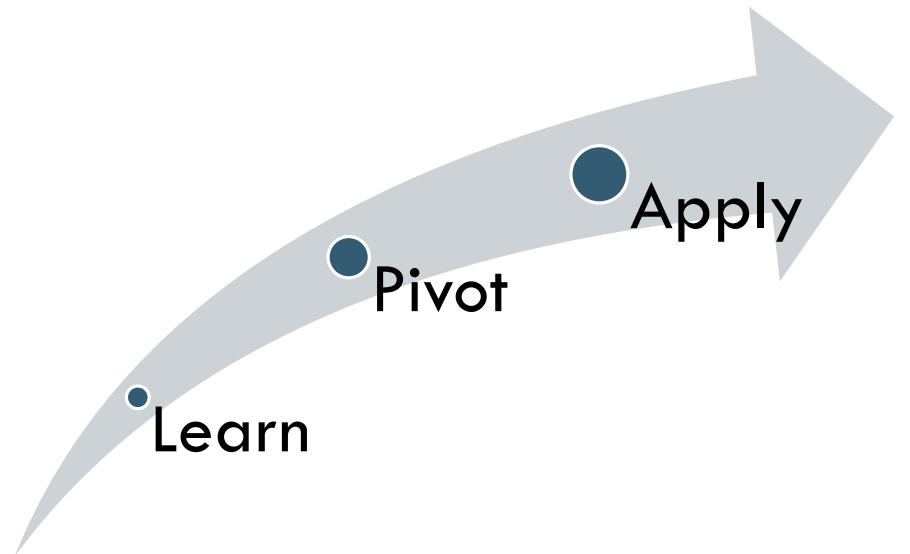- Decrease delays
- Decrease storage cost

THE ROAD AHEAD

Energy sector

Compliance trading

Natural gas

Learn

Pivot

Apply

Define ▷ Analyze ▷ Evaluate ▷ Recommend ▷ Implement ▷ Risks & Mitigate

PROJECT SCHEDULE

Year	2018				2019				2020			
Quarter	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*
Set Up PMO												
Hiring												
Development												
Customer Acquisiton												
Launch Platform												
Extend to other Lines of Business												
Continuous Improvement												

Define > Analyze > Evaluate > Recommend > **Implement** > Risks & Mitigate

PROJECT COSTS

Employees For Existing Services	122	125	138	153
Additional Employees		30	30	20
Total Employees	**122**	**155**	**168**	**173**
Total Fixed and Other Costs For Existing Services	8.7	13.1	15.4	18.2
Additional Fixed and Other Costs		7.5	7.5	5
Total Fixed Costs and Other Costs	**9**	**21**	**23**	**23**

