Constructing the future with SNC

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Laura Dorn
Andrew Schindler
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Steering Consulting
Who We Are

Courtney Bowles

Laura Dorn

Andrew Schindler

Nick Sonek
Executive Summary

Question: How can SNC continue to grow while adapting to digital transformation?

Goal: Become a top competitor in the industry, with continued growth in profitability and EPS.

Alternatives: Adapt as Needed, Embracing Digital, Focused Adaptation

KPI's: Profitability, Employee Satisfaction, Brand Protection, Growth
What Does Success Look Like?

- Responding with disruption in the industry
- Establishing cultural excellence
- Contributing to our Target 2020 goal
To best understand the operating environment, we have performed analysis with Porter’s Five Forces, the Product Life Cycle, and SWOT.
Drill Down Analysis

To best understand the operating environment, we have performed analysis with Porter’s Five Forces, the Product Life Cycle, and SWOT.

Industry Overview

- Substitution and rivalry high
- Competitive space
- Lower in other categories
## Drill Down Analysis

To best understand the operating environment, we have performed analysis with Porter’s Five Forces, the Product Life Cycle, and SWOT.

<table>
<thead>
<tr>
<th>Industry Overview</th>
<th>Product Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Substitution and rivalry high</td>
<td>• Maturity stage in PLC</td>
</tr>
<tr>
<td>• Competitive space</td>
<td>• Characterized by</td>
</tr>
<tr>
<td>• Lower in other categories</td>
<td>• Differentiation</td>
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<td></td>
<td>• Cost-focus</td>
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Drill Down Analysis

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<th>Product Overview</th>
<th>Company Overview</th>
</tr>
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<tbody>
<tr>
<td>• Substitution and rivalry high</td>
<td>• Maturity stage in PLC</td>
<td>• Wide breadth of products</td>
</tr>
<tr>
<td>• Competitive space</td>
<td>• Characterized by</td>
<td>• Organizational changes</td>
</tr>
<tr>
<td>• Lower in other categories</td>
<td>• Differentiation</td>
<td>• New technology in the space</td>
</tr>
<tr>
<td></td>
<td>• Cost-focus</td>
<td>• Rise of untraditional powers</td>
</tr>
</tbody>
</table>
Stakeholder Analysis

SNC Lavalin

- Customers
- Investors
- Employees
- Suppliers
- Management
# Revenue per Employee

<table>
<thead>
<tr>
<th>Department</th>
<th>Revenue/Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>333k</td>
</tr>
<tr>
<td>EDPN</td>
<td>177.78k</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>125k</td>
</tr>
<tr>
<td>Nuclear</td>
<td>250k</td>
</tr>
<tr>
<td>Clean power</td>
<td>500k</td>
</tr>
<tr>
<td>Mining &amp; Metallurgy</td>
<td>384k</td>
</tr>
<tr>
<td>Deloitte Consulting</td>
<td>200k</td>
</tr>
</tbody>
</table>
Hours Matter

Employees
• 18,000

Hours worked
• 36,000,000 Hours/Year

3.2B Revenue

We charge $88.89/hour
Hours Drill down

$88.89

Rev/ Hour
Hours Drill Down

Where the Dollars Go

- Salary and benefits: $45.00
- Overhead: $17.78
- Other Costs: $16.33
- EBIT: $9.78
Clients Reaction

Clients will reject being charged more per hour

Clients will enjoy being charged for less hours

Profitability per hour is king
Customer Profile

Big Government

• Proven Technology
• Risk-Averse
• Trusted Companies
• Cost-Conscious
Customer Profile

**Big Government**
- Proven Technology
- Risk-Averse
- Trusted Companies
- Cost-Conscious

**Big Business**
- Often Cutting Edge
- Willing and Able to Pay
- Brand Image
- Driving Digital
Value Proposition

**Job**

Well built construction project

**Gains**
- Looks
- Functional design
- Quality

**Pains**

Price
Efficiency
Value Proposition

**Job**
Well built construction project

**Gains**
- Looks
- Functional design
- Quality

**Pains**
- Price
- Efficiency

**Gain Creators**
- Trusted brand
- Quality Product

**Pain Killers**
- Price reflects quality
- Expert engineers
- Efficient and effective

**Product**
Beautifully designed and executed construction projects
Changing Competitive Landscape

Traditional Competitors

• Aecom
• Balfour
• Fluor
• McDermott
• Jacobs
• Worley Parsons

Market Value

• Trading at lower P/E in relation to comps
Changing Competitive Landscape

Traditional Competitors
- Aecom
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Market Value
- Trading at lower P/E in relation to comps

