SNC-Lavaling: Building What Matters

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Agenda:

1. Introduction
2. Problem Statement
3. Recommendation
4. Analysis
5. Alternatives
6. Implementation
7. Financials
How does SNC-Lavalin evolve it’s business model and be prepared for the digital transformation?
Recommendation
Embrace new technologies to improve value proposition and future-proof revenue streams

Adjust business model
- Increase fixed-price contracting and add Saas
- Introduce Digital Services into EDPM for scalable digital offerings
- Fund digital investment via bonds, internal reinvestment via Capital unit and selling outstanding shares

Embrace digital transformation
- Hire Digital Transformation team to democratize knowledge across whole business
- Invest in R&D for new IP that can be applied to EDPM

Manage important stakeholders
- Investors: formal communications of 5-yr plan
- Customers: Offer more appealing and relevant proposals
- Employees: Minimize tensions through internal communications, professional development and transition plan
Analysis
SNC-Lavalin has opportunity to become a tech leader in the industry

State of the Industry

- Poor productivity
- Low adoption of tech
SNC-Lavalin has opportunity to become a tech leader in the industry

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- Poor productivity
- Low adoption of tech
- Rapid growth in tech investment
- Customers will demand digital services
SNC-Lavalin has opportunity to become a tech leader in the industry

**State of the Industry**

- Poor productivity
- Low adoption of tech

- Rapid growth in tech investment
- Customers will demand digital services

Invest in R&D and create dedicated digital transformation team to stay on top
Digital services will erode revenue in current business model

Current Model:

RFP → Engineers → Tasks → Deliverable

- 75% Billable hours
- 25% Fixed-price contracts

Build scalable model that leverages software as services and reduce reliance on billable hours
Digital services will erode revenue in current business model

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Digital services will erode revenue in current business model

Build scalable model that leverages software as services and reduce reliance on billable hours
Multiple stakeholders with different needs have to be properly managed.

SNC-Lavalin
Key Stakeholders

- Employees
- Investors
- Customers
Multiple stakeholders with different needs have to be properly managed.

**SNC-Lavalin Key Stakeholders**

- Employees
- Investors
- Customers

**SNC-Lavalin**

Internal change will present challenges.
Multiple stakeholders with different needs have to be properly managed.

SNC-Lavalin
Key Stakeholders

- Employees
  - Internal change will present challenges
- Investors
  - Deviation from legacy business model
- Customers

Recommendation
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Multiple stakeholders with different needs have to be properly managed.

SNC-Lavalin

Key Stakeholders

Employees

Internal change will present challenges

Investors

Deviation from legacy business model

Customers

New model to benefit customers

Recommendation

Analysis

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Financials
Multiple stakeholders with different needs have to be properly managed.

**SNC-Lavalin**

**Key Stakeholders**

- Employees: Internal change will present challenges.
- Investors: Deviation from legacy business model.
- Customers: New model to benefit customers.

Communicate benefits to all stakeholders and facilitate internal transition process.
New model positions SNC-Lavalin for long-term success and leadership

Increasing technological needs in industry

New tech to reduce billable hours
New model positions SNC-Lavalin for long-term success and leadership

- Increasing technological needs in industry
- New tech to reduce billable hours
- New business model required to effectively compete
New model positions SNC-Lavalin for long-term success and leadership

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New tech to reduce billable hours

Legacy model no longer relevant

Employees will be affected by changing market needs

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New model positions SNC-Lavalin for long-term success and leadership

Increasing technological needs in industry

- New tech to reduce billable hours

New business model required to effectively compete

Legacy model no longer relevant

- Employees will be affected by changing market needs

Communication with key stakeholders is critical

Invest in the digital transformation of SNC-Lavalin with new model and democratization of knowledge
Financial Analysis
75% of the Revenue potentially at risk due to digital transformation – $7.5Bn

2018 Revenue
$10Bn
(9.9% YoY Growth)

Reimbursable & Engineering Service Contracts
7.5

Each 1% of productivity, reduce $75M in Billable hours

Need to update and evolve current business model
Differences in productivity show opportunities for improvement

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue</th>
<th>Employees</th>
<th>Revenue per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infraestructure</td>
<td>$2.0 Bn</td>
<td>6,000</td>
<td>$333K</td>
</tr>
<tr>
<td>EDPM</td>
<td>$3.2 Bn</td>
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<td>$125K</td>
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<td>Nuclear</td>
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<tr>
<td>Mining &amp; Metallurgy</td>
<td>$0.5 Bn</td>
<td>1,300</td>
<td>$385K</td>
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</table>

Opportunity to increase productivity

Opportunity to company wide practice share

Start with industries that has more space to improve and cross sharing
Alternatives
The construction industry experienced rapid and complex changes in course of 12 months. Providing end to end services is a key advantage in market. Integrating knowledge and digital competencies of Atkins into core business is not enough.

