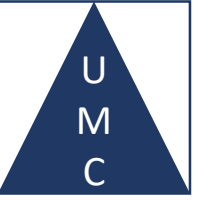


University of Muenster Consulting

Anna Theile, Max Noever, Erich Daniel, Simon Jeurissen

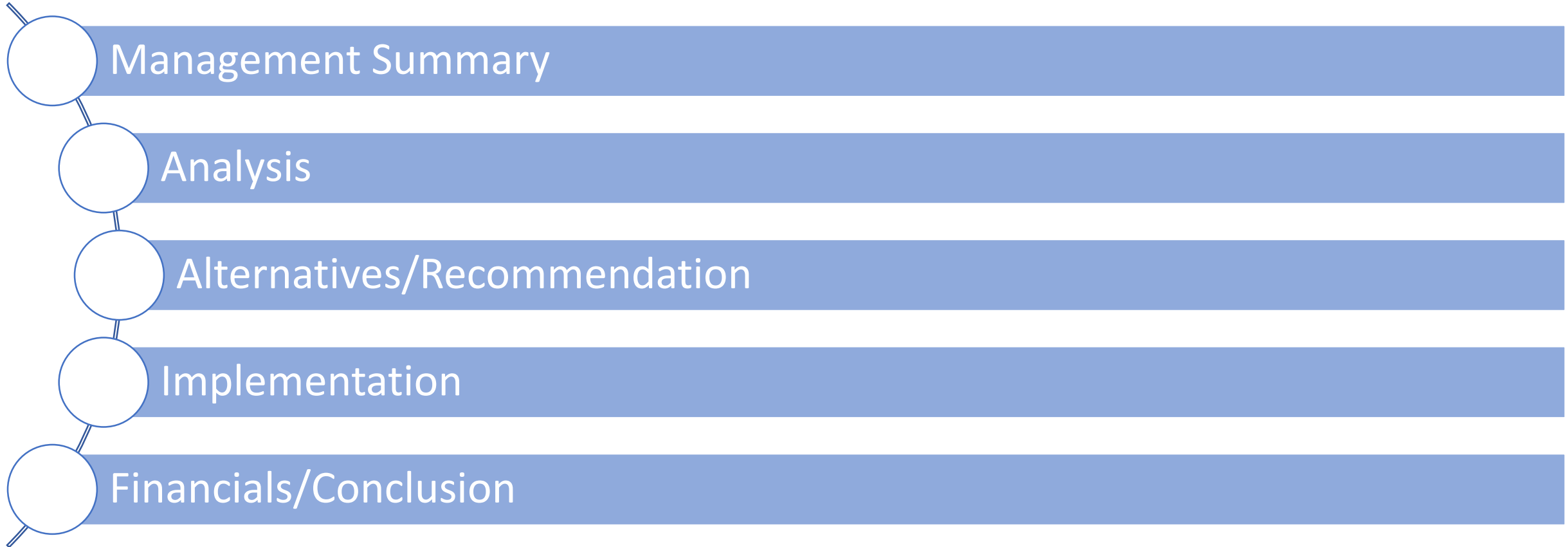


SNC LAVALIN

Making EDPM Ready for the Digital Transformation Age

Presenting to SNC Lavalin Board of Directors

Your Agenda



Management Summary

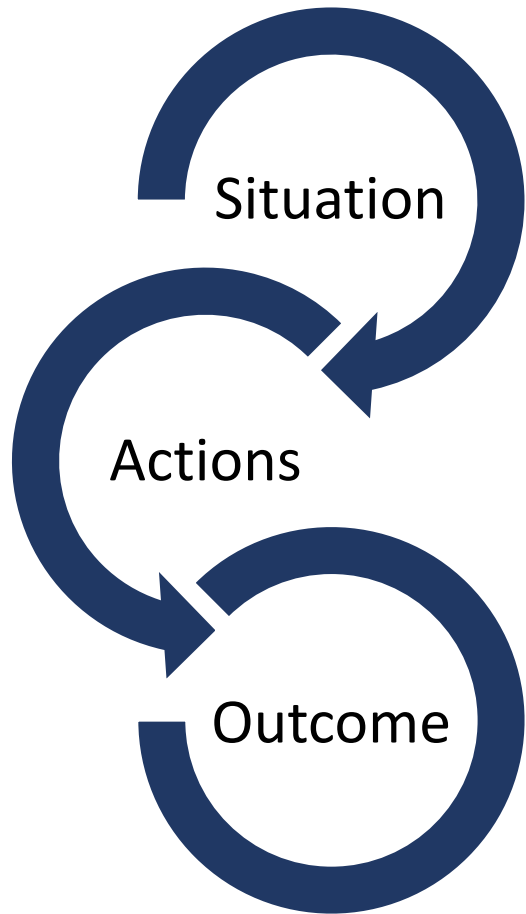
Analysis

Alternatives/
Recommendation

Implementation

Financials/
Conclusion

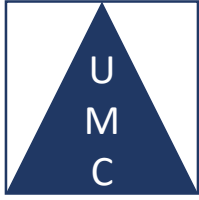
Problem Statement



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

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

- **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

1. “Separation!”

- **Separate** the large project business from the small project business
- **Focus on big projects** as these require SNC Lavalin’s expertise
- Offer small project work through **Upwork**
- **Change the pricing approach** to limit the risk of falling revenues due to increased productivity
- **Further digital literacy** and transformation

2. “Integration!”

- Aim for a **vertical integration** by acquiring a software company (e.g. Autodesk)
 - Thus **enable digital transformation** efficiently
- **Broaden the service portfolio** by keeping the B2B business
- **Change the pricing approach** to limit the risk of falling revenues due to increased productivity

3. “Reorganization!”

- **Streamline** existing technological capabilities
- Set up a **separate department** within the EDPM sector to manage the four fields of action for digital transformation
- Offer **internal consulting services** to other sectors



Evaluation of Strategic Alternatives (1/2)

#	Alternative	Criteria			
		Future profitability	Digital transformation / literacy	Liquidity	Culture and employee satisfaction
1	“Separation!”	Green	Yellow	Green	Yellow
2	“Integration!”	Green	Green	Red	Red
3	“Reorganization!”	Yellow	Yellow	Green	Red



Highly important criteria

Less important criteria


■ Positive implication(s)
 ■ Mixed or uncertain implication(s)
 ■ Negative implication(s)



Evaluation of Strategic Alternatives (2/2)

#	Alternative	Criteria			
		Future profitability	Digital transformation / literacy	Liquidity	Culture and employee satisfaction
1	“Separation!”	Green	Yellow	Green	Yellow
2	“Integration!”	Light Green	Light Green	Light Red	Light Red
3	“Reorganization!”	Light Yellow	Light Yellow	Light Green	Light Red



