SNC Lavalin: Digitally *Challenged* to Digitally *Charged*

EAST COAST GLOBAL CONSULTING
Agenda

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

Delia

Allison

Chelsey

Jennifer

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

- 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
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

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Recommendation

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

CHELSEY PIKE
Implementation Plan

- Identify areas for digitalization
- Acquire AI company
- Apply technologies to targeted operational areas
- Focus on specific EPC fixed-price projects
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

Oculus Rift
Dragos
ecoBee
Shift towards EPC Fixed-Price Contracts

- Decommissioning
- Inspection and reliability maintenance
- Site remediation
Talent Management

- Ongoing training
- Track record of success
- Redeploy personnel
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
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!
Contingency Plan

Develop internal competencies

- Costly
- Timely
- Would provide with intellectual property advantages