Nature of Work Has Changed
Rise of crowdsourcing startups has disrupted our industry
Key Performance Indicators

- Profitability
- Employee Satisfaction
- Brand Protection
- Growth
Alternatives

Adapt as Needed

Embracing Digital

Focused Adaption
Adapt as Needed

Address customer concerns as they happen

Keeps strengths of current model

Flexible approach

Pros

• Investors get expected dividend
• Employees don’t have to deal with difficult change

Cons

• Miss digital opportunities
• Short term gains may lead to long term loss
Embracing Digital

Currently:
- 100% of EDPM is Reimbursable

Begin to embrace digital change
- Significantly increase in R&D

Decreased hours = decreased revenue?
- Not quite. Move more to a fixed fee model at a higher hourly rate
  - Less error with machines
  - Faster, more work for hour

Pros
- Embraces technology
- Market digital capabilities to clients
- Ahead of competition

Cons
- Must be more regimented with fixed fee models
- Will customers be willing to accept fixed fee contracts?
- Investors might not be on board
Focused Adaptation

Establish a delivery center in a mid-tier North American city
- Low cost of living
- University town

Small bump in R&D spending

Gradually introduce more fixed fee contract when appropriate

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| • Decreased costs  
• Increased profitability  
• Stronger competitive edge | • HR issues  
• Capital requirements  
• Board approval needed |
## Analysis of Alternatives

<table>
<thead>
<tr>
<th></th>
<th>Adapt as Needed</th>
<th>Embracing Digital</th>
<th>Focused Adaptation</th>
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<tbody>
<tr>
<td>Profitability</td>
<td>❌</td>
<td>☑</td>
<td>❌</td>
</tr>
<tr>
<td>Employee Satisfaction</td>
<td>❌</td>
<td>❌</td>
<td>☑</td>
</tr>
<tr>
<td>Brand Protection</td>
<td>❌</td>
<td>☑</td>
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<td>❌</td>
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<tbody>
<tr>
<td>Profitability</td>
<td><img src="false" alt="Green" /></td>
<td><img src="false" alt="Yellow" /></td>
<td><img src="false" alt="Green" /></td>
</tr>
<tr>
<td>Employee Satisfaction</td>
<td><img src="false" alt="Green" /></td>
<td><img src="false" alt="Red" /></td>
<td><img src="false" alt="Yellow" /></td>
</tr>
<tr>
<td>Brand Protection</td>
<td><img src="false" alt="Green" /></td>
<td><img src="false" alt="Yellow" /></td>
<td><img src="false" alt="Green" /></td>
</tr>
<tr>
<td>Growth</td>
<td><img src="false" alt="Red" /></td>
<td><img src="false" alt="Green" /></td>
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Why This Strategy

Understands best how to deal with disruption

Addresses the needs of our stakeholders

Achievable and relevant
Our Strategy

Building the Future of SNC
Building the Future of SNC Lavalin

- Business Model
- Marketing
- HR
- Investor Relations
- Funding
Building the Future of SNC Lavalin

Business Model

Marketing

HR

Investor Relations

Funding
Moving to a Delivery Center Model

- Mimic Top Professional Services Companies
  - Capgemini
  - PWC

- Establish a Delivery Center in a mid-tier city
  - Preferably with University affiliation
  - Decreased costs & wages
Moving to a Delivery Center Model

Mimic Top Professional Services Companies
- Capgemini
- PWC

Establish a Delivery Center in a mid-tier city
- Preferably with University affiliation
- Decreased costs & wages

Key Takeaway: Charge out rate stays approximately the same, while costs decrease.
Implementation: Hour Drill Down

By managing technology we can increase productivity by 37%

- Reduce Average Salary by 10%
- Reduce Overhead by 10%
- Remain the Same
- 37% Increase/hour
- 3% to Fund Technology
Productivity means less hours worked

Productivity means less hours worked

- 20% More efficient

Employees will need fulltime jobs. Where will we get the hours from?

