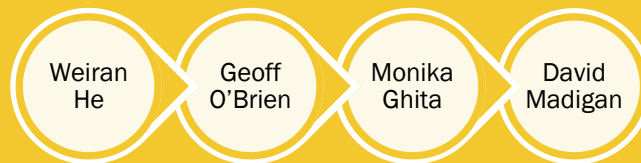


SNC LAVALIN

HOW TO ACHIEVE DIGITAL GROWTH?

Presented to **Senior Leadership Team of SNC LAVALIN**

Smurfit Digital Consulting



Your challenge

How to achieve Digital Growth?

How will digital transformation affect your business?

How should your design engineering business change its business model?

How do you fund digital investments?

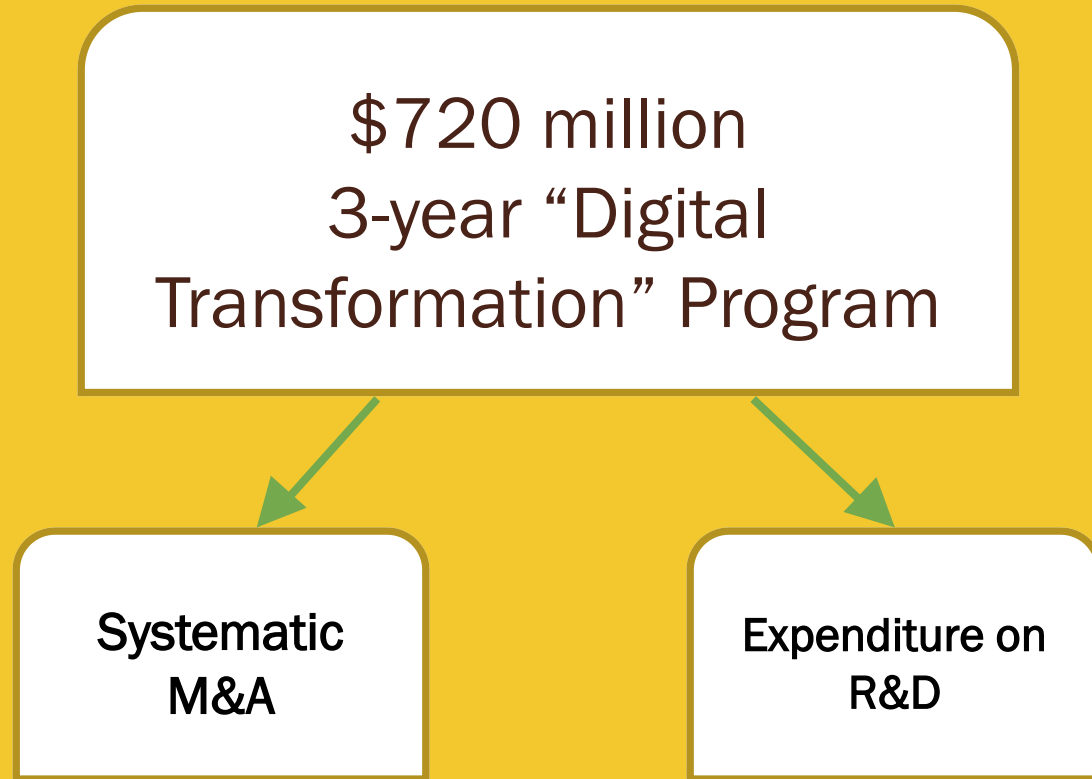
What should you tell investors?

RECOMMENDATION

\$720 million
3-year “Digital
Transformation” Program

Systematic
M&A

Expenditure on
R&D



AGENDA

Analysis

Geoff O'Brien

Recommendation

Monika Ghita

Implementation

David Madigan

Analysis

Geoff O'Brien

Recommendation

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Implementation

David Madigan

ANALYSIS

EDPM Current Business

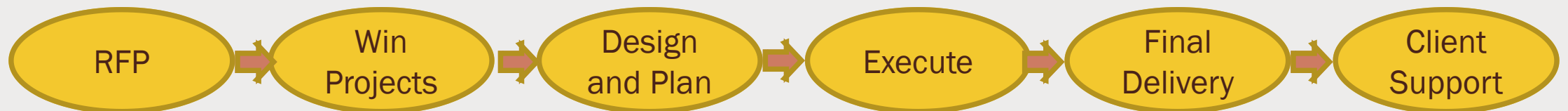
ESB International Finance Manager

Specialist engineering talent charged out at cost plus margin

Margin has to cover:

