DIGITAL JOURNEY TO A DIGITAL PROFITABILITY

PROPOSAL PRESENTING TO SNC-LAVALIN

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Partricia Huang
Aaron Rao
Vicky Kang
AGENDA

SNC-LAVALIN

- Target
- Challenge and Recommendation
- Analysis and Alternatives
- Implementation
- Risk and Mitigation
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Achieve the Goal of 2020 - EPS$5
AGENDA

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## Challenges

<table>
<thead>
<tr>
<th>What we are concerning about</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will digital transformation affect our business?</td>
</tr>
<tr>
<td>How should our design engineering business change its biz model?</td>
</tr>
<tr>
<td>How do we fund digital investments?</td>
</tr>
<tr>
<td>What should we tell investors?</td>
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</tbody>
</table>
RECOMMENDATION

- Digital Growth
- Operation Excellent
- Synergy Effect
How will digital transformation affect our business?

**Product**
- Operation/Efficiency/Communication

**Cost Down**
- Transaction cost/Labor cost/Customer acquisition

**Big data**
- Reuse data/Predictable/Capitalize/Risk Down

**Talents**
- Retain top talents on skill source
  - Headcount productivity
How should our design engineering business change its biz model?

Current Biz Model

People Resources/Billable hours

CUSTOMER DEMANDS

Data

Matching Platform (F.A.C.E)
Fast Assistant Customer Experience

Tech

Supply of talents in Engineering services

(IBP-International Business Program)
B2B+B2C
## ANALYSIS

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
</table>
| OPEX: 1. People  
2. Culture  
3. Organization | Customer Desire |
| Growth   | investor         |
| Synergy  | Competitor       |
|          | Technology Trends |
**ANALYSIS--FINANCIAL**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Billion in USD</th>
<th>revenue</th>
<th>employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>2</td>
<td>6000</td>
<td></td>
</tr>
<tr>
<td>EDPM</td>
<td>3.2</td>
<td>18000</td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>2.5</td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>Nuclear</td>
<td>1</td>
<td>4000</td>
<td></td>
</tr>
<tr>
<td>Clean Power</td>
<td>0.5</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>Mining &amp; Metallurgy</td>
<td>0.5</td>
<td>1300</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9.7</strong></td>
<td><strong>50300</strong></td>
<td></td>
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It means each employee revenue contribution is 194 K USD.
Industry top company’s average is 250 K USD, which means SNC-Lavalin has a big room in operation improvement.
# Alternatives

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IMPLEMENTATION

**PIE Model**

**Penetration**
- Vertical sector Integration
- Merge Clean Power + Nuclear
- Merge Infrastructure + EDPM
- Pentaradiate into Nuclear & Smart Building industries

**Innovation**
- M&A and AI-based co. to support competence & capability of digital engineer
- Maximize synergy revenue thru broadened customer base & product portfolio
- Driven inorganic E&C growth

**Expansion**
- M&A and AI-based co. to support competence & capability of digital engineer
- Maximize synergy revenue thru broadened customer base & product portfolio
- Driven inorganic E&C growth

**Building Blocks**

<table>
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<tr>
<th>Digital Opex</th>
<th>People/culture/Organization</th>
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</table>

XMU
❖ CHINA
IMPLEMENTATION

How do we fund digital investments?

Sustainable Digital OPEX

GBS
(Global Business Service)

- IT Service (e.g. Data analysis)
- Procurement (e.g. Sourcing)
- Logistic
- Accounting Center
- Customer service center

India

Digital Platform
- SAP

Poland

Digital Platform
- IBM

Mexico

Digital Platform
- MES

CI Project
- Raw Material
- Headcount (WCP)
- Expertise
IMPLEMENTATION

How do we fund digital investments?

People/Culture/Organization

PERFORMANCE-DRIVEN

Value In Action

OWNERSHIP

SPEED

SAFETY

QUALITY

RESPONSIBILITY

INNOVATION

INTERGRITY

CUSTOMER-FOCUS
IMPLEMENTATION

E.G. MULTI-FUNCTION WORKSHOP

PROJECT

EDPM

Oil & Gas
Infrastructure
Clean Power

PM

Client
## IMPLEMENTATION—FINANCIAL PROJECTION

<table>
<thead>
<tr>
<th></th>
<th>Billion USD</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>9.1</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Operation cost</td>
<td>7.28</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>0.91</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Long term debt</td>
<td>3.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow</td>
<td>0.91</td>
<td>-2.2</td>
<td></td>
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### Funding Plan

<p>| | | |</p>
<table>
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<tbody>
<tr>
<td>From Canada bank(75%)</td>
<td></td>
<td>1.65</td>
</tr>
<tr>
<td>From Private capital(25%)</td>
<td></td>
<td>0.55</td>
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### Assumption

2018 Q4 revenue is 2.5 billion.
**IMPLEMENTATION—FINANCIAL PROJECTION**

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<th>2019</th>
<th>2020</th>
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<td>10</td>
<td>11</td>
<td>12.1</td>
<td></td>
</tr>
<tr>
<td>Operation cost</td>
<td>7.28</td>
<td>8</td>
<td>8.8</td>
<td>9.68</td>
<td></td>
</tr>
<tr>
<td>EBITDA margin %</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>0.91</td>
<td>1.1</td>
<td>1.32</td>
<td>1.573</td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>3.2</td>
<td>3.85</td>
<td>4.43</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

**Assumption**

- 2018 Q4 revenue is 2.5 billion.
- AI save 95% of engineer's working time
- RD investment keeps minimum invest
- Through OPX project & CI program, EBITDA margin percentage will be 12% in 2019, 13% in 2019
RISK AND MITIGATION

RISK | MITIGATION
--- | ---
Investor request feedback in short time | Communication
Capital market is weak | Diversify funding channel
High salary in high tech company | Transfer the high tech base to India
THANK YOU