Nanyang Consulting

SNC LAVALIN
Building What Matters

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Agenda

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Problem: SNC Lavalin faces three key challenges in a traditional industry that is experiencing rapid change in its landscape

Disruption Challenge

Earnings Path

Post-Merger Integration

- How will digital transformation affect the business?
- How does the funding future look like?
- How can we make full use of Atkins' acquisition?

Recommendation: Three strategies will enable SNC Lavalin to overcome the identified challenges and prepare the firm as a disruptor itself

Disruption Challenge	Earnings Path	Post-Merger Integration
AI Niche Areas Development	AI-Driven Operational Excellence	Culture-Driven People & Synergy Program

Internal Analysis: SNC Lavalin exhibits strong engineering core competencies that it leverages across sectors and geographies

Strengths

- Merger-integration experience
- Openness to innovation captured in corporate culture and vision statement
- High diversification across sectors
- Strong relationships with investors
- Strong engineering and AI expertise

Weaknesses

- No focus on digital transformation
- Large percentage of reimbursable & engineering service contracts (75%)
- Upcoming debt maturity challenge

External Analysis: SNC Lavalin operates in a traditional industry that is facing recent disruption and increased competition

Opportunities

- Digital transformation uncovering new opportunities in e.g. AI
- Increased need for (urban) construction due to growing global population
- Poor productivity in the construction sector
- Low adoption of new AI technologies

Threats

- Digital transformation causing rapid changes in the market
- New players entering the market, e.g. Upwork
- Huge increase in investment in construction technology from 2017 to 2018 (+80%)
- **ARUP, Bechtel, AutoDesk, BV** competing for disruption

Strategic Alternatives: Six strategic alternatives have been considered to address the identified challenges SNC Lavalin has to overcome

STRATEGY	Customer Fit	Strategic Fit	Feasibility	Profitability	Innovation Level	Cultural Fit	TOTAL
M&A	+	✗	✗	+	✗	✗	✗
Disruptive pricing model	✗	+	✗	✗	+	✗	✗
Geographical, sector expansion	+	✗	✗	✗	✗	✗	✗
AI niche areas development	+	+	+	✗	+	✗	+
AI-driven operational excellence	+	+	+	+	+	✗	+
Culture-driven people & synergy program	+	+	+	✗	✗	+	+

Implementation (1/3): AI Niche Area Development

WHAT

- Develop niche AI capabilities in supply chain optimization and marketplaces

WHY

- Important for cost efficiencies and ability of wide application across sectors/industries

Implementation (1/3): AI Niche Area Development

HOW

1. Form a cross-sector team of AI talent
2. Identify key pain points and efficiency opportunities that can be addressed by AI
3. Use the fixed-price contracts to confirm and improve AI algorithms while using data across the company
4. Launch an AI incubator program that focuses in the areas of interest and secure proprietary access to new technologies
5. Aim for a 10% stake in the incubated start-ups in the start
6. Use investor network to secure follow-up funding
7. Provide a team of experts in legal, marketing, HR, business development and operations
8. Implement new technologies using a phased approach before rolling out to all sectors
9. Bundle these technologies into solutions for industry to increase revenue streams

Implementation (2/3): AI-Driven Operational Excellence

WHAT

- Take lead in AI-driven operational excellence and promote attractive EPC fixed pricing contracts

WHY

- Gain a competitive edge over disruption challenges, e.g. freelancers, consultants by offering high-quality, innovative solutions

Implementation (2/3): AI-Driven Operational Excellence

HOW

1. Utilize supply optimization solution to share real-time information internally and externally
2. Identify fixed-price contracts to test algorithms that prioritize implementation
3. Prioritize projects by going for fixed-price contracts
4. Form a specialized team by conducting trainings for engineers about AI and deep-tech
5. Apply a phased approach based on country and project, e.g. Canada, then UK, then Middle-East
6. Educate a fixed-pricing program for EPC to sales and marketing teams

Implementation (3/3): Culture-Driven People & Synergy Program

WHAT

- Initiate a merge-integration strategy that aims at bringing the two firms together to maintain employee satisfaction