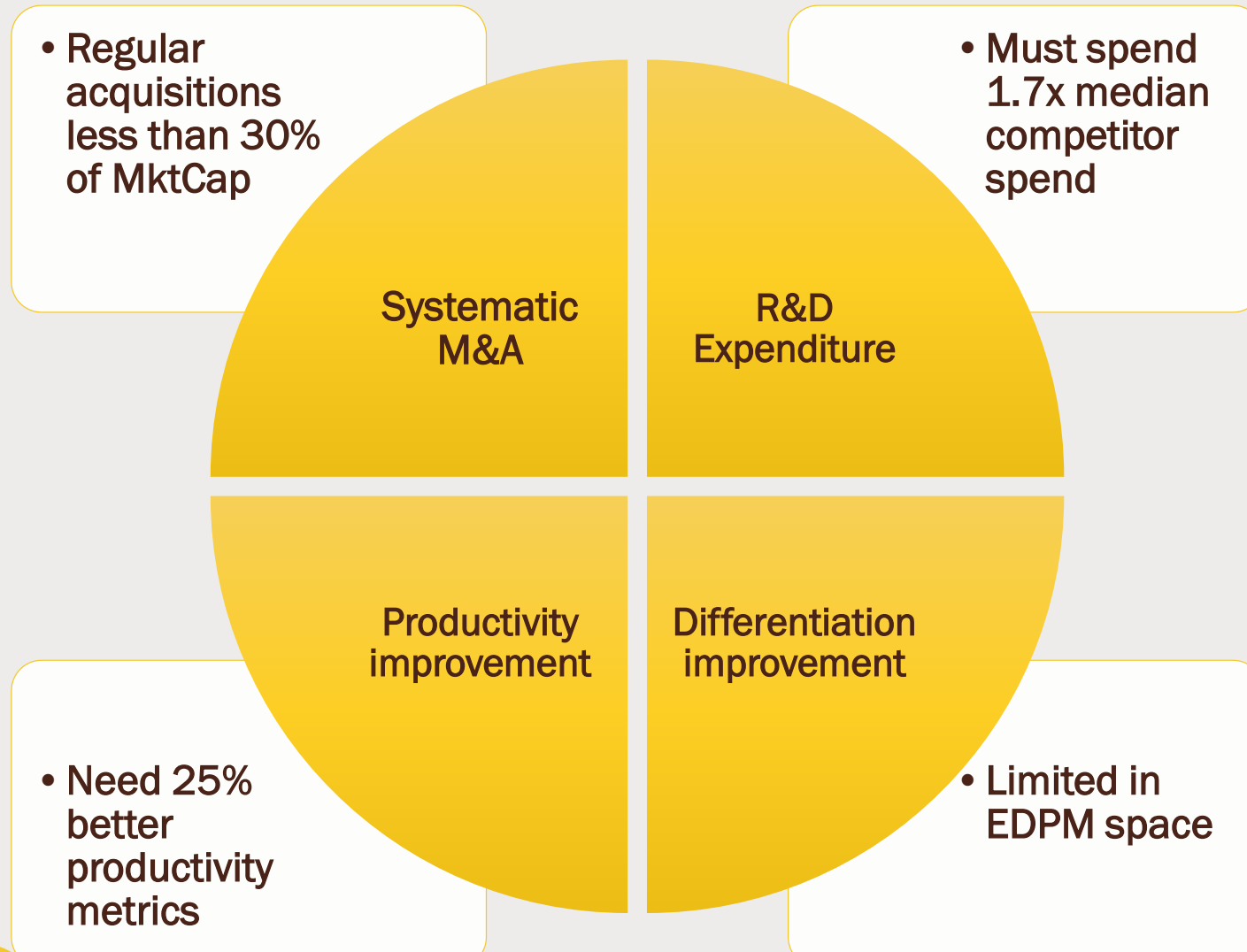
- Business Development
- Client Management
- Overhead support staff
- Physical business premises costs

