

SNC Lavalin:

Digitally Challenged to Digitally Charged

EAST COAST GLOBAL CONSULTING

Agenda

- Challenge Delia
- Key Issues & Objectives
- Recommendation
- Analysis
- Alternatives Allison
- Implementation Plan Chelsey
- Financials Jennifer
- Risks & Mitigations
- What Success Looks Like Delia

Challenge

How can SNC achieve digital growth in a disruptive technological landscape?

Key Issues

- How will digital transformation affect business?
- How should design engineering change its business model?
- How to fund digital investments?
- What to tell investors?

Key Objectives

- Provide shareholder value
- Remain client focused
- Operational excellence
- Hedge against risk

Recommendation

Increase shareholder value through AI acquisition to achieve operational excellence in high-value, high-growth EPC sectors.

Analysis

DELIA WARREN

External Analysis

THREATS:

- Volatility in commodity and equity markets
- Global uncertainty (Brexit, trade agreements, tariffs)
- Technology disrupting traditional operations – unpredictable; increased competition
- Misalignment between technical competence and technology skills

OPPORTUNITIES:

- Digitization to achieve efficiencies
- Capitalize on shifting global trends (energy, infrastructure, remediation)
- Many engineering activities are easy to replicate – potential for AI integration

**Increase EPC focus on site remediation
and decommissioning**

Internal Analysis

COMPETENCIES:

- Highly diversifying, multi-national company
- Aware of disruptive industry trends
- Strong history of M&A has built on core service offerings
- Shifting business model:
 - O&G down (37% - 26%)
 - EDPM up (18% - 32%)

ISSUES:

- Damage to reputation resulting from 2012 crisis
- Company in transition – M&A's, digital space
- Large share of business in volatile industry (O&G)
- Balance of 75:25 reimbursable vs. fixed cost projects
- Poor productivity in construction (compared to manufacturing)

Shift contract split to favour EPC Fixed-Price contracts

Digitization Trends



Digital processing

Automation and robotics

Data analysis

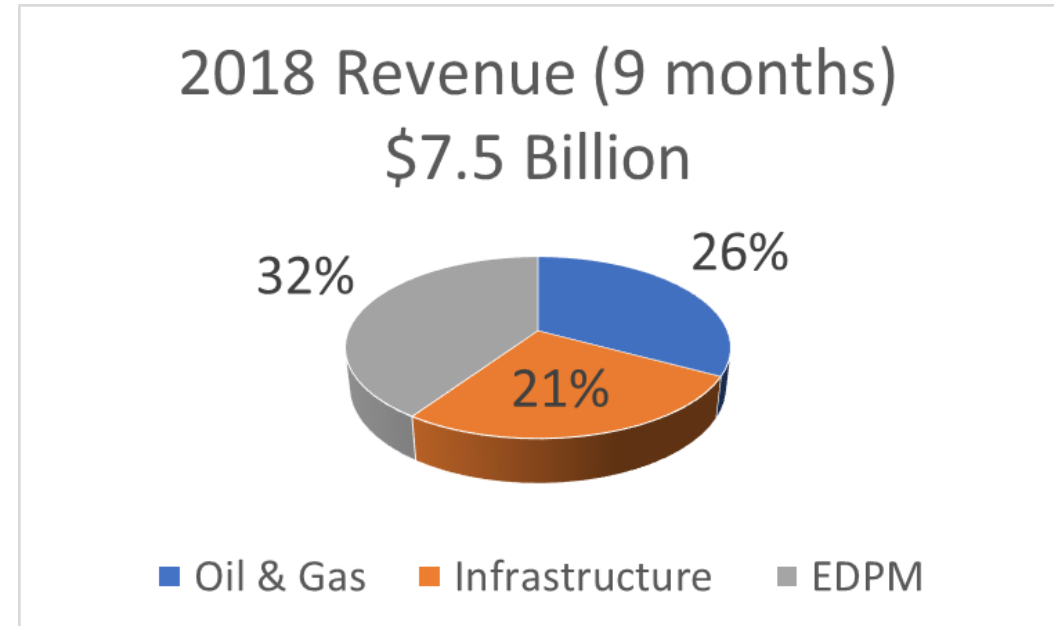
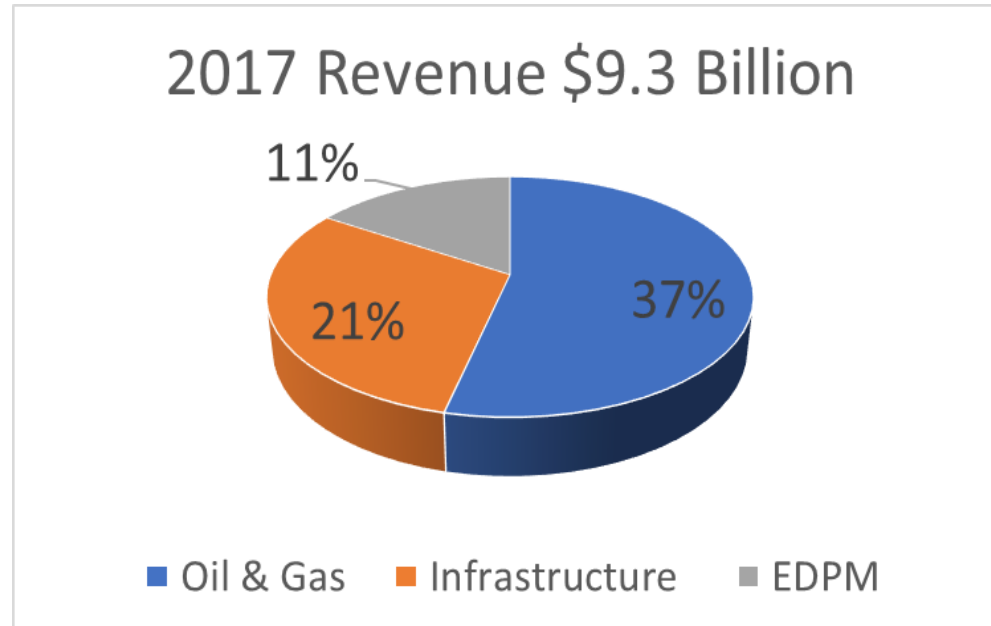
Predictive analytics

