

SNC-LAVALIN: Embracing Disruption

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Problem Statement

Given the latest trend of digital transformation affecting EDPM, how can SNC:

- ***adapt its business model***
- ***fund digital transformation initiatives***
- ***get investors on-board with the company's new approach***
 - ***stay ahead of competitors***

Key Issues

1. Reduced transaction costs reduce the need for services

- Data reuse by customers
- Freelance platforms affecting talent retention

2. Technology improvements increase productivity which in turn reduce revenues

- Billable hours affected

3. Adapting to change while delivering EPS target of \$5 in 2020

4. Building investor support for digital transformation

Recommendation

1. Prioritize technology adoption to deliver productivity gains
2. Implement hybrid pricing model to mitigate impact on revenues
3. Concentrate on mega-projects and large scale initiatives that out of reach for freelancers
4. Promote comprehensive SNC value chain to retain clients

Market analysis

Threat of Entrants –Low

- Large consulting firms established
- Smaller firms handle smaller projects
- **Mega projects destined to few large players**

Supplier Power – Med / Low

- Commodity pricing, raw materials
- Regionally dependent
- Expertise specific to industry



Customer Power– Med / Low

- Large consulting firms established
- Smaller firms handle smaller projects
- Bid process
- **Affected by relationships**

Threat of substitutes - High

- AI
- UpWork
- **Freelance economy affecting smaller projects**

High-value projects offer greatest attractiveness and less susceptible to small-scale disruptors

Internal / External Analysis

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none">• Established reputation in Engineering and construction• Well-established relationships with governments, clients• Reputation in delivering high-end mega projects with expertise beyond the reach of freelancers	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none">• Slow adoption rate of emerging technologies• Industry ripe for increased level of digitization
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none">• Full capitalization of synergies with ATKINS• New technologies present opportunity for increased productivity and growth	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none">• Business model reliant on billing hours• Smaller contracts exposed to freelance contractors and disrupting models such as UpWork

SNC has highly-valuable relationships and core-strengths, but needs to catch up adopting new technologies

Alternatives



1. Adopt hybrid pricing model with productivity gains

2. Shift entirely to fixed-pricing contract work with productivity gains

3. Create / acquire subsidiary for small-scale contracts

4. Subcontract technology-driven work and concentrate on project management and execution

Alternatives

1. Adopt hybrid pricing model with productivity gains

- Increase automation of services to reduce operational costs
- Institute hybrid pricing to protect revenue streams
- Increase margins
- Focus on mega-projects with greater return and lesser competition

2. Shift entirely to fixed-pricing contract work with productivity gains

- Establishes fixed-revenues to offer financial certainty
- Attract clients through competitive pricing
- Allows focus on cost reduction within the organization to increase margins

Alternatives

3. Create / acquire subsidiary for small-scale contracts

- Offer contract-based services to compete with new entrants/disruptors
- Leverage resources of EDPM to supplement independent contractors, create new revenue stream
- Drive market penetration in small scale projects

4. Subcontract technology-driven work and concentrate on project management and execution

- Reduce internal costs of operations and outsource limited-value-add services
- Focus EDPM resources on management and execution
- Retain existing pricing mechanism

Decision Matrix

Alternatives	Increase service attractiveness to target clients	Offer avenues to grow long-term revenue streams	Provide margin growth to deliver EPS growth	Offer long-term potential will satisfy investors
1. Adopt hybrid pricing model with productivity gains				
2. Shift to fixed-pricing with productivity gains				
3. Create subsidiary for small-scale contracts				
4. Subcontract technology-driven work				

Decision Matrix

Alternatives	Increase service attractiveness to target clients	Offer avenues to grow long-term revenue streams	Provide margin growth to deliver EPS growth	Offer long-term potential will satisfy investors
1. Adopt hybrid pricing model with productivity gains	4			
2. Shift to fixed-pricing with productivity gains	4			
3. Create subsidiary for small-scale contracts	2			
4. Subcontract technology-driven work	1			

Decision Matrix

Alternatives	Increase service attractiveness to target clients	Offer avenues to grow long-term revenue streams	Provide margin growth to deliver EPS growth	Offer long-term potential will satisfy investors
1. Adopt hybrid pricing model with productivity gains	4	4		
2. Shift to fixed-pricing with productivity gains	4	2		
3. Create subsidiary for small-scale contracts	2	3		
4. Subcontract technology-driven work	1	1		