Digital Transformation
- The construction industry experienced rapid and complex changes in course of 12 months

Operations
- Providing end to end services is a key advantage in market

Acquisitions
- Integrating knowledge and digital competencies of Atkins into core business is not enough

Need to change business model
Introduce and invest in a new and scalable revenue stream in EDPM

SNC well positioned for sustainable growth
Risks can be mitigated

**Risks**
- Shareholders frustrated about decreased dividend payout
- Turbulent transition process of introducing Digital Transformation Team
- New business model too expensive

**Mitigation**
- Invest in communications and marketing that this is a necessary pain
- Invest in internal communications and incentive plans to retain key talent
- Joint venture with partner

**Contingency**
- Negotiate for a milestone for increased dividend payout
- Attractive incentive plans and invest in and create new talent acquisition and retention initiatives
- Acquire company to develop construction technologies
Implementation
Recommendation
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Implementation
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Implementation at a Glance

2019 → 2020 → 2021 → 2022 → 2023

Adjust business model
- Increase fixed-price contracting and add SaaS
- Digital Services team
- Fund investment

Embrace digital transformation
- Digital Transformation team
- R&D for IP

Manage important stakeholders
- Shareholder Meeting
- Shareholder Meeting
- Shareholder Meeting
- Shareholder Meeting
- Shareholder Meeting
- Adapt proposals
- HR Initiatives

Begin digital transformation now to stay relevant in a rapidly changing market
Adjust business model → Embrace digital transformation → Manage important stakeholders
Recommendation

Analysis

Alternatives

Implementation

Financials

Increase fixed-price contracting and add Saas through new Digital Services Team

Digital Services Team to offer Saas to internal projects and as standalone service

E.g.: BI, Analytics

Growing and scalable

Billable hours
50%

Fixed price
50%

Higher quality
Better performance
Faster completion

Stabilize revenue stream as billable hours inevitably decrease
An investment is necessary to stay relevant and improve value proposition for customers.

Productivity in EDPM and IP leads the investment.

Fund digital investment using multi-pronged approach.

- Issue bonds
- Internal investment by Capital arm
- Sell outstanding shares
Adjust business model

Embrace digital transformation

Manage important stakeholders
Hire Digital Transformation team to democratize knowledge across all business units

Work on improving productivity by creating a bridge between siloed units and teams

Create value-adding synergies by harnessing current institutional knowledge

Recommendation
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Recommendation

Invest in R&D for new IP that can be applied to EDPM

Analysis

Alternatives

Implementation

Financials

Blockchain

- Contract management
- Logistics management
- Quality and compliance
- Security

IP can be used for EDPM projects, across other business units or as a standalone service for clients
Adjust business model
Embrace digital transformation
Manage important stakeholders
Manage investors, customers, employees

** Investors 
- 5-year plan
- Quarterly meetings
- Calls, Q&A

** Customers 
- Faster completion
- New services
- Attractive proposals

** Employees 
- HR change management
- Professional development: Udemy
- Transition planning
Financials
Follow SNC-Lavalin capital allocation framework

**Source of funds**
- Capital Arm
- Long term bonds
- Outstanding shares

*Based on market conditions*

**Use of funds: $22M**
- R&D: $5M (30 Developers)
- Digital transformation team: $5M (30 professionals)
- HR: $2M (Change management)
- Infrastructure: $10M

**Revenue Streams**
- Digital services: $2.5M to $200M
- Ramp up productivity: $160M (5% increase in EDPM)

Set the base for strong growth
Diversify revenue to include highly value added streams

New Digital Services vertical:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tr>
<td>Employees</td>
<td>25</td>
<td>125</td>
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<td>Rev. per Employee</td>
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<td>$200K</td>
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<td>$400K</td>
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<td>Revenue</td>
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<td>Cost</td>
<td>3,750,000</td>
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<td>33,750,000</td>
<td>48,750,000</td>
<td>63,750,000</td>
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<tr>
<td>Infrastructure</td>
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<td>1,250,000</td>
<td>3,375,000</td>
<td>6,500,000</td>
<td>10,625,000</td>
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<tr>
<td>Profit</td>
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<td>5,000,000</td>
<td>30,375,000</td>
<td>74,750,000</td>
<td>138,125,000</td>
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</tbody>
</table>

Long term profitability

High value added services
How to achieve digital growth?

1. How will digital transformation affect SNC-Lavalin Business? Change business model and mindset, from task to IP and from Hour to results. New offerings and new Teams!
2. How should SNC-Lavalin design engineering business? Focus on service and adjust billing model
3. How does SNC-Lavalin fund digital investment? Multi-prone approach
4. What should SNC tell investors? 5 year plan will lead to sustainable business model