SNC LAVALIN: Bigger, Better, Faster

RASHAAD SADER, VICE PRESIDENT, DIGITAL TRANSFORMATION
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SHANNON SNADE, KATHLEEN BOSKILL, ALE BERMUDEZ, MORGAN HARPER
Currently facing:

- Increasing cost, timelines, engineering challenges
- Decreasing productivity

How to achieve growth and prepare for upcoming disruptive landscape?
### Executive Summary

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Overall organizational growth of 15% continual annual growth rate by 2023
Assumption

- Growth is an issue and growth will improve EBIT
- Public RFP process is blind (company names are not known until bid awarded)
- Private RFP process is not blind and that relationships and reputation matter
- Private RFP is typically billable hours; government RFP fixed contract
- Technology and acquisitions are major sources of organizational change
- Layoffs post-acquisition have been completed
You asked:

- How to achieve digital growth?
- How will digital transformation affect our business?
- How should our design engineering business change its business model?
- How do we fund digital investments?
- What should we tell investors?
Technology Leader or Laggard?

- Customer desire for new technology is dependent on industry, average low adoption in construction and engineering
- Current focus is on improvements for collaboration, back office management, on-site efficiency
- Moore’s Law: Price of technology decreases every year
- Technology bought now will be more expensive than later
- Shareholders are risk-adverse for technology investment
- Investments must be made strategically
Building a unified team

Kathleen
Where are we now? Industry

- Digital Technology is in the minds of everyone
  - Customers are asking for more digital solutions or how can it be added
- How do we not become disrupted?
  - Many other industries have been disrupted how do we mitigate this for our company
- Competitors are also focusing on increasing digital technology & knowledge:
  - Arup
  - Bechtel
  - AutoDesk
  - Black & Veatch

It will be important for Lavalin to keep up with tech knowledge and starts-ups
SNC-Lavalin has 6 sectors we work in:

- Clean Power
- Infrastructure
- Mining & Metallurgy
- Nuclear
- Oil & Gas
- Engineering, Design, Project Management
Recent acquisition - Atkins

Digital technology Knowledge

Customer relationships management

Consulting & Project Management

Knowledge of how people interact and respond to tech

Biggest challenge is how to share all of the knowledge between the two companies
To capitalize on synergies of acquisition and grow – it is time to focus on internal & organic growth

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<th>Decision Criteria</th>
<th>Growth</th>
<th>Synergies of acquisition</th>
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<tr>
<td>Focus on internal &amp; organic growth</td>
<td><img src="image" alt="Green" /></td>
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<tr>
<td>Expand geographically</td>
<td><img src="image" alt="Green" /></td>
<td><img src="image" alt="Red" /></td>
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<tr>
<td>Digital acquisition</td>
<td><img src="image" alt="Yellow" /></td>
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Internal and organic growth

- New pricing model
- Keep up to date on digital technology and trends
- Focus on unifying culture of SNC-Lavalin

SNC-Lavalin has opportunities to grow internally and organic – it starts with being on the same page
Internal and organic growth

- Current Pricing model:
  - 25% fixed
  - 75% reimbursable

- New opportunity: Combination of fixed and reimbursable for new contracts

Lavalin has an opportunity to change up the pricing model they use.
STOP DO NOT DO THIS

- Expand geographically
  - Will spread you too thin
  - Lots of opportunity in your current portfolio

DO NOT DO THIS! Will diversify you even more
STOP DO NOT DO THIS

- Acquire a digital tech start-up
  - Just went through a major acquisition
  - Wait for now – unless a great opportunity comes but evaluate carefully

DO NOT DO THIS! Need to work on your organizational culture
Channeling knowledge to meet client needs
Financial Snap shot

- 2017 Total revenue $9.3 billion
- EDPM 2017 percentage of revenue 18%
- EDPM 2018 percentage of revenue 37%
- 2017 Earnings per share $3.13 – 2020 goal of $5
- Leverage ratio 3.75
- PES multiplier 7 times lower than the competition
- $300M for maturing bonds in 2010, $608M for 2021

15% constant annual growth rate. With EDPM accounting for 40% of total revenues
Expected performance

15% constant annual growth rate. With EDPM accounting for 40% of total revenues
### Cost of implementation

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<td>Team of organizational change experts</td>
<td>$250 – $350k</td>
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<tr>
<td>Internships for 25 students</td>
<td>$280 – $300k</td>
</tr>
<tr>
<td>Internal onboarding University for new hires and management</td>
<td>3.5 – $7k / employee onboarding</td>
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<tr>
<td>Sponsorships for Tech incubators</td>
<td>$500k – $1M</td>
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Sponsoring tech incubators will help to recognize start-ups and to keep current.
Disruption and Growth
## Pricing Models

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<th>Challenge</th>
<th>Customer</th>
<th>Future Model</th>
<th>Result</th>
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<td>Reimbursable &amp; Engineering Service Contracts</td>
<td>Decreasing man-hours</td>
<td>Private (ex. Oil and Gas)</td>
<td>Value added: reimbursable man hours + fixed cost to cover cost of technology</td>
<td>Less sensitive to decreasing man-hours.</td>
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<td>EPC- Fixed contracts</td>
<td>Scope creep, volatile input pricing</td>
<td>Public (ex. Government)</td>
<td>Modular: main bid contract + options to increase value</td>
<td>Improved EBIT from better cost control.</td>
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Refreshed pricing models will allow agility and grow CAGR by 15%
Introducing New Pricing Models

0-3 months
- Feedback from key clients on idea

3-6 months
- Draft pricing model structures

6-12 months
- Launch new pricing structure options while keeping existing models

12-18 months
- Measure success - Have customer feedback on pricing models

18 months
- Phase current pricing models based on results from customers
Growing revenues

• Today’s environment projects are being completed faster
• Allows more projects to be bid on, completed and therefore generates more revenue
• With new pricing models SNC Lavalin will have a competitive edge in today’s changing environment
Solving Issues on Merging Cultures

0-6 months
- Hire 3 organizational change experts

6-12 months
- Have new organizational change expert teams visit current offices to communicate company culture, vision, mission and value

1-2 years
- Develop Onboarding University and materials
- Intranets, lunch and learns

Year 2
- Launch onboarding university with “classes” every 3 months

Ongoing
- Feedback on Onboarding University
$50-$100k investment to allow company to

- Sponsorships of digital events
- Attend conferences
- Internships
## Risks and Mitigations

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<td>Upwork and Independent Contractors</td>
<td>Motivating existing employees</td>
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Building a stronger tomorrow
Problem Statement

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