Workflow



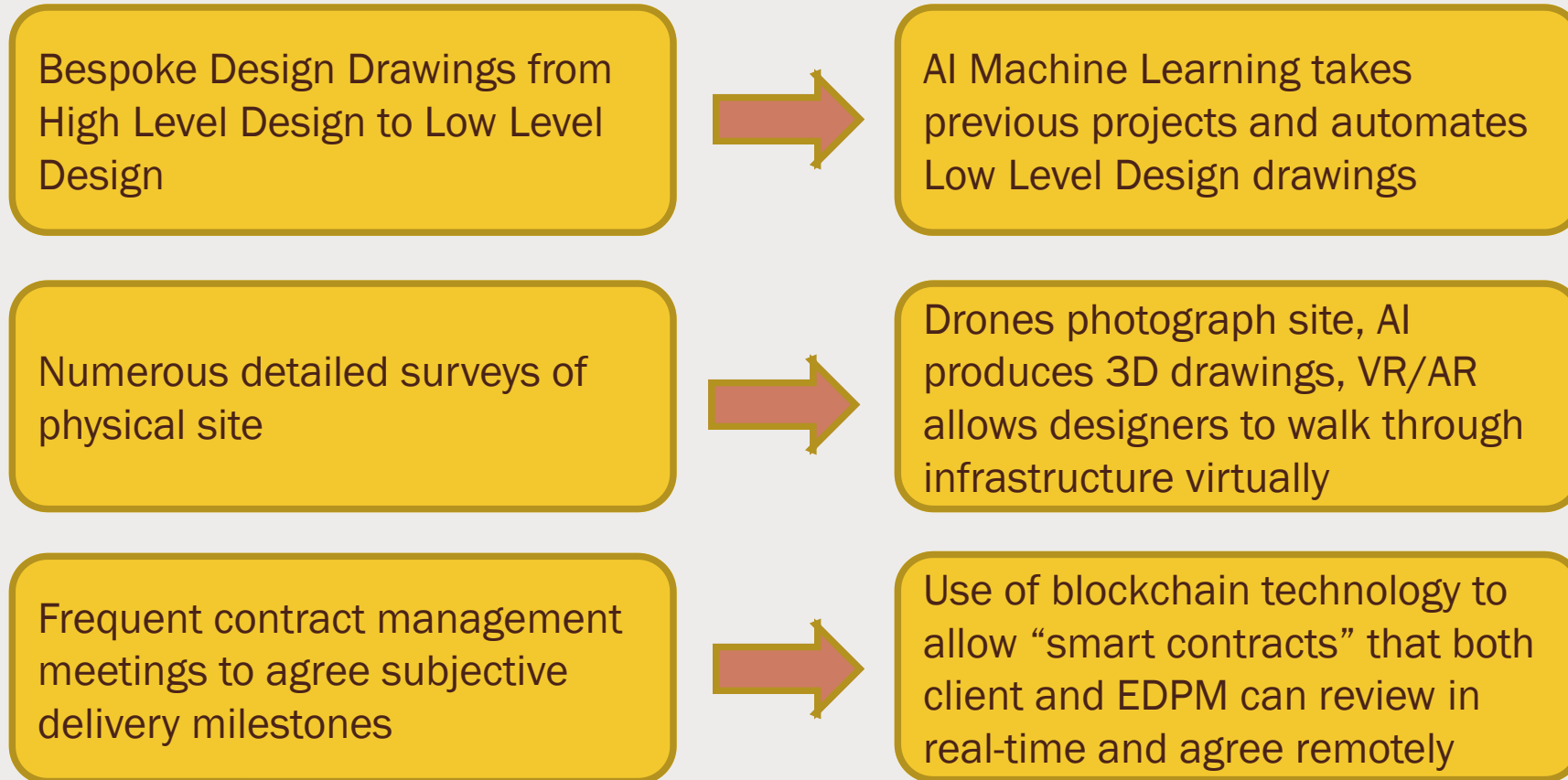
Consultant Business Model unchanged

McKinsey Growth Model



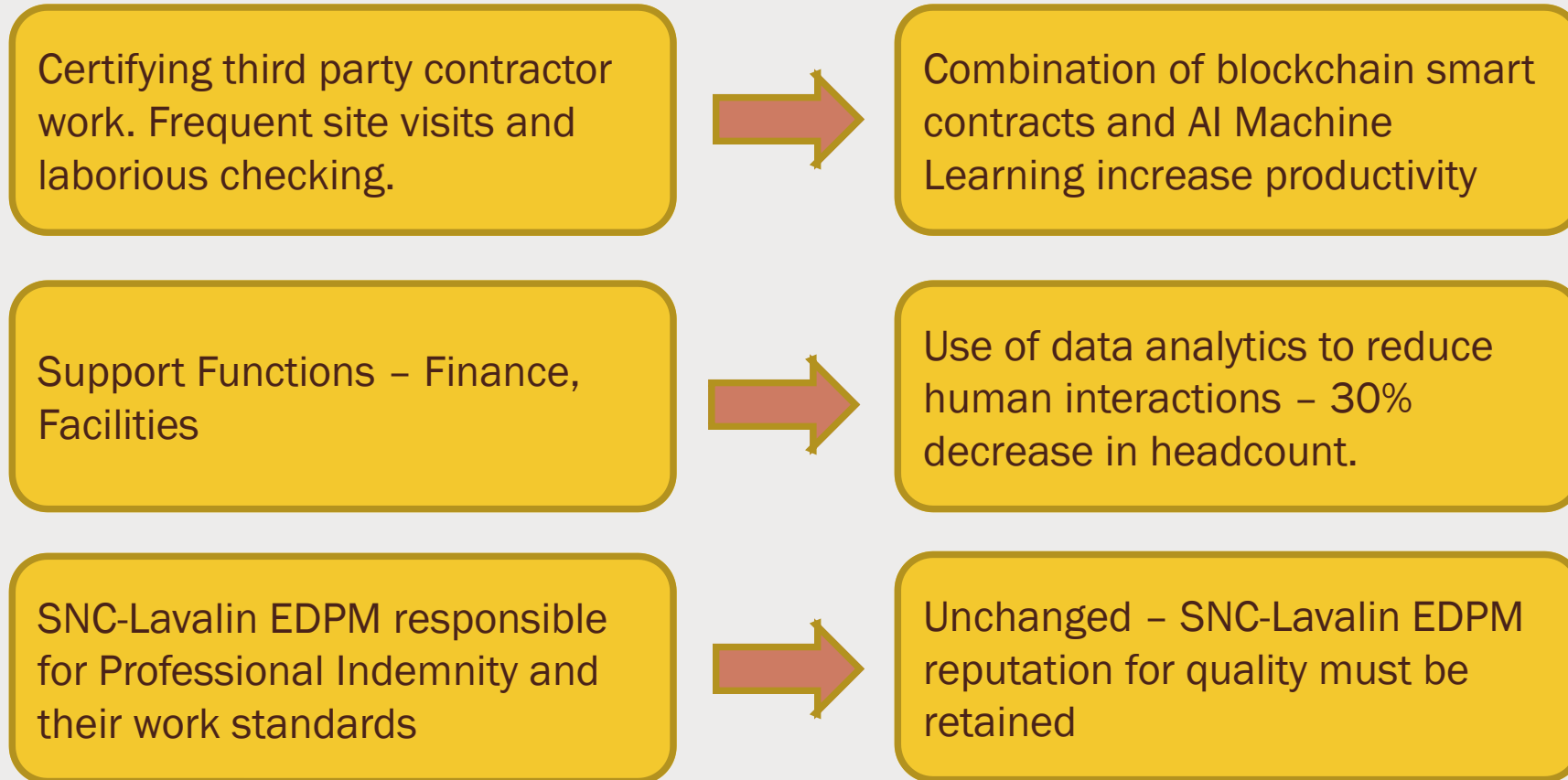
Choosing two increases odds of success

Impact of Digital Transformation



Less people required, new digital capabilities needed

Impact of Digital Transformation



Managing change for existing staff is critical



RECOMMENDATION





\$720 million

3-year “Digital Transformation” Program



Business Model options (value-capture)

1. Shift to Service model

- Value-based pricing;
- Develop proprietary technology
- Continues improvement required

2. BUILD + OPERATE + OWN model

- Annual fee
- Increased recurring revenue
- **Capital Intensive**
- **Small market – limited projects**

3. Standardized solutions

- Used to build bespoke client solutions
- **Client resistance**

4. SaaS model

- Clients will pay for R&D
- **Client resistance**




Capture value via “Shift to Service” model

McKinsey Growth Model

- Buy companies who share our values (safety, integrity, collaboration & innovation)



- Maximize collaboration and innovation

 Picking two options increases your chance of success

1. Systematic M&A

Acquisition of Machine Learning technology for \$120 million

- Leveraging previous projects
- Automated creation of drawings
- Fault finding
- Compliance
- Documentation
- Knowledge capture & management



Buy Blockchain company

- Open source – doesn't give you competitive advantage
- Clients will also use it

Replicability of capabilities across all projects and geographies

2. Capital R&D Expenditure

\$200million R&D expenditure over 3 years

- M&A won't provide all the answers
- Create autonomous Center of Excellence
 - Existing Atkins expertise
 - New M&A staff (approx. 300 people)
- 1% (\$100 million) of revenues -> 2% (\$200 million) per year



Create products through which we can charge **value-based pricing**

Recommendation – Shift to Service Model

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Capture value via “Shift to Service” model




IMPLEMENTATION



How to fund the digital investment program?

