

SNC LAVALIN: Bigger, Better, Faster

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Problem Statement

Currently facing:

- ▶ Increasing cost, timelines, engineering challenges
- ▶ Decreasing productivity

How to achieve growth and prepare for upcoming disruptive landscape?

Executive Summary

Issue	Recommendation	Cost
Growth	Update pricing model by industry to a value added and modular models, use inexpensive technology R&D options such as getting involved in technology spaces and education as sponsor (ex. Universities, incubators, innovation competitions) or internships, increase projects	\$300K Sponsorship, employee education \$3500- \$7000/employ ee
Organizational culture Change	Hire team of three organizational change experts to assist with cultural transition. Create an internal on-boarding university	\$250-\$300K
Leverage Atkins synergies	Share new technology best practices and information across organization	Decreased project timelines
Stakeholder management	Investor relations	Internal

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 it's 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

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Building a unified team

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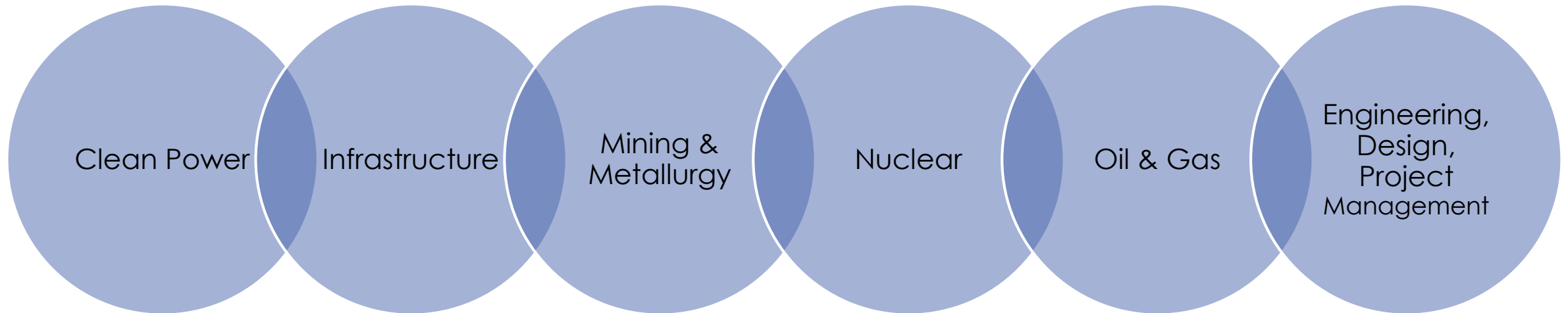
KATHLEEN

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

Where are we now?

- ▶ SNC-Lavalin has 6 sectors we work in



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

Decision Criteria

	Growth	Synergies of acquisition
Focus on internal & organic growth		
Expand geographically		
Digital acquisition		

To capitalize on synergies of acquisition and grow – it is time to focus on internal & organic growth

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:

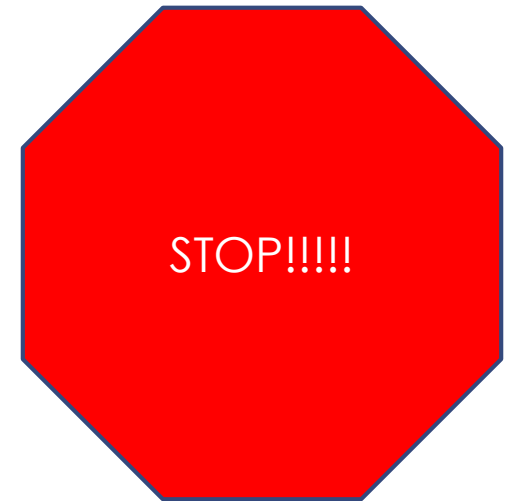
25% fixed

75%
reimbursable

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

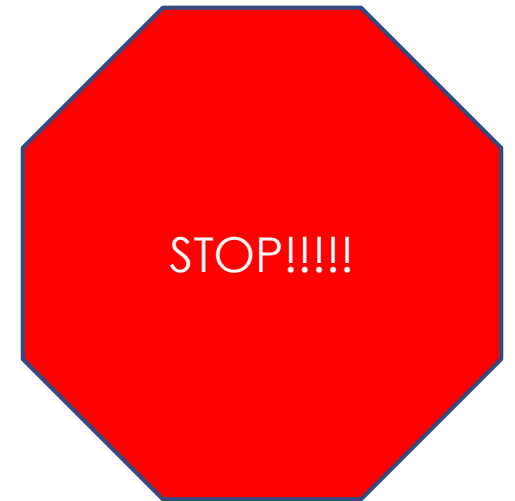
STOP DO NOT DO THIS

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



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



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Channeling knowledge to meet
client needs