Apply digital technology to operational areas with highest value and growth to maximize efficiencies and increase project volumes

Financial Snapshot

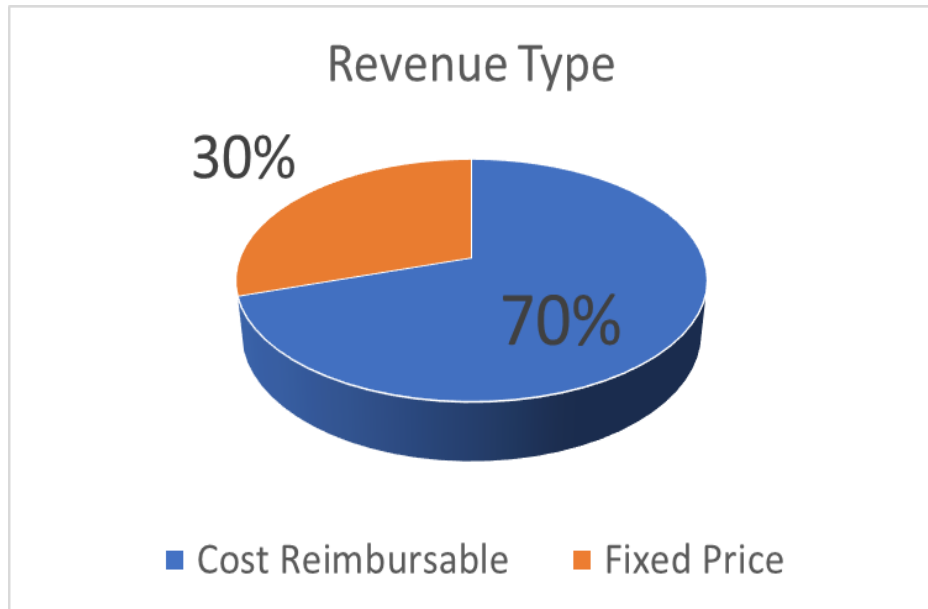
JENNIFER BUTTON

Financial Snapshot



- Revenue Growth in EDPM Sector since Atkins Acquisition

Financial Snapshot



Cost Reimbursable

- Reimbursed for Every Hour
- Changes in Engineering & Design compensated by the client
- Low Risk

Fixed Price

- Need to manage budget & schedule
- Changes in Engineering & Design absorbed by SNC-Lavalin
- High Risk

Growth Through Acquisitions

Kentz

- Acquired for 1.16 Billion in 2014,
- Grew O&G Revenue from \$ 500 M to \$4 B to position SNC as Top 10 in O&G

Atkins

- 2017 acquired for 2.1 B Pounds
- Financed through equity & debt including a 870 million loan from Shareholder
- Hope to eliminate \$120 M CAD through by elimination of Atkin's Corp Costs, SNC Costs etc.
- Atkins pension deficit of 424 M Pounds

Financial Snapshot

Who are the investors? What do they want?