Decision Matrix

Alternatives	Increase service attractiveness to target clients	Offer avenues to grow long-term revenue streams	Provide margin growth to deliver EPS growth	Offer long-term potential will satisfy investors
1. Adopt hybrid pricing model with productivity gains	4	4	3	
2. Shift to fixed-pricing with productivity gains	4	2	2	
3. Create subsidiary for small-scale contracts	2	3	3	
4. Subcontract technology-driven work	1	1	3	

Decision Matrix

Alternatives	Increase service attractiveness to target clients	Offer avenues to grow long-term revenue streams	Provide margin growth to deliver EPS growth	Offer long-term potential will satisfy investors	
1. Adopt hybrid pricing model with productivity gains	4	4	3	3	14
2. Shift to fixed-pricing with productivity gains	4	2	2	1	9
3. Create subsidiary for small-scale contracts	2	3	3	2	10
4. Subcontract technology-driven work	1	1	3	1	6

Recommendation

1. Prioritize technology adoption to deliver productivity gains
2. Implement hybrid pricing model to mitigate impact on revenues
3. Concentrate on mega-projects and large scale initiatives that out of reach for freelancers
4. Promote comprehensive SNC value chain to retain clients

1. Prioritize technology adoption to delivery productivity goals

- Reduced cost of operating – “Get Lean”
 - Reduce workforce in areas that can be automated
 - Estimate up to 10% employees redundant over 5 years
- Faster completion rate allows greater volume of work
 - Increase in revenues through multi-project work (parallel streams)
 - Improves employee productivity
 - Mitigate potential price reductions

2. Hybrid pricing model to mitigate impact on revenues

- Implement hybrid-pricing model for technology-enabled activities and services
 - \$/hour pricing for project management, design and other human value-add activities
 - Fixed price for tech-enabled (automated) processes at market rate
 - Will help to preserve customers
 - As prices decrease, small disruptors less able to sustain revenues

3. Concentrate on mega-projects and large initiatives out of reach from freelancers

- Leverages entire value chain and established brand reputation

4. Promote comprehensive SNC value chain to retain clients

- Leverage SNC expertise and portfolio of successful projects
- Leverage existing relationships

How to get your stakeholders on board?

Stakeholder	Key messages	Consultation
Board (and investors -> banks & pension funds)	<ol style="list-style-type: none"> 1. High risk of ignoring digital disruption 2. Organization of digital capabilities 3. Long-term value creation 4. Stabilization of dividend payout at ~30% of consolidated adjusted net income 	<ul style="list-style-type: none"> • Pitch digital transformation plan (board -> investors)
Employees (~50,000)	<ol style="list-style-type: none"> 1. Goal to provide highest value to our clients (cost reduction, efficiency, predictability) 2. Path to become a leader in construction technology and offer innovative services 	<ul style="list-style-type: none"> • Joint pilot projects (high technology & telecommunications, energy & resources)
Clients (50% private, 50% public)	<ol style="list-style-type: none"> 1. Bright career path with SNC (bring you interesting work) 2. Automation as an opportunity, not a threat (backlog) 	<ul style="list-style-type: none"> • Mentorship program between tech-savvy and less tech-savvy employees • Hackathon

			2019		2020				2021				2022				2023							
	in 000 000	Main team	Budget	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Digital Transformation																								
Integrate synergies with Atkins (50%)		digital		[Light Blue]				[Dark Blue]																
Prioritize areas of constellation		digital, external			[Light Blue]	[Dark Blue]	[Dark Blue]																	
Pilot projects		engineers						[Light Blue]	[Dark Blue]															
Implement hybrid pricing		finance	250						[Light Blue]	[Dark Blue]														
Invest in startups		Capital		[Light Blue]																				[Dark Blue]
Lay-off (1800 * 200k)		HR, exec.							[Light Blue]															[Dark Blue]
Stakeholder engagement program																								
Material development		comms		[Light Blue]	[Dark Blue]																			
Consultation with board		comms, external			[Dark Blue]																			
Consultation with employees		comms	1			[Dark Blue]																		
Consultation with clients		comms					[Dark Blue]																	
Funding																								
Internal generated cash flows			-25	[Light Blue]				[Dark Blue]																
Debt if required			-75					[Light Blue]	[Dark Blue]															
Divest proposed assets			-150					[Light Blue]	[Dark Blue]															
		Balance	1																					