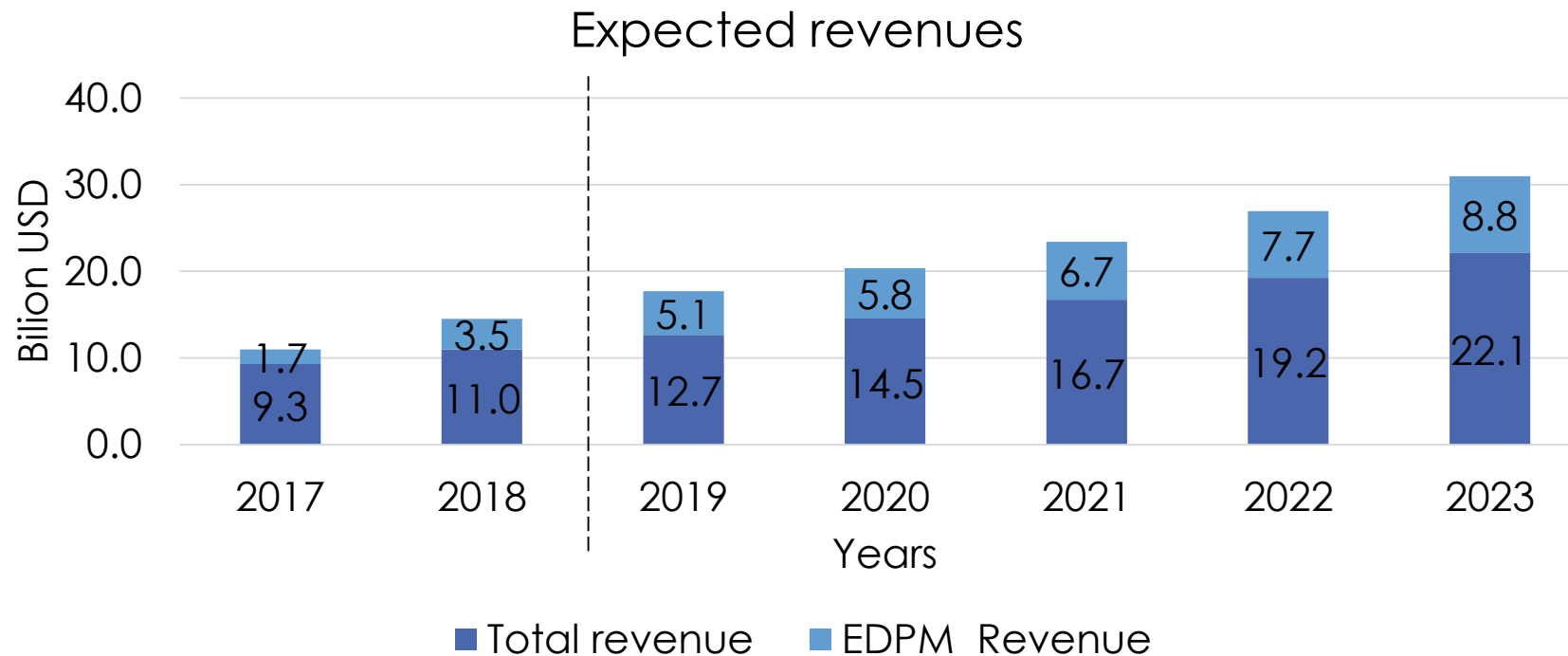
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Financial Snap shot

- ▶ 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

Expected performance



**15% Expected
CAGR**

Cost of implementation

Item	Cost
Team of organizational change experts	\$250 – \$350k
Internships for 25 students	\$280 – \$300k
Internal onboarding University for new hires and management	3.5 – \$7k / employee onboarding
Sponsorships for Tech incubators	\$500k – \$1M

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Disruption and Growth

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MORGAN

Pricing Models

Current Model	Challenge	Customer	Future Model	Result
Reimbursable & Engineering Service Contracts	Decreasing man-hours	Private (ex. Oil and Gas)	Value added: reimbursable man hours + fixed cost to cover cost of technology	Less sensitive to decreasing man-hours.
EPC- Fixed contracts	Scope creep, volatile input pricing	Public (ex. Government)	Modular: main bid contract + options to increase value	Improved EBIT from better cost control.

Introducing New Pricing Models

0-3 months

- Feedback from key clients on idea

6-12 months

- Launch new pricing structure options while keeping existing models

18 months

- Phase current pricing models based on results from customers

3-6 months

- Draft pricing model structures

12-18 months

- Measure success - Have customer feedback on pricing models

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

1-2 years

- Develop Onboarding University and materials
- Intranets, lunch and learns

Ongoing

- Feedback on Onboarding University

6-12 months

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

Year 2

- Launch onboarding university with "classes" every 3 months

Staying current in digital world

- ▶ \$50-\$100k investment to allow company to
 - ▶ Sponsorships of digital events
 - ▶ Attend conferences
- ▶ Internships

Risks and Mitigations

Risk	Mitigation
Cybersecurity	2-factor authentication, internal practices, firewalls
Upwork and Independent Contractors	Motivating existing employees

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Building a stronger tomorrow

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MORGAN

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Risks and Mitigations

Risk	Mitigation	Likelihood	Cost
Cyber Security	2-factor authentication, internal practices, firewalls		
Upwork			