TARGET GM GAP
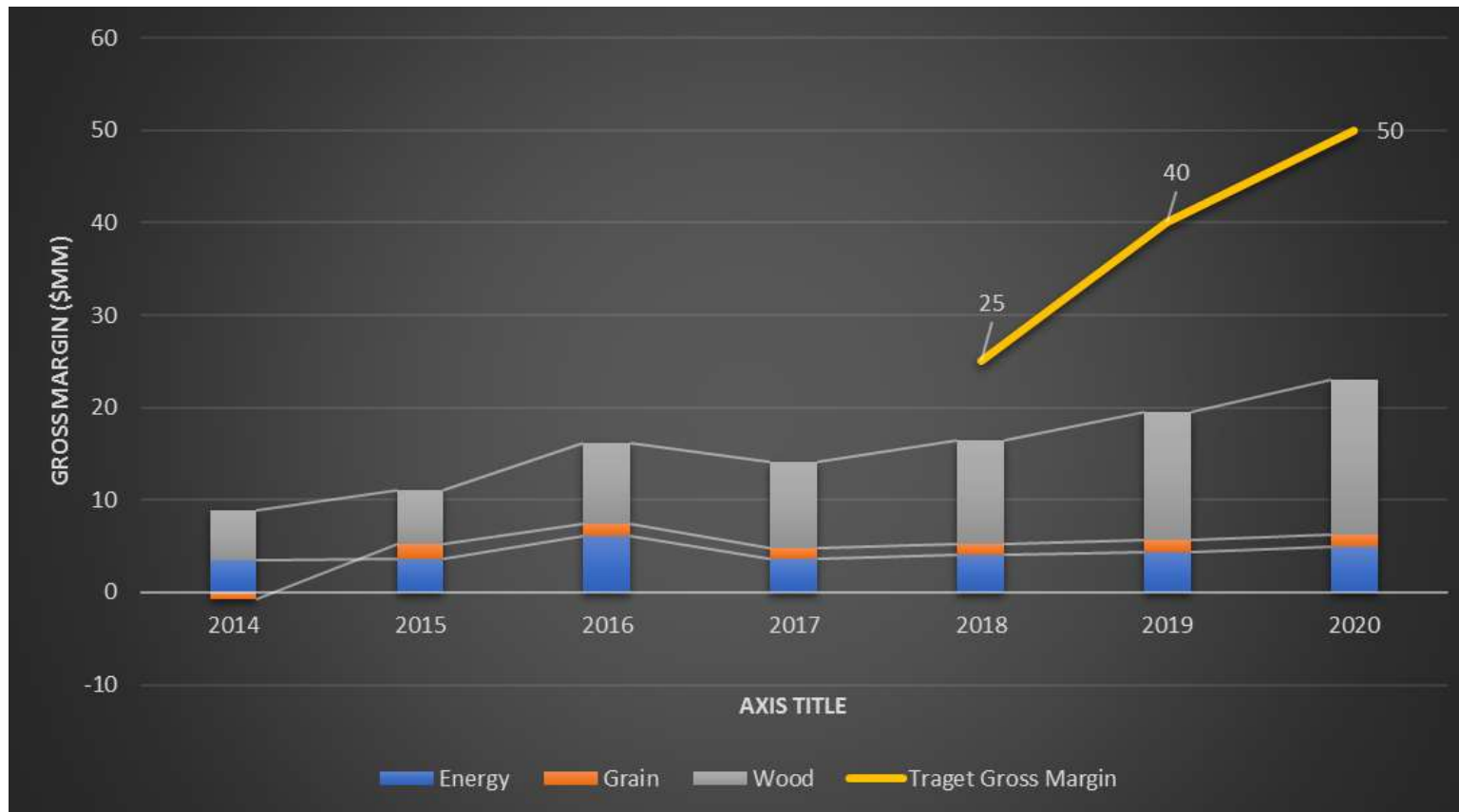
Organic Growth will bring GM to $23MM by 2020, a $27MM Gap