 **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

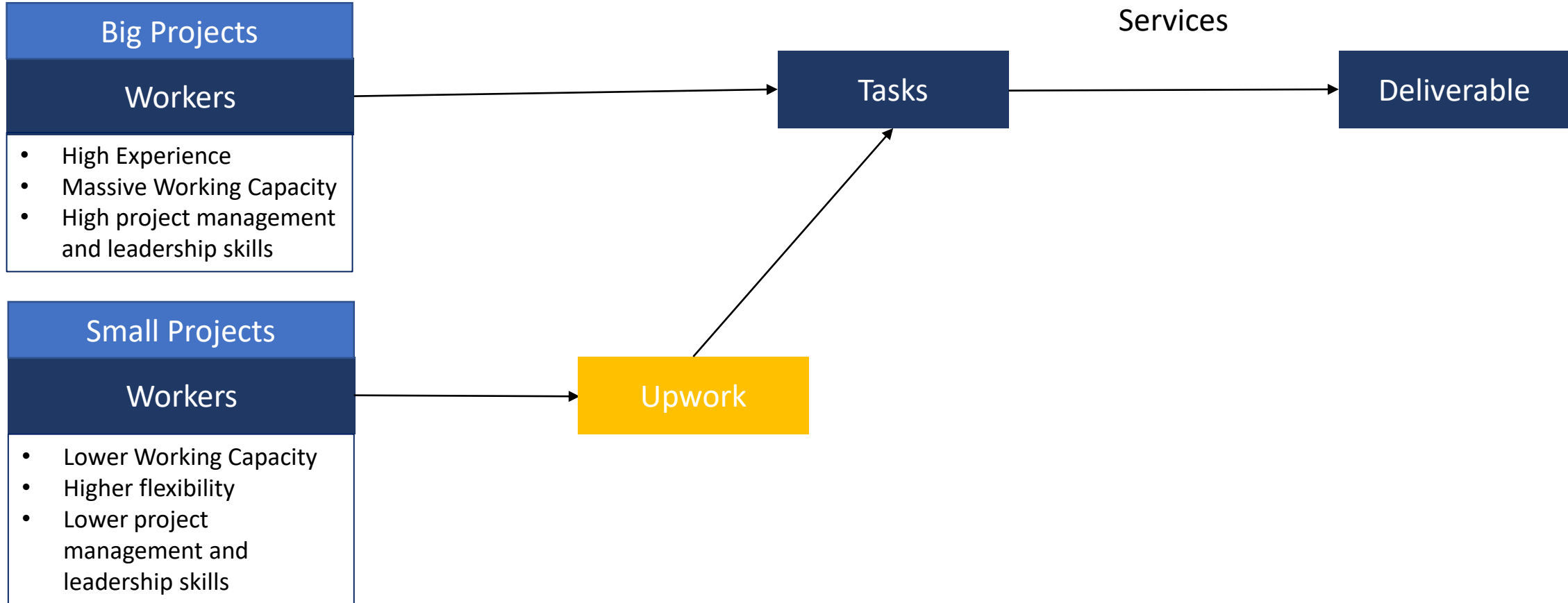
75% Reimbursable

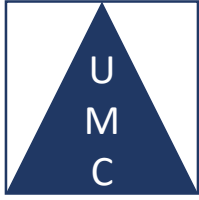
25% EPC Fixed-Price Contracts



The New Business Model – Separate Big and Small Projects

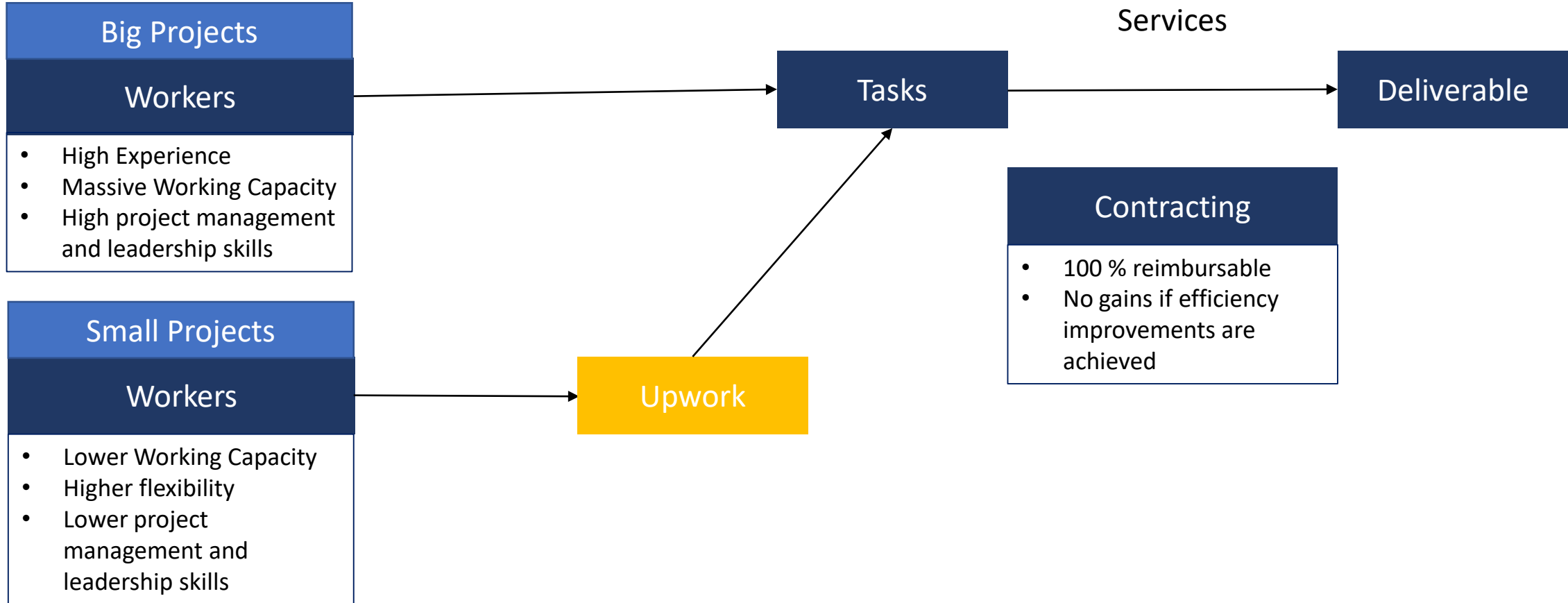
Why customers need
you



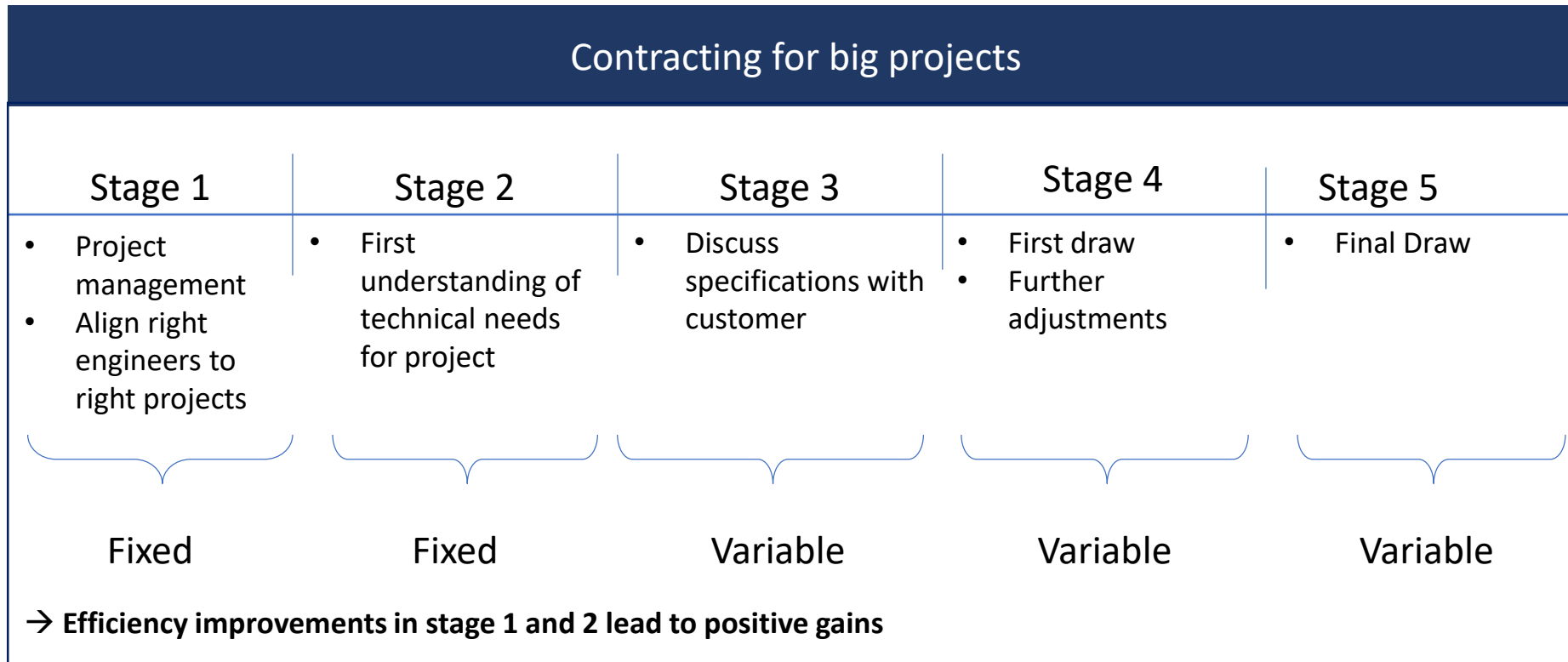


The New Business Model – Separate Big and Small Projects

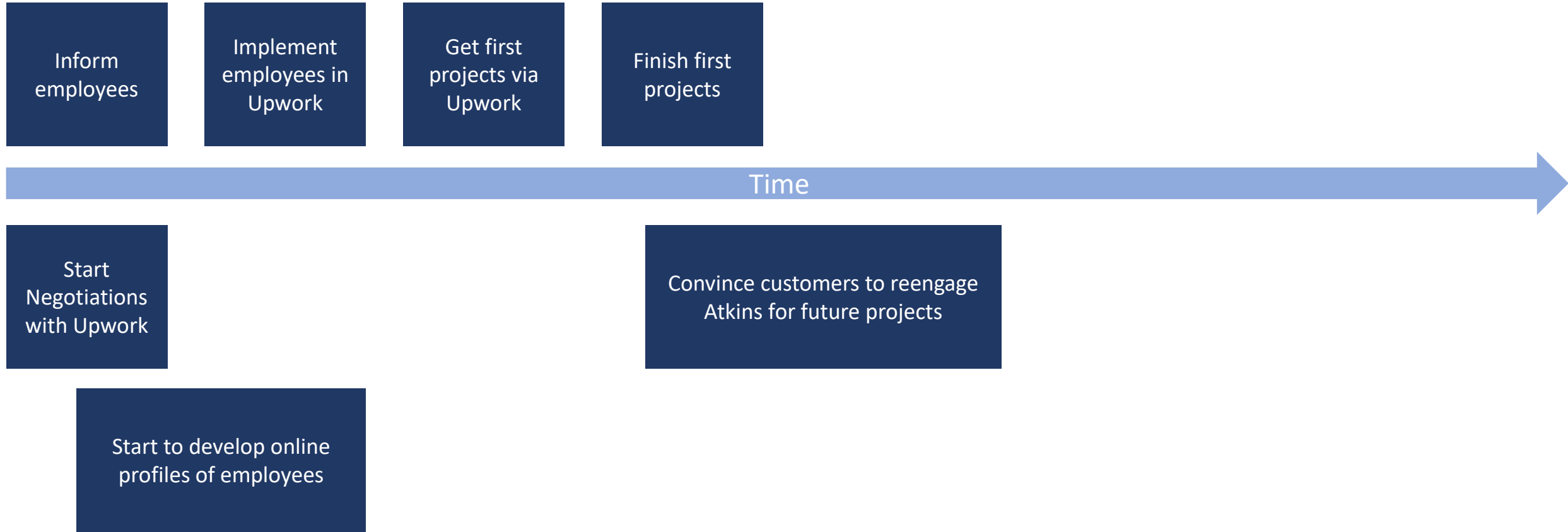
