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SNC Lavalin Fourth Quarter 2019 Earnings Conference Call Transcript

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Speakers: **Ian Edwards**
President and Chief Executive Officer

Nigel White
Executive Vice-President, Project Oversight

Sylvain Girard
Executive Vice-President and Chief Financial Officer

Denis Jasmin
Vice-President, Investor Relations



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Operator:

Good morning, and welcome to SNC-Lavalin's Fourth Quarter 2019 Earnings Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Denis Jasmin, Vice President, Investor Relations. Please go ahead.

Denis Jasmin:

Thank you. Good morning, and thank you for joining us.

Our earnings announcement was released this morning, and we have posted a corresponding slide presentation on the Investor section of our website. A recording of today's call and webcast will also be available on our website within 24 hours.

With me today are Ian Edwards, President and Chief Executive Officer; Sylvain Girard, Executive Vice President and Chief Financial Officer, and Nigel White, Executive Vice President, Project Oversight.

Before we begin, I would like to ask everyone to limit themselves to two or three questions, to ensure that all analysts have an opportunity to touch base. You are welcome to rejoin the queue for any follow-up questions.

I would like to draw your attention to Slide 2. Comments made on today's call may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties and, as such, actual results may differ materially from the views expressed today. For further information on these risks and uncertainties, please consult the Company's relevant filings on SEDAR. These documents



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are also available on our website.

Now, I'll pass the call over to Ian Edwards. Ian?

Ian Edwards:

Thanks, Denis. Good morning, and thank you for joining us.

Please turn to Slide 4. We had a very strong fourth quarter operationally. Our results underscore that the new strategic direction that we implemented in July to de-risk the business and generate consistent earnings and cash flow is delivering.

Among our key highlights for the fourth quarter:

We generated more than \$300 million in operating cash flow, our highest quarterly cash from operations since the fourth quarter of 2017.

Our adjusted net income from E&C was approximately \$80 million, a significant reversal from the adjusted net loss from E&C in Q4 2018.

We grew our cash position by over 87% year-over-year to \$1.2 billion and significantly reduced recourse and limited recourse debt. Our reduced net recourse debt to EBITDA ratio, as calculated by our creditors, was 2.1 at the end of Q4 2019, substantially lower than 3.4 at the end of Q3 2019.

We had consistent growth in SNCL Engineering Services, growing year-over-year revenue, backlog, and delivering strong segment EBIT and a double-digit segment EBIT ratio.

We continue to reduce our LSTK project backlog.

This strong performance reaffirms that our strategic direction is delivering and positions us well for 2020.



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In respect of the coronavirus, we continue to monitor the situation and follow the guidelines issued by the World Health Organization, as well as local government policy. Our robust Business Resilience Program was activated promptly in China and now ensures that information and actions are coordinated across affected countries. Some of the examples of actions already taken to mitigate any risk, while continuing normal course of business, are: company-wide travel bans to Mainland China; specific measures for employees using technology to work remotely for an extended period; use of technology to reduce international travel and essential trips; a focus on hygiene, recognising the symptoms, with support for employees who have concerns or are seeking further information.

Let me now walk you through a more detailed update on our business lines, starting with Slide 5. SNCL Engineering Services, which represents the high value part of the business, delivered a strong quarter across all segments, with notable EBIT and revenue increases. Quarter-over-quarter, EDPM increased revenue and had strong EBIT margins of over 9%. Nuclear revenue was in line with last year and it delivered a strong EBIT margin of over 18%, up from approximately 15% in Q4 2018. The most significant revenue growth came from Infrastructure Services, with an increase of over 20%, compared with last year, due to the contribution from Linxon. Overall, revenue from Capital was lower due to the lower dividend from Highway 407 ETR after the sale of a portion of our stake in the Highway 407. SNCL Engineering Services continues to secure new contracts and high-quality work, increasing the backlog by approximately \$900 million year-over-year.

This brings me to Slide 6 and our growth opportunities, starting with EDPM. As a market leader in the U.K. and Canada, we also see significant opportunity to expand our presence in the U.S., with a particular focus on harnessing the potential of data and technology across our services.

In the U.K., for example, we are working on High Speed 2, the new high speed rail network, and one of the most transformational projects ever undertaken in the country. As engineering delivery partner for Phase 1, we have a major role, with over 1,500 employees having worked on this project since 2016.

In the United States, particularly in the northeast and the northwest, we see opportunities to grow our footprint in transportation, infrastructure, and program and project management.



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Globally, we see further growth potential, with considerable investment in infrastructure spending over the next 10 years in our key geographies, with a high proportion of that on roads and rail infrastructure.

Turning now to our Nuclear business, on Slide 7, there is significant new investment expected in the nuclear sector over the coming decades, as older facilities are refurbished or decommissioned and new projects come online in a number of jurisdictions across the world. We are ideally positioned to capitalize on this opportunity. Given our global leadership in this sector, we are particularly focused on deepening our footprint in our core Canada, U.K. and U.S. markets. We see significant potential with our end-to-end service across the full lifecycle of nuclear assets to leverage our portfolio of hundreds of patents to develop new value-added solutions for our customers.

A major highlight from our Nuclear business was a contract awarded to Atkins Nuclear Secured Holdings as part of an AECON-led JV in the U.S. Department of Energy. This Nuclear Services contract is valued at \$10 billion over 10 years, and is for the Central Plateau Cleanup at the Hanford site, near Richmond, in Washington.

Momentum in Nuclear continued in Q1 2020, with the Company winning several new contracts around the world.