Define > Analyze > Evaluate > Recommend > Implement > Risks & Mitigate

FINANCIAL FEASIBILITY
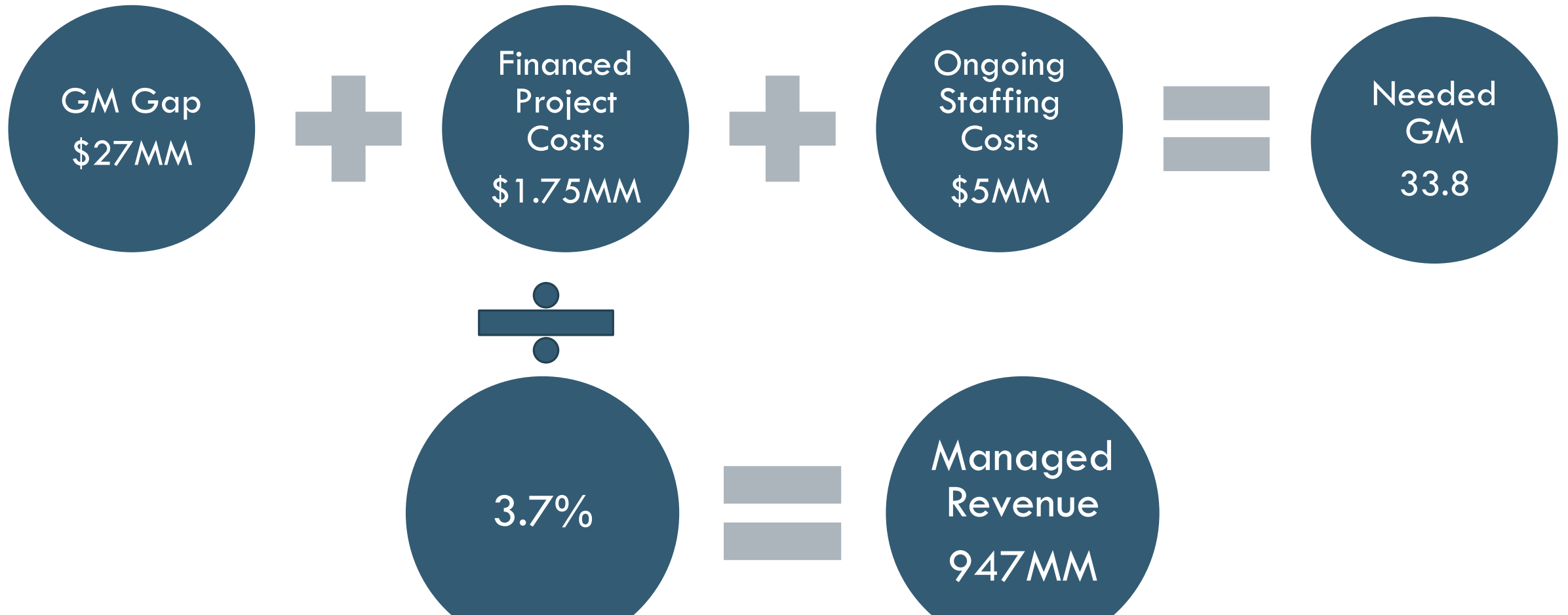
GM Gap $27MM + Financed Project Costs $1.75MM + Ongoing Staffing Costs $5MM = Needed GM 33.8