Funding Analysis

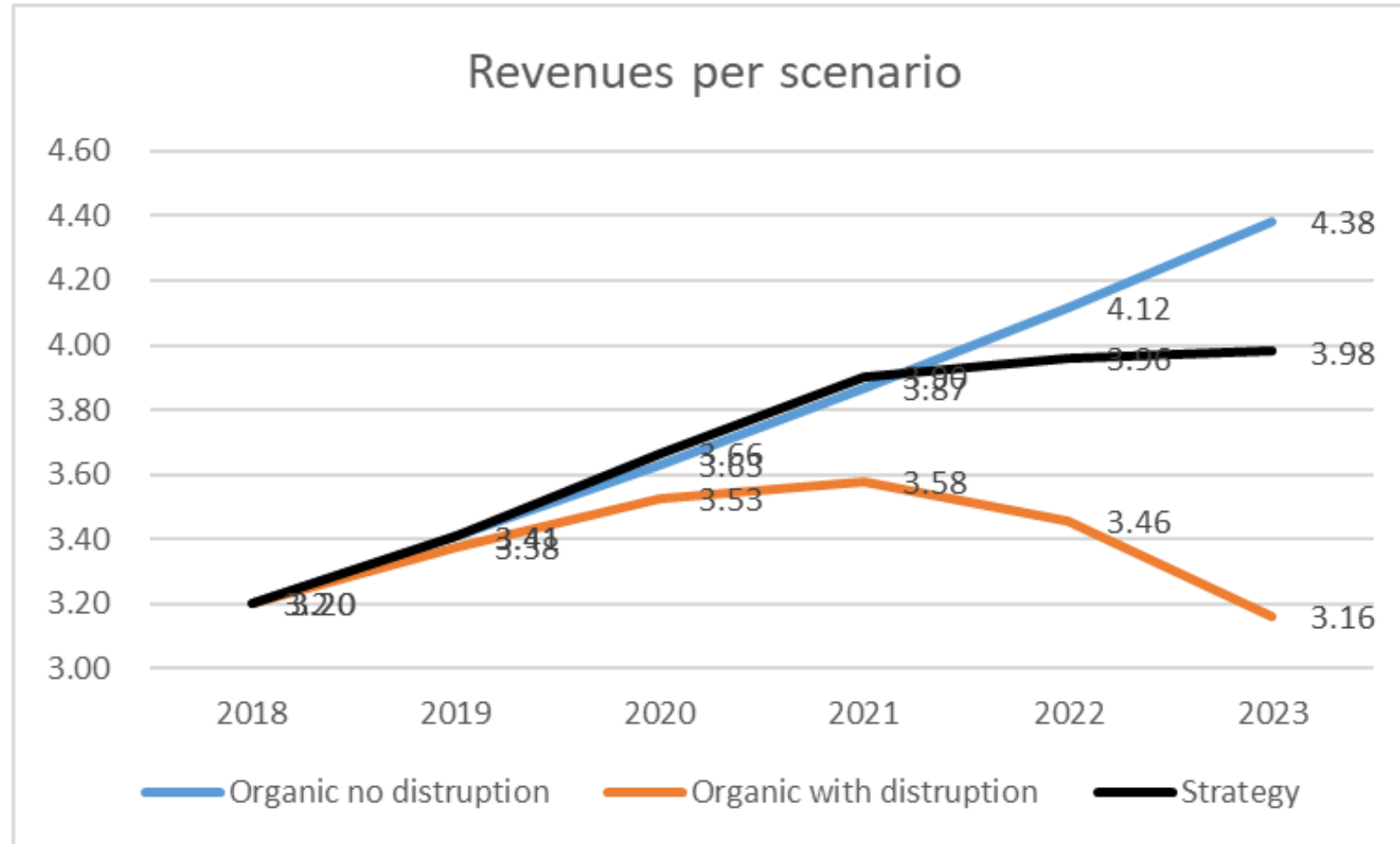
Operating Cash
Flows

Dividends from
concessions &
Capital

Divestiture

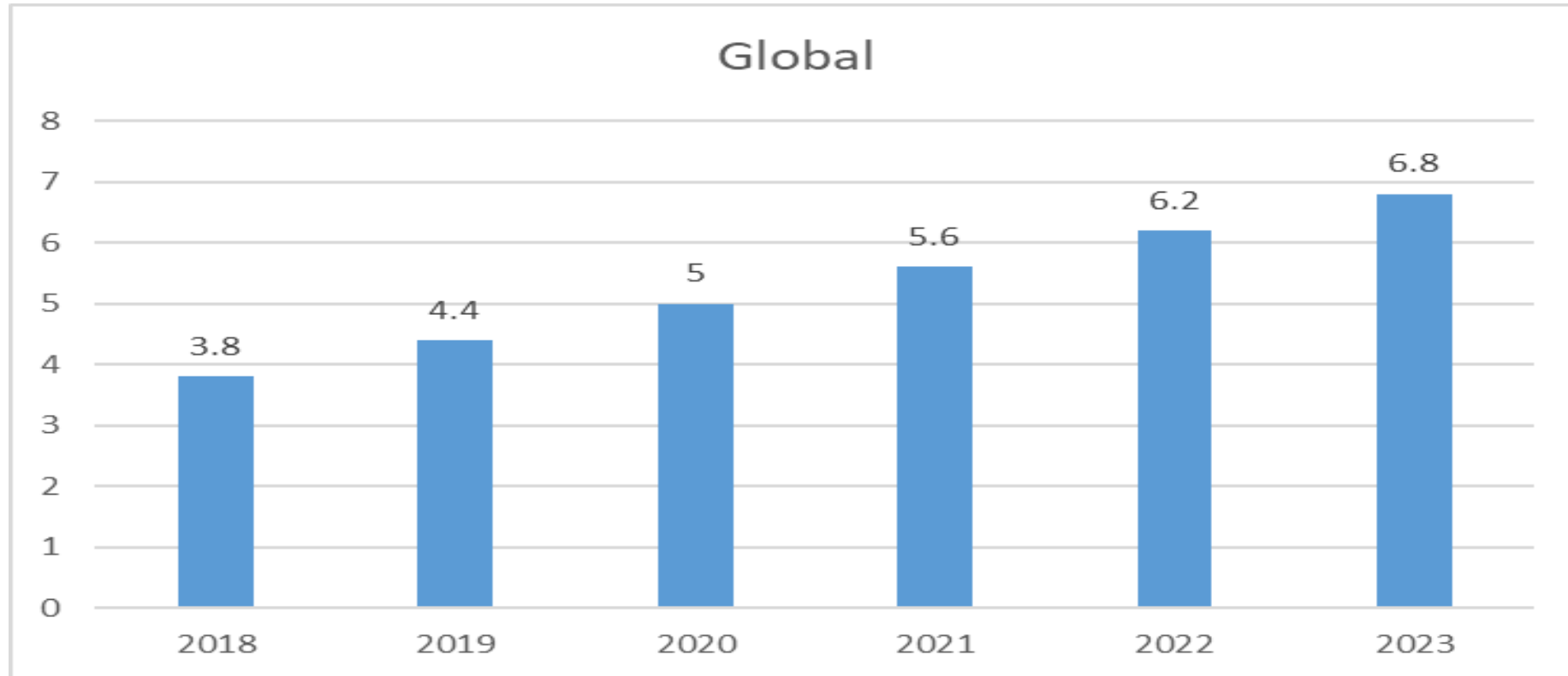
Debt

Cash – Debt - Divestiture



World Population	2020	2030
	7.7	8.2
Delta		6.5%

EPS Impact



EPS	2018	2019	2020	2021	2022	2023
Global	3.8	4.4	5	5.6	6.2	6.8
Delta		16%	14%	12%	11%	10%
Impact of Strategy on EPS		0.12	0.17	0.21	0.34	0.37

Risks

- Technology shift outpaces adoption
 - Mitigation: Maintain consistent touchpoint with emerging tech. and trends. With close monitoring and control of adoption
- Loss in revenue from new pricing model
 - Mitigation: Construction forecast increasing, adjustment of pricing based on demand
- EPS per share does not attain 5\$ per share
 - Mitigation: Close monitoring of performance and adjustment of overall plan.

Recap

- Hybrid pricing
- Prioritize technology adoption
- Increase productivity
- 5\$ EPS on target
- Engagement of stakeholders
- SNC embraces disruption

QUESTIONS?

Annexes

Assumptions						
Organic Market Growth (%)		6.50%	6.50%	6.50%	6.50%	6.50%
Distruption impact on Growth (%)		-1.00%	-2.00%	-5.00%	-10.00%	-15.00%
Proposed strategy impact on revenues growth (%)		1.00%	3.00%	5.00%	5.00%	9.00%