- Average attrition rate in large corporations 15%
- In two years with slowed rehiring we can eliminate these FTEs in 2 years

Revenue will go down (3.2 to 2.56B with same engagements)

But EBIT

- From $352M to 385M (10%) increase
Building the Future of SNC Lavalin

- Business Model
- Marketing
- Investor Relations
- Funding
- HR
Corporate Structure

As technology changes, we need fewer people to do the same jobs.
Corporate Structure

As technology changes, we need fewer people to do the same jobs.

**Corporate Level**
- Recognize that workforce changes are coming quickly
- Plan for workforce reactions
- Development of Delivery Center

**Employee Level**
- Manage Internal Message
- Shrink workforce through attrition
- Educate workforce through training
- Employee Surveys
Employee Training

“Everybody likes change, just not when it happens to them”
Employee Training

“Everybody likes change, just not when it happens to them”

Growing Technological Literacy Gap

Training in technological literacy

Open lines of communication

Training in ambiguity / uncertainty
Development of Delivery Center

Opening of Delivery Center

• Hire Leadership (look internal)
• Create Development Team
• Open lines of communication

Hiring at the Delivery Center

• Focus on Young Hires
• Develop University Relationship
• Hiring Process
• Training
Building the Future of SNC Lavalin

- Business Model
- Marketing
- HR
- Investor Relations
- Funding
Funding Technology

By allocating 3% of Revenue we can be in line with competitors

$78 Million a year at current levels
Building the Future of SNC Lavalin

- Business Model
- Marketing
- HR
- Investor Relations
- Funding
Managing Investors’ Perspectives

10/11 Buy Recommendations

Trading closer to 52-week low

Negative dip with Atkins Acquisition

Key Takeaway: Have we not been connecting well enough with the investment community with our corporate actions?
# Introducing SNC Lavalin Disruption Day

<table>
<thead>
<tr>
<th>Concept</th>
<th>Desired effect</th>
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</thead>
<tbody>
<tr>
<td>Bring analysts tracking our firm and others in same space</td>
<td>Maintain close connection with investment community through establishing message</td>
</tr>
<tr>
<td>Panels on disruption in the industry</td>
<td>Halo effect</td>
</tr>
<tr>
<td>Highlighted by discussions with management and top players in space</td>
<td>Establishing ourselves as pioneers and vanguards in this</td>
</tr>
</tbody>
</table>
## External Communication with Investors

<table>
<thead>
<tr>
<th>Plan</th>
<th>Channels</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Push message of how SNC Lavalin is responding to disruption</strong></td>
<td><strong>TV</strong></td>
<td><strong>Reassure investors as planning</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Industry Outlooks</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Print Media Channels</strong></td>
<td><strong>Positioning ourselves as proactive with space</strong></td>
</tr>
</tbody>
</table>
Building the Future of SNC Lavalin

Business Model

Marketing

Investor Relations

Funding

HR
Marketing

Proven quality & cutting edge advances give you top results!

- Build brand status
- Develop trade reports in reputable publications
- Presence as expert and presenter at industry & digital conferences and trade shows
- Content creation
  - Digital on website & social media
  - Advertorials
Customer Service

- Quality and brand legitimacy set us apart
- Maintain strong customer relationships
- Open lines of communication
- Differentiating factor
## Budget

<table>
<thead>
<tr>
<th>Budget</th>
<th>Item</th>
<th>Timing</th>
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</thead>
<tbody>
<tr>
<td><strong>78 Million</strong></td>
<td><strong>Technology Fee</strong></td>
<td></td>
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<tr>
<td>32 Million/Year</td>
<td>400 Dedicated innovation Engineers</td>
<td></td>
</tr>
<tr>
<td>46 Million/Year</td>
<td>Help Fund Delivery center</td>
<td></td>
</tr>
<tr>
<td>500,000</td>
<td>Create Content</td>
<td>Q2 2019</td>
</tr>
<tr>
<td>200,000</td>
<td>Conferences and Trade Shows</td>
<td></td>
</tr>
<tr>
<td>50,000</td>
<td>Trade Publications</td>
<td></td>
</tr>
<tr>
<td>100 Million</td>
<td>Build Delivery Center</td>
<td>Q3 2019</td>
</tr>
<tr>
<td>75,000</td>
<td>Reputation With University</td>
<td>Q2 2019</td>
</tr>
</tbody>
</table>