- Shareholders are Large Institutional Investors (Banks, Pension Funds) which require stable returns
- Goal to deliver Adjusted Consolidated EPS of \$5 by 2020

Alternatives

ALLISON PENTON

Alternatives

1

Build Digital Competencies

2

Buy Digital Competencies

Alternative 1: **Build Digital Competencies**

Advantages

- “First mover” advantage

Disadvantages

- Not a core competence
- Time to market
- R&D costs
- Competition

Alternative 2: Buy Digital Competencies

Advantages

- Acquire existing expertise
- Decreased R&D costs
- Decreased time to market
- History of successful acquisitions

Disadvantages

- Merging company cultures and values

Decision Matrix

KEY OBJECTIVES	BUILD	BUY
Provide shareholder value	—	+
Remain client focused	+	+
Operational excellence	+	+
Hedge against risk	—	+

Recommendation

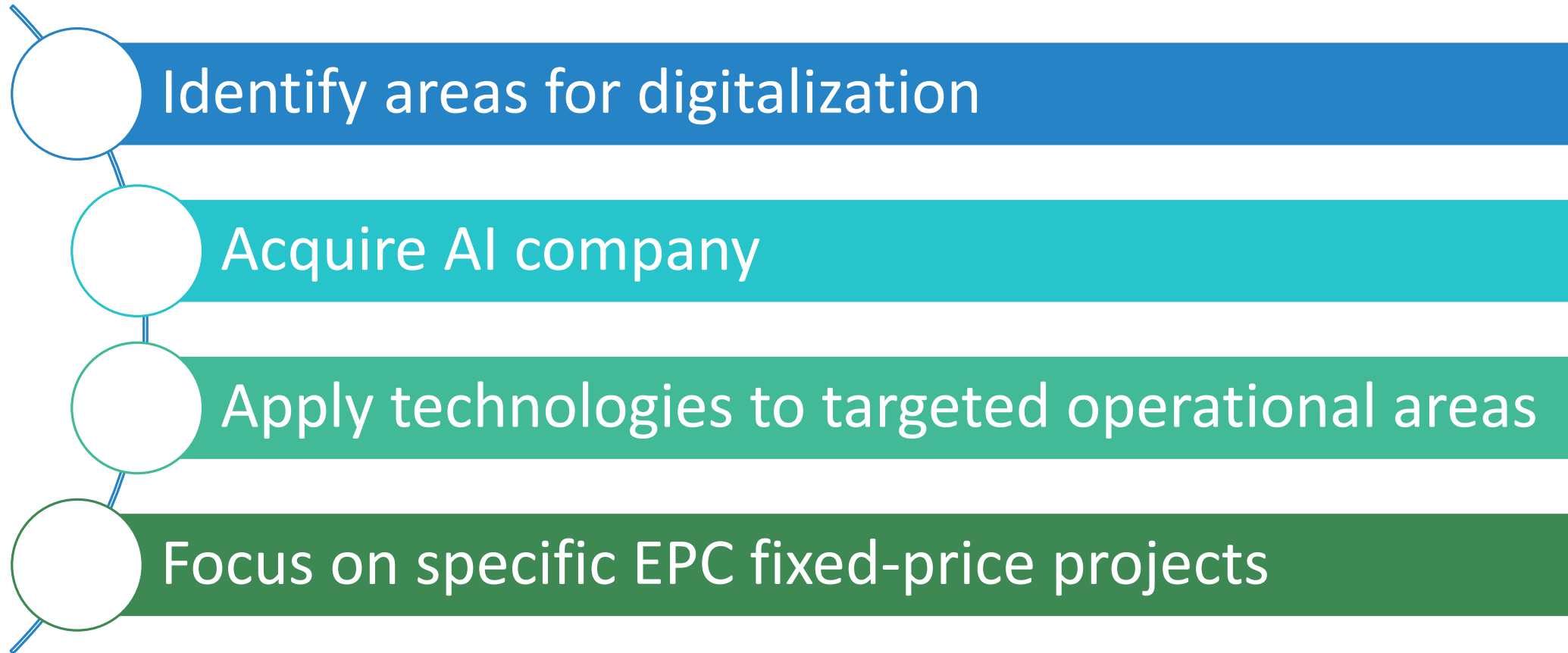
Increase shareholder value through AI acquisition to achieve operational excellence in high-value, high-growth EPC sectors.