WHY

- Overcome integration risks, e.g. resistance by employees and allow for efficient synergies
- Improve staff loyalty in the changing landscape, e.g. freelancer risk

Implementation (3/3): Culture-Driven People & Synergy Program

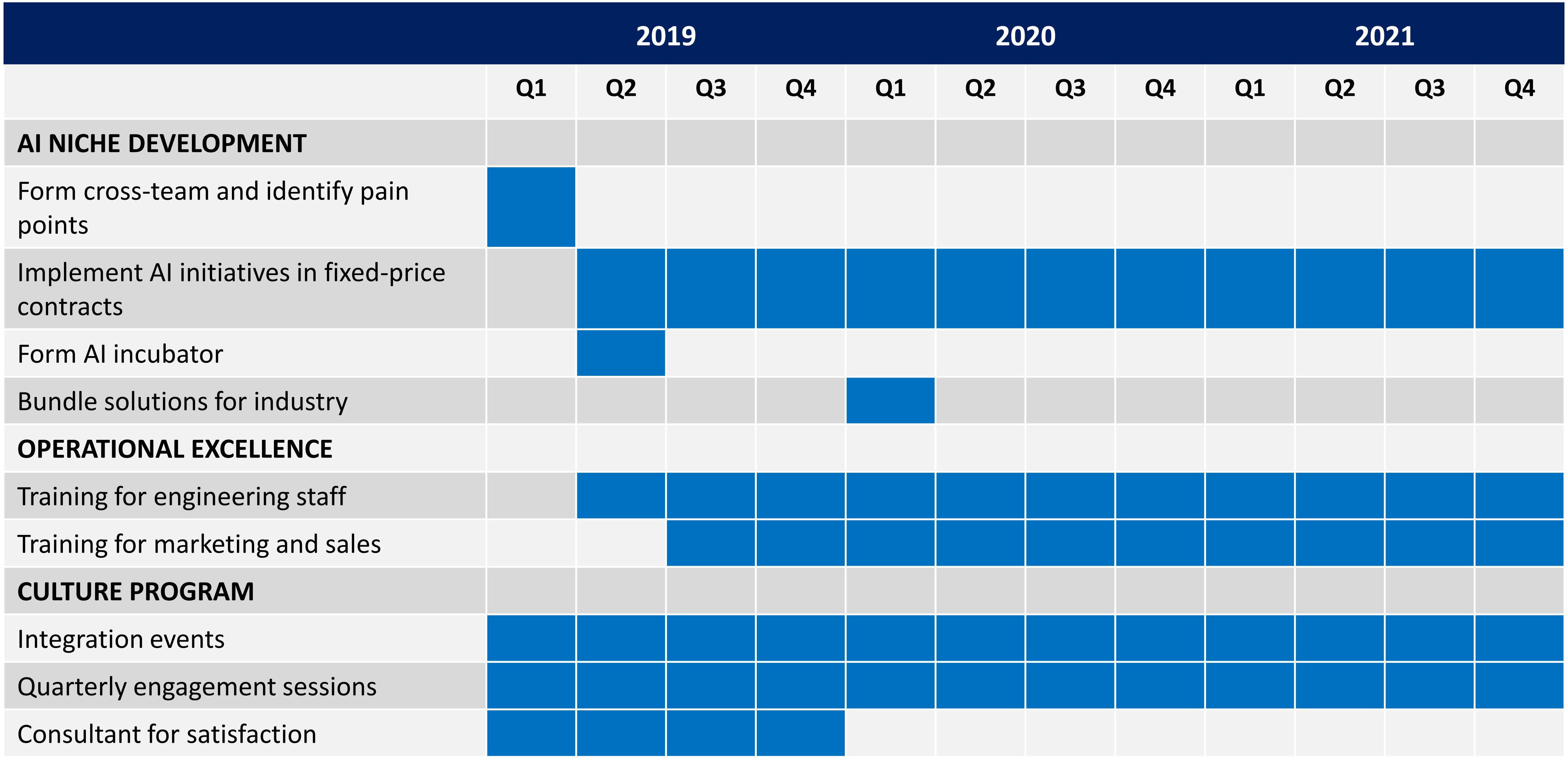
HOW

1. Invite a merger-experienced speaker and consultant from outside, e.g. Prof. Guido Gianasso (expert in cultural CQ who used to work at IATA)
2. Implement cross-organizational performance incentives to ensure collaboration
3. Execute quarterly integration events, e.g. dinner and dance
4. Track employee satisfaction using online tools to identify key pain points early
5. Provide 1-1 consultations where possible
6. Maintain transparent, timely communication across both organizations
7. Have quarterly engagement sessions to update staff on upcoming digital transformation efforts to improve buy-in

Key Performance Indicators: The following metrics allow SNC Lavalin to track the success of the suggested strategies

	Key Performance Indicator	Target
1	Decrease in cost of construction projects due to AI	Decrease by 10%
2	Increase in constructions projects with fixed pricing	Target 35% in 2020
3	Attrition rate for engineers	Improve by 5%
4	Start-up success rate	Aim for 25%
5	Percentage of workforce trained in AI technologies	5% annually

Timeline: The following 3-year schedule illustrates how the suggested strategic steps should be carried out



Financial Analysis: Forecasting shows that an EPS of 5.87 is achievable in 2020

Financial Projection (in M$)										CAGR				
E&C	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Trends**	**2017**	**2018**	**2019**	**2020**	**Trends**
Revenues	7,149	7,335	9,364	8,233	9,097	10,250	11,275	12,741		10%	13%	10%	13%	
EBITDA		2.10%	4.60%	4.50%	6.90%	8.49%	11.29%	15%		**53%**	**23%**	**33%**	**35%**	
Net Income	(133.7)	54.9	201.9	226.4	351.3	475.0	679.2	997.8		55%	35%	43%	47%	
Net Income %		0.75%	2.16%	2.75%	3.86%	4.63%	6.02%	7.83%		**40%**	20%	30%	30%	