**78 Million Recurring**

**108 Million One Time**
# Implementation Timeline

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2020</th>
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<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
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<td>Trade Publications</td>
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<td>Shows</td>
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<td>HR</td>
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<tr>
<td>Retain</td>
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<tr>
<td>Attrition</td>
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<tr>
<td>Delivery Center</td>
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<tr>
<td>Locate</td>
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<tr>
<td>Build</td>
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</tr>
<tr>
<td>Hire</td>
<td></td>
<td></td>
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<tr>
<td>University Relations</td>
<td></td>
<td></td>
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KPI’s Revisited & Metrics

- **Profitability**: Increase EPS
- **Employee Satisfaction**: Achieve Sunday Times Top 100
- **Brand Protection**: Become one of the top global, fully integrated, professional service & project management firms
- **Growth**: 10% growth in profit by 2021
Risks & Mitigation

Unable to increase Fixed Fee
- Decrease push and stay with reimbursement model

Increased R&D does not lead to growth or a competitive advantage
- Cut back spending

Lack of Shareholder Support
- Re-evaluate strategy

Impact

Probability

Shareholder Support
R&D
Fixed Fee
Revisiting Executive Summary

Question: How can SNC continue to grow while adapting to digital transformation?

Goal: Become a top competitor in the industry, with continued growth in profitability and EPS.

Alternatives:
- Adapt as Needed
- Embracing Digital
- Focused Adaptation

KPI’s:
- Profitability
- Employee Satisfaction
- Brand Protection
- Growth
# Appendix

I. Constructing the future with SNC

II. Executive Summary

III. What Does Success Look Like?

IV. Drill Down Analysis

V. Stakeholder Analysis

VI. Customer Profile

VII. Value Proposition

VIII. Changing Competitive Landscape

IX. Hours Matter

X. Clients Reaction

XI. Hours Drill Down

XII. Key Performance Indicators

XIII. Alternatives

XIV. Adapt as Needed

XV. Embracing Digital

XVI. Focused Adaptation

XVII. Analysis of Alternatives

XVIII. Our Strategy

XIX. Building the Future of SNC Lavalin

XX. Moving to a Delivery Center Model

XXI. Implementation: Hour Drill Down

XXII. Productivity means less hours worked

XXIII. Implementation: Hour Drill Down

XXIV. Corporate Structure

XXV. Implementation: Hour Drill Down

XXVI. Moving to a Delivery Center Model

XXVII. Implementation: Hour Drill Down

XXVIII. Productivity means less hours worked

XXIX. Productivity means less hours worked

XXX. External Communication with Investors

XXXI. Marketing

XXXII. Customer Service

XXXIII. Budget

XXXIV. Implementation Timeline

XXXV. Risks & Mitigation

XXXVI. KPI's Revisited & Metrics

XXXVII. Porter's Five Forces

XXXVIII. Prospectus Mock-Up

XXXIX. Product Life Cycle

XL. Hiring Process Drill Down

XLI. Contingency Plan

XLII. SWOT
Porter’s Five Forces

- Threat of new entrants
- Substitutes
- Rivalry
- Buyer Power
- Supplier Power
Prospectus Mock-Up

SNC Lavalin Industry
Prospectus

Insights as to How Disruption is Changing This Space

Mail to: BMO Capital Markets

Available at Our Website!
# Product Life Cycle

<table>
<thead>
<tr>
<th>Stage</th>
<th>Characterized by</th>
<th>How to Combat</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maturity</td>
<td>• Differentiation • Cost</td>
<td>• Attack in market share</td>
</tr>
</tbody>
</table>
Hiring Process Drill Down

1. Identify skills
2. Write job description
3. Look internally
4. Hire (consider outsourcing)
5. Onboarding
6. Communication & Training
# Contingency Plan

<table>
<thead>
<tr>
<th>What if</th>
<th>Then We</th>
</tr>
</thead>
<tbody>
<tr>
<td>• We have trouble finding sites</td>
<td>• Would have to build in less-expensive city</td>
</tr>
<tr>
<td>• Investors do not approve</td>
<td>• High-level communication</td>
</tr>
<tr>
<td>• Customers cannot reconcile with change</td>
<td>• Take a more engaged approach</td>
</tr>
</tbody>
</table>

**SWOT**

**Strengths**
- Market leader
- Great growth

**Weaknesses**
- Cultural Issue
- Financial structure

**Opportunities**
- Growing addressable industry
- Brexit opportunity

**Threats**
- Rise of crowdsourcing