Implementation Plan

CHELSEY PIKE

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Implementation Plan



Timeline

Phase 1: 0-12 months

- Identify AI companies and acquire

Phase 2: 12-24 months

- Apply technology to key sectors
- Talent management

Phase 3: 24+ months

- Achieve 60-40 split in EPC

Areas for Digitization

Standardized and/or repeatable tasks



Large scale data/trend identification



Remote/dangerous work conditions

Technology Constellations

Digital Twins

- Design simulation

Modularization & Robotics

- Inspection and reliability maintenance

Artificial Intelligence and Analytics

- Data analytics and predictive assessment

Supply Chain Optimization

- Construction materials marketplace

Framework for Acquisition Candidate

Strong Financial Performance



Proven Technology



Scalability / Applicability



SNC Value alignment

Value Alignment

Culture

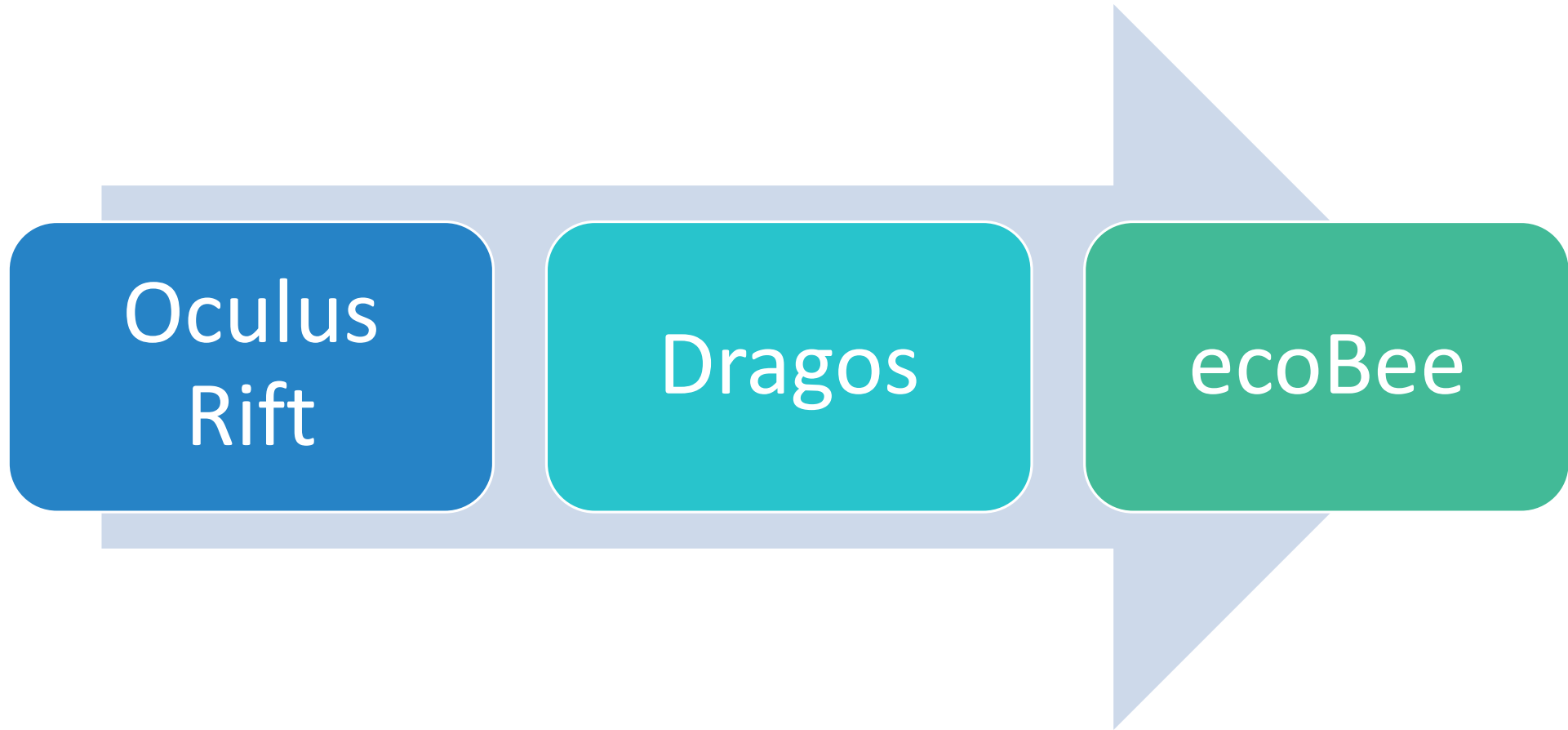
Safety

Integrity

Collaboration

Innovation

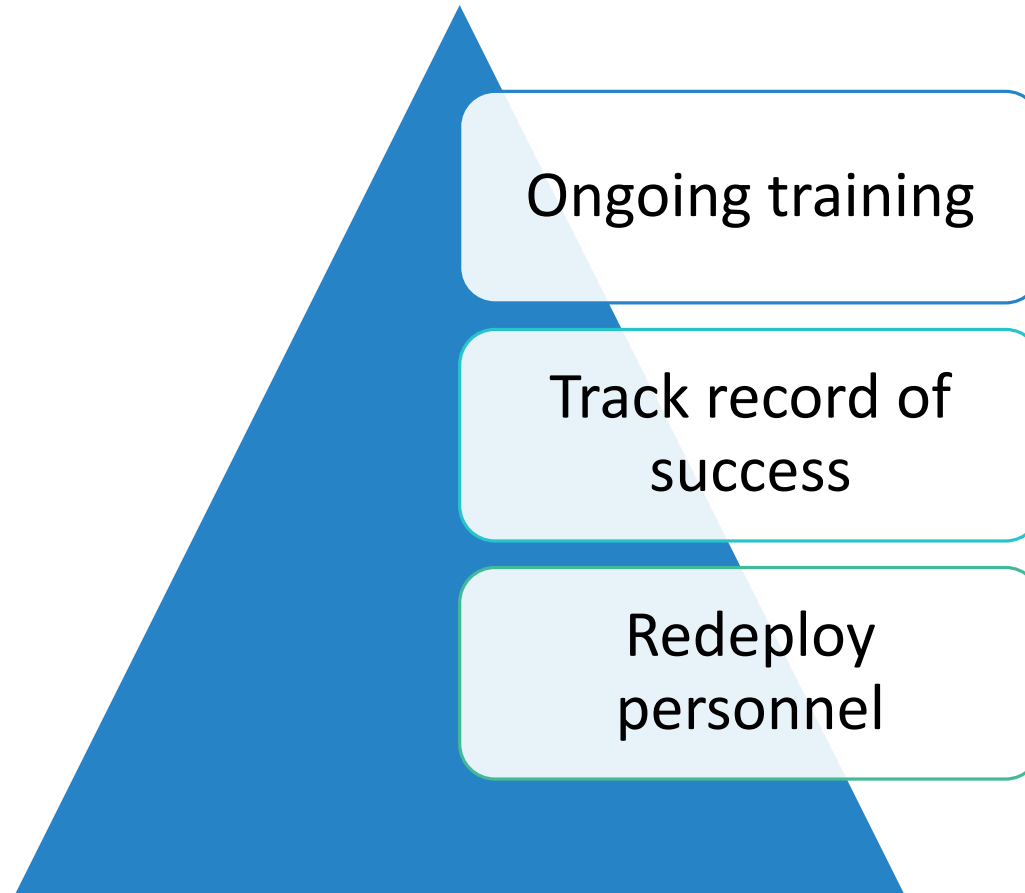
Potential AI Companies



Shift towards EPC Fixed-Price Contracts

- 
- Decommissioning
 - Inspection and reliability maintenance
 - Site remediation

Talent Management



Financials

Risks & Mitigations

JENNIFER BUTTON

Financial Analysis

Funds Required