Why customers need
you



The New Business Model – Separate Big and Small Projects



Timeline



Management Summary

Analysis

Alternatives/
Recommendation

Implementation

Financials/
Conclusion



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	<ul style="list-style-type: none">• 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

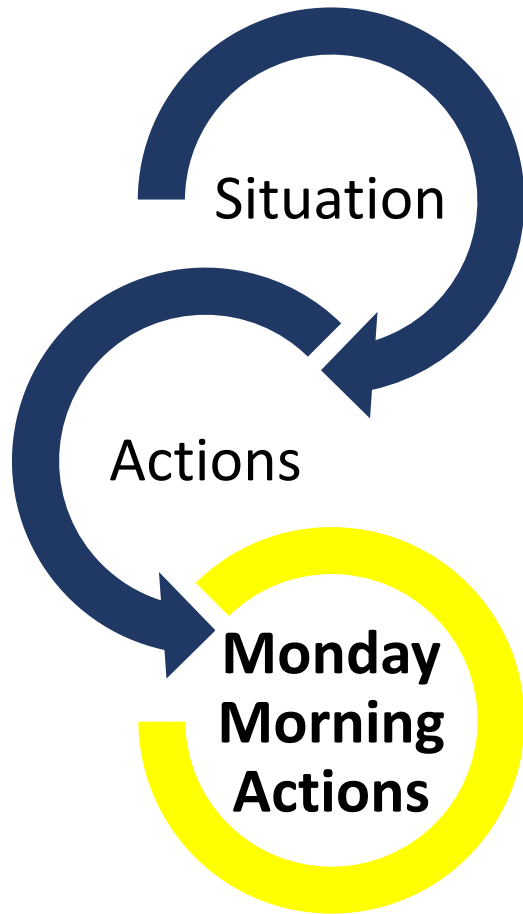
Engineers don't accept collaboration with Upwork

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



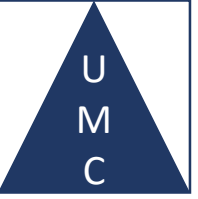
- SNC Lavalin’s (EDPM) business model is challenged by the forces of the digital transformation.

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

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

University of Muenster Consulting

Anna Theile, Max Noever, Erich Daniel, Simon Jeurissen



SNC LAVALIN

Making EDPM Ready for the Digital Transformation Age

Thank you.