EPS($)		0.36	1.34	1.51	2.15	2.90	4.09	**5.87**						
Total Shares (in Mil)		153	151	150	163	164	166	170						

Key highlights

EBITDA Increase driven by

Cost Reduction:

- **AI in supply chain**
- **Increased Synergies**

Revenue Increase:

- **New Revenue Stream by AI Solution to customers**
- **75/25 Ratio currently to 65/25 in 2020**

Financial Analysis: The following key considerations to monitor in the financials need to be taken into account

Upcoming Maturing Debt			
In M$	Timeframe		
	Jul-19	350	6.19%
	Mar-19	150	Floating
	Jun-19	150	Floating
	Nov-20	300	2.69%
	Dec-20	300	4.99%
Total		**1250**	
	Mar-21	175	Floating
	Dec-21	608	5.33%
	Dec-22	300	2.47%
	Mar-23	200	3.24%
Total		**1283**	

Key highlights

Floating Rates Increasing
Restructure the debt Profile to fixed in 2020

Control Costs Well
Keep improving the operational excellence program
Focus on smart low capital investment like the incubators

Will ensure good credit Rating in 2020

Contingency Plan: The following risks are anticipated and need to be overcome to ensure the success of the suggested strategies

#	Anticipated Risk	Mitigation Strategy
1	Misidentification of promising AI start-ups	Leverage internal investment expertise
2	Too much AI niche focus	Identify complimenting niches early and aggressively
3	Non-acceptance by clients	Use customer success stories of cost savings
4	Non-acceptance by engineers	Use cost savings and performance bonuses for convincing
5	Integration resistance from internal	Leverage internal expertise from previous integrations

Conclusion: Three strategies will ensure that SNC Lavalin stays competitive and innovative in the prevailing challenging environment

Disruption Challenge	Earnings Path	Post-Merger Integration
AI Niche Areas Development	AI-Driven Operational Excellence	Culture-Driven People & Synergy Program

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THANK YOU FOR YOUR ATTENTION

We now welcome any questions you may have.