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3.7% = Managed Revenue 947MM
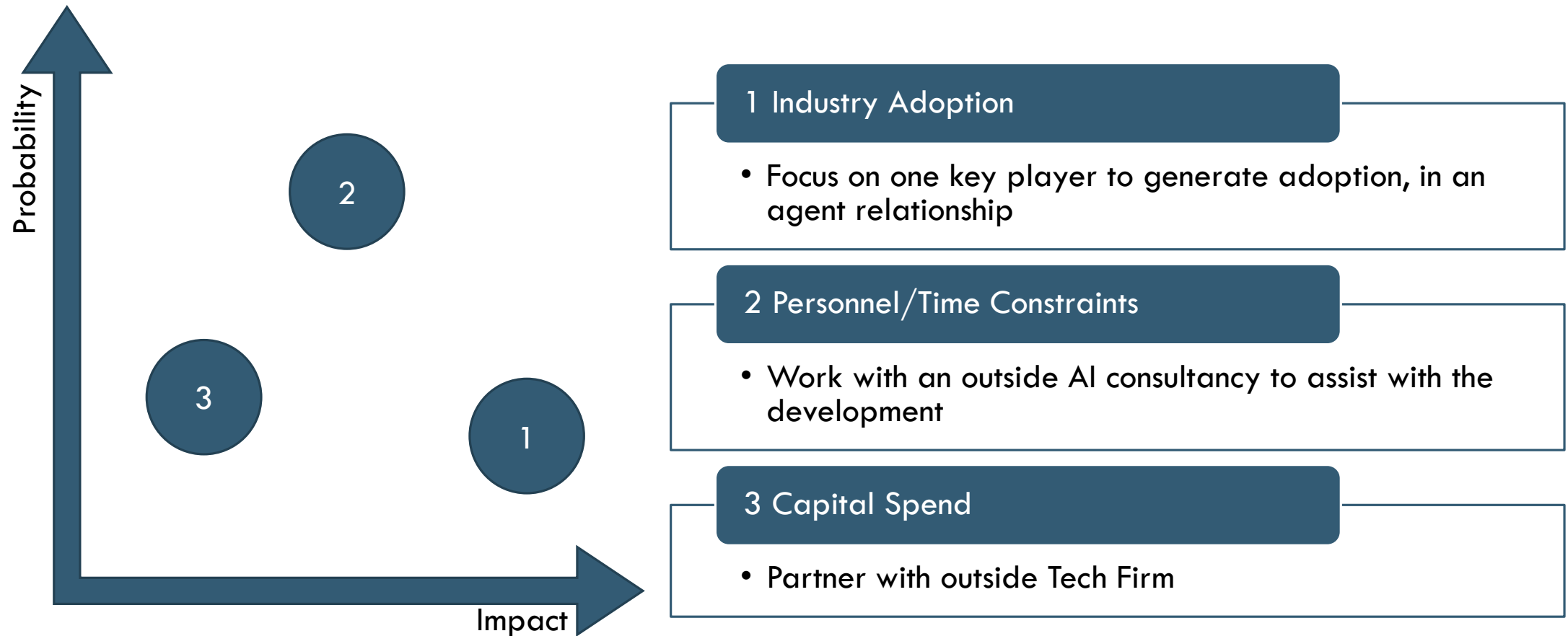
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KPI AND CONTROLS

Concern	KPI	2020 Goal
Financial	Gross Margin	$50MM
Market Growth	Sales	$947MM

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	2014	2015	2016	2017	2018	2019	2020
Energy	2014	2015	2016	2017	2018	2019	2020
Gross Margin	3.52	3.6	6.06	3.64	4.01	4.42	4.87
EBITDA	2.27	1.99	3.11	0.5	1.27	1.41	1.55
Fixed and Other Costs	1.25	1.61	2.95	3.14	2.74	3.02	3.33
Employees				60	52	58	64
Grain	2014	2015	2016	2017	2018	2019	2020
Gross Margin	-0.69	1.64	1.3	1.13	1.19	1.25	1.31
EBITDA	-1.55	0.27	0.23	0.1	0.20	0.21	0.22
Fixed and Other Costs	0.86	1.37	1.07	1.03	0.98	1.03	1.09
Employees				25	24	25	26
Wood	2014	2015	2016	2017	2018	2019	2020
Sales				75			
Gross Margin	5.38	5.81	8.84	9.29	11.31	13.77	16.76
EBITDA	0.42	1.08	3.23	4.74	1.98	2.41	2.93
Fixed and Other Costs	4.96	4.73	5.61	4.55	9.33	11.36	13.83
Employees				6	12	15	18
	2014	2015	2016	2017	2018	2019	2020
Total Gross Margin	8.21	11.05	16.2	14.06	16.50875	19.43764	22.94622
Traget Gross Margin					25	40	50
Total Employees				91	89	98	108

Gross Margin Gap					8.5	20.6	27.1
Managed Inventory					432	758	914
Employees For Existing Services				122	125	138	153
Additional Employees					30	30	20
Total Employees				122	155	168	173
Total Fixed and Other Costs For Existing Services	7.07	7.71	9.63	8.7	13.1	15.4	18.2
Additional Fixed and Other Costs					7.5	7.5	5
Total Fixed Costs and Other Costs				9	21	23	23
Energy Growth		1.022727	1.683333	0.60	1.10	1.10	1.10
Grain Growth			0.792683	0.87	0.83	0.83	0.83
Wood Growth		1.079926	1.521515	1.05	1.22	1.22	1.22