	Acceptability to Shareholders	Feasibility	Cost	Alignment with 2020 Vision
Retained Earnings	Green	Green	Green	Yellow
Cut the Dividend	Red	Green	Green	Red
Debt	Red	Red	Light Red	Red
Equity raise	Dark Red	Light Red	Light Red	Light Red
Client Funding	Green	Light Red	Green	Green
Productivity Improvement	Green	Light Red	Light Red	Light Red

 Retained earnings after dividend is the best funding option


Digital Transformation Communication Via investor day

Key Details

- Hosted in May 2019 - 4 hours
- Outline how industry is changing why we need adapt
- \$600m digital investment
- Illustration of benefits
- 3 year programme
- 2x revenues

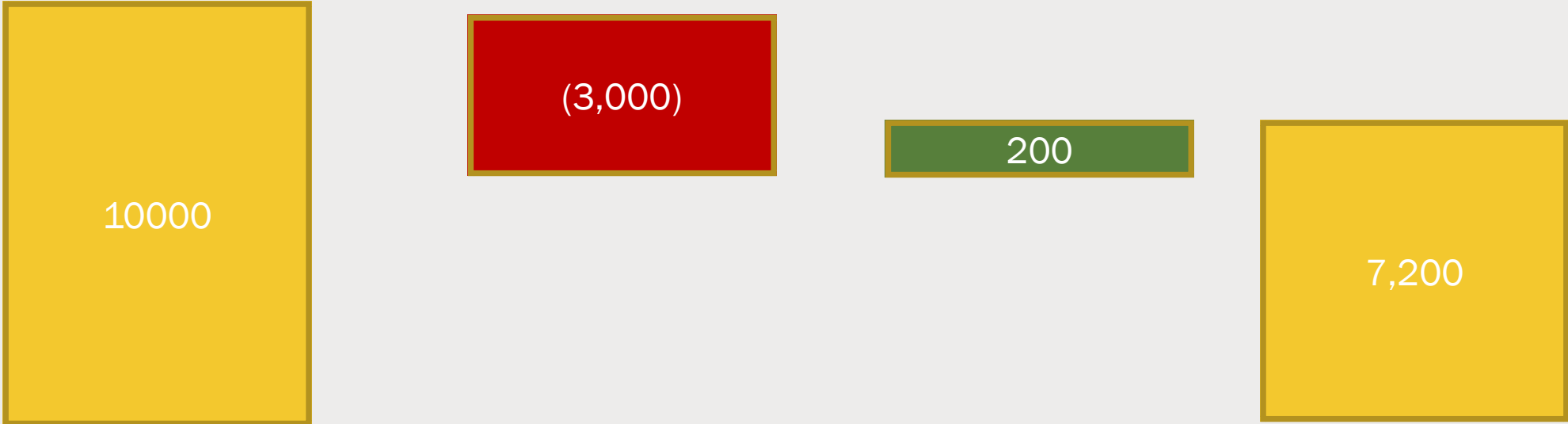
How to fund the digital investment program?


	2016	2017	2018	2019	2020	2021
Revenues			10,000	10,800	11,664	12,597
E&C	46	176	190	209.44	251.33	301.60
Capital	209	206	223	241	260	281
Total Profits	256	383	413	450	511	582
Dividend Payout @ 30%	(77)	(115)	(124)	(135)	(153)	(175)
Retained Earnings	179	268	289	315	358	408
Revenue multiple required			2%			
Required Funding for Additional Digital Investment Programme				180	250	170
Machine Learning Acquisition				120		
Residual Earnings after Digital investment				15	108	238

 Retained earnings after dividend is the best funding option

Investor Communication

Host Investor Day in May 2021 to communicate the digital transformation strategy



 Digital Transformation required for SNC to compete

SNC LAVALIN

WILL SUCCEED IN DIGITAL GROWTH

Smurfit Digital Consulting

