SNC LAVALIN

Making EDPM Ready for the Digital Transformation Age

Presenting to SNC Lavalin Board of Directors
Your Agenda

- Management Summary
- Analysis
- Alternatives/Recommendation
- Implementation
- Financials/Conclusion
Problem Statement

**Situation**

- SNC Lavalin’s (EDPM) business model is challenged by the forces of the digital transformation.

**Actions**

- Employ a “Separation” strategy to predominantly focus on large projects.
- Collaborate with project matching platforms to offer small projects.
- Adapt the historic pricing approach.

**Outcome**

- SNC Lavalin’s business model is ready for the digital transformation age.
Status Quo – Problems posed by Digital Transformation

Drivers
- Technological advancements creating new possibilities for the construction business
- Changing customer expectations
- Increasing pace of digital transformation in North America

Implications
- Decreasing transaction costs for both clients and employees
- Need for digital transformation leads to increased productivity
- Increased productivity decreased revenue potential given the reimbursement pricing approach

How should your design engineering (EDPM) business change its business model to maintain profitable and keep up with digital transformation?
### Status Quo – Positioning of SNC Lavalin’s EDPM sector

| S | Expert knowledge in the EDPM market  
| Profound competence in the area of AI and Analytics through the acquisition of Atkin  
| Proven (international) track record with both public and private clients  
| Solid financial situation and profitability |
|---|---|
| O | Increasing productivity and sinking cost due to digital transformation  
| Population growth and urbanization  
| Location at the heart of digital transformation in construction |
| W | Tight financial situation due to recent acquisition of Atkin  
| Insufficient digital literacy among employees  
| Cultural difficulties due to diverse employee structure |
| T | Increased pressure to timely make the digital transformation in North America  
| Decreasing transaction costs challenging the business model  
| Low presence in Asia (depending on development of the market) |
Assumptions for the Development of Alternatives

1. The strategy developed should focus on SNC Lavalin’s EDPM sector.

2. “Small” projects are ones that are being marketed on platforms such as Upwork.

3. “Large” projects are ones that cannot be marketed on platforms such as Upwork.

4. The EPS target and investment grade rating should not be endangered by the new strategy.

5. SNC Lavalin’s biggest shareholders are banks and pension funds, who seek a long-term investment.
### Strategic Alternatives for SNC

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Separate</strong> the large project business from the small project business</td>
<td><strong>Aim for a vertical integration</strong> by acquiring a software company (e.g. Autodesk)</td>
<td><strong>Streamline</strong> existing technological capabilities</td>
</tr>
<tr>
<td><strong>Focus on big projects</strong> as these require SNC Lavalin’s expertise</td>
<td><strong>Thus enable digital transformation</strong> efficiently</td>
<td><strong>Set up a separate department</strong> within the EDPM sector to manage the four fields of action for digital transformation</td>
</tr>
<tr>
<td>Offer small project work through <strong>Upwork</strong></td>
<td><strong>Broaden the service portfolio</strong> by keeping the B2B business</td>
<td><strong>Offer internal consulting services</strong> to other sectors</td>
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<tr>
<td><strong>Change the pricing approach</strong> to limit the risk of falling revenues due to increased productivity</td>
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<td><strong>Further digital literacy</strong> and transformation</td>
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<tr>
<td>#</td>
<td>Alternative</td>
<td>Future profitability</td>
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</tr>
<tr>
<td>1</td>
<td>“Separation!”</td>
<td>Green</td>
</tr>
<tr>
<td>2</td>
<td>“Integration!”</td>
<td>Green</td>
</tr>
<tr>
<td>3</td>
<td>“Reorganization!”</td>
<td>Yellow</td>
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</tbody>
</table>

**Criteria**

- **Future profitability**
- **Digital transformation / literacy**
- **Liquidity**
- **Culture and employee satisfaction**

**Evaluation of Strategic Alternatives (1/2)**

*Highly important criteria*:
- “Separation!”
- “Integration!”

*Less important criteria*:
- “Reorganization!”

- Green: Positive implication(s)
- Yellow: Mixed or uncertain implication(s)
- Red: Negative implication(s)
### Evaluation of Strategic Alternatives (2/2)

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<th>Alternative</th>
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- **Base the new business model on the “Separation!” approach.**
Your Current Business Model

Why customers need you

Workers

Customer Assumptions:
• Retain the best people
• Deploy the right people to the task
• We have the experience

Tasks

- Big Projects
- Small Projects

Engineering Services

Deliverable

Technology:
• Reduce costs
• Increase productivity

75% Reimbursable

25% EPC Fixed-Price Contracts
The New Business Model – Separate Big and Small Projects

Why customers need you

Big Projects
- High Experience
- Massive Working Capacity
- High project management and leadership skills

Workers

Small Projects
- Lower Working Capacity
- Higher flexibility
- Lower project management and leadership skills

Workers

Tasks

Upwork

Engineering Services

Deliverable

Upwork
The New Business Model – Separate Big and Small Projects

Why customers need you

Big Projects
- High Experience
- Massive Working Capacity
- High project management and leadership skills

Workers

Small Projects
- Lower Working Capacity
- Higher flexibility
- Lower project management and leadership skills

Workers

Tasks

Engineering Services

Contracting
- 100% reimbursable
- No gains if efficiency improvements are achieved

Deliverable

Upwork
### The New Business Model – Separate Big and Small Projects

#### Contracting for big projects

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
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<tbody>
<tr>
<td>• Project management</td>
<td>• First understanding of technical needs for project</td>
<td>• Discuss specifications with customer</td>
<td>• First draw</td>
<td>• Final Draw</td>
</tr>
<tr>
<td>• Align right engineers to right projects</td>
<td></td>
<td></td>
<td>• Further adjustments</td>
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</table>

- **Fixed**
- **Fixed**
- **Variable**
- **Variable**
- **Variable**

→ *Efficiency improvements in stage 1 and 2 lead to positive gains*
Timeline

Inform employees
Implement employees in Upwork
Get first projects via Upwork
Finish first projects

Start to develop online profiles of employees

Time

Start Negotiations with Upwork
Convince customers to reengage Atkins for future projects
How Should Digital Investments Be Funded?

Financial Considerations
- Investments should not fully affect net income to not jeopardize EPS-goal
- Acquisition of Atkin was capital intensive
- Dividend payments should not be decreased
- Additional debt might lead to lower investment grade rating

Digital investments in R&D would affect net income, reduce EPS and dividend payout

What should you do?
- Avoid research expenses as they directly affect profit or loss
  → Smaller acquisitions or joint ventures with more experienced tech companies to decrease research time needed
- Raise equity to keep investment grade rating
What Should You Tell Investors?

Financial Considerations
- Main shareholder’s are Canadian banks and pension funds
- Shareholders do not only act myopic but have an interest in SNC Lavalin’s long term development

Clearly communicate goal to increase EPS to CAD 5 and to keep increasing dividend payments
Contingency Plan

**Risk**
- Smaller project cannot be sold through Upwork platform
- Engineers don’t accept collaboration with Upwork

**Contingency**
- Focus on bigger projects only or develop an own platform
- Use smaller projects as gap fillers between bigger stressful project to promote attractiveness
Conclusion

Situation

- SNC Lavalin’s (EDPM) business model is challenged by the forces of the digital transformation.

Actions

- Employ a “Separation” strategy to predominantly focus on large projects.
- Collaborate with project matching platforms to offer small projects.
- Adapt the historic pricing approach.

Monday Morning Actions

- Get in contact with Upwork to establish negotiations regarding a future collaboration.
- Analyze planning process for implementing the new pricing approach.
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Thank you.