- \$25-50 M to Acquire Company

Financing Options

- Shareholder Loan
- Use Savings Identified in Atkins Merger
- Equity Financing

Use Savings Identified in Atkins Mergers

- Not taking on more Debt
- Preserves Shareholder Confidence

Financial Analysis

- Efficiencies in AI
- Decrease Engineering Man Hours
- Fixed Price Contracts become lucrative
- Bid Fixed price Contracts – Change Mix 60/40

**Deliver
Consolidated
EPS to \$5 by
2020**

Risks & Mitigations

Technology Choice

- Low Risk
- Strategic Framework to identify Acquisition Candidates
- Strategic Framework to Identify Areas for Digitalization

Competitors Move into AI

- Be First Mover
- Purchase of AI Company

Investors

- Low Risk
- Meet with Large Institutional Investors

Conclusion

DELIA WARREN

What Success Looks Like

Provide
Shareholder Value

Deliver consolidated EPS of \$5 by 2020

Remain Client
Focused

Become a leader in EPC cutting edge technology

Operational
Excellence

Increased efficiency within organization

Hedge Against Risk

Increasing focus on decommissioning projects
Responding to future disruption

Questions?

THANK YOU!

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Contingency Plan

Develop internal competencies

- Costly
- Timely
- Would provide with intellectual property advantages