Moving to Infrastructure Services, on Slide 8, we are concentrating our efforts on leveraging our strong track record of managing complex projects and offering these services to clients. We see numerous opportunities in Canada and the U.S. for lower risk projects and construction management, and operations and maintenance services mandates. We also see significant opportunities in alliance-type contracts to be an integrator on major programs that leverage our end-to-end capability.

Now, turning to Slide 9, our SNCL Projects business. Performance continued to improve in Q4 2019, and was better than the last four quarters. Our Infrastructure EPC Projects segment, which comprises the vast majority of our LSTK construction backlog, was profitable in Q4, generating segment EBIT of \$23 million, compared to \$10 million in Q4 2018. However, the business line registered a loss in the quarter due to the resources segment, and the loss was due to a combination of factors: unfavorable



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reforecasts on certain Resources LSTK construction projects; a midstream oil and gas facility which is in the process of being shut down; overhead costs that are in the process of being right-sized to align with the lower level of activity in our Resources business. We are addressing all three of these factors as part of the restructuring of the Resources segment and focusing on running off LSTK backlog. In Q4, we reduced our Resources backlog by 20% to \$400 million, the vast majority of which will be wound down in 2020. The remaining LSTK project backlog is in Infrastructure Canadian Light-Rail contracts, where we have historically performed well. We anticipate running off the majority of this backlog by the end of 2021.

At the end of the year, we also made the difficult, but necessary, decision to close Valerus, which resulted in a \$72 million restructuring charge, of which \$54 million was non-cash, primarily driven by the inventory write-down in the impairment of property and equipment. Going forward, we continue to actively pursue all options for the remaining Resources business, including potential divestitures and the transition to a services-based business. We will provide an update as decisions are made.

Lastly, turning to Slide 10, to conclude, I am proud of the resilience that our team has shown in 2019. 2019 was a challenging year, where we took several direct actions to reduce uncertainty in the business and set the Company up for success in the future. These actions included: settling the federal charges resulting from the Company's legacy activities in Libya; significantly reducing our leverage ratio; embarking on a new strategic direction which involves de-risking the Company by existing volatile LSTK construction business and ceasing bidding on new LSTK construction contracts. With these challenges now addressed, we are entering 2020 as a stronger company, and we are really excited about our future.

We will be providing a 2020 outlook for SNCL Engineering Services later on this call, which Sylvain will walk you through.

Equipped with a new strategic direction, a strong balance sheet and solid momentum, we are moving into a new phase for SNC-Lavalin, one in which we are securing the permanent transformation of the Company into a leading provider of professional engineering services and project management



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solutions. In order to achieve this transformation, we are ensuring that we have the skills and expertise at the senior leadership level to realize this objective.

You may have noted we have created several new roles, including a Chief Transformation Officer, and appointed Jeff Bell as Chief Financial Officer. Jeff's experience working for a global energy and services firm is ideally suited for the transformation objectives. He will be working closely with Sylvain to ensure we have a smooth transition, before assuming his new role as CFO in April.

I'd like to also take a moment to thank our current CFO, Sylvain, for his leadership and extraordinary commitment to SNC-Lavalin as CFO over the past four years. Not only did Sylvain help the Company navigate a difficult period, he's also helped me tremendously in implementing the new strategic direction. Sylvain, thank you again, and I wish you all the success for the future.

With that, I'll now turn the call over to Nigel White, our EVP for Project Oversight, to provide a status update on LSTK backlog. Nigel?

Nigel White:

Thank you, Ian.

Turning to Slide 12, over the past two quarters, I continued to review the SNCL Projects business with a focus on running off the LSTK backlog rapidly and effectively. We continue to conduct a sensitivity analysis of each of the projects currently in the backlog, in order to get a realistic view of the best and worst case scenarios with each. Based on these analyses, we remain confident that the risks in our LSTK backlog are manageable. With this evidence-based understanding of the LSTK backlog, I continue to work with sector Presidents and Delivery Teams, to introduce a number of measures to enhance our risk management and optimize outcomes.

We have established our Project Oversight Team, which includes two senior executives totally focused on Resources and Infrastructure projects, respectively. Purposing our Project Oversight Team has allowed me to get a clearer view of the Projects business, by getting out to the sites, taking a closer



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look at the projects, and collaborating directly with teams and sector Presidents to find solutions and to proactively address potential issues and manage risks.

We've also strengthened our Commercial Teams at each of the large Canadian Infrastructure projects, to ensure fair compensation on our contractual entitlements.

We continue to enforce a number of enhanced controls and strategies, two examples of which are: weekly project review meetings with senior leadership, enabling transparent reporting, to ensure issues are flagged and actioned as quickly as possible; and are working to improve our cost management protocols to better align with our supply chain, to ensure greater project certainty.

Slides 13, 14 and 15 provide more detail on the current status of our LSTK backlog.

Looking at Slide 13, the vast majority of the remaining \$3 billion of LSTK contracts are Infrastructure work of approximately \$2.6 billion, or 86%. The remainder of the LSTK backlog, an estimated \$400 million, is in Resources. These projects are primarily in oil and gas, and the majority are expected to be run off by the end of 2020. I think it is important to bear in mind, however, that these are highly complex projects and challenges will invariably arise, but I believe we are implementing the correct measures to ensure these risks are properly managed. I, together with the sector Presidents and their teams, remain resolutely focused on winding down the remaining backlog as rapidly and effectively as possible.

Thank you. I will now hand the call to Sylvain.

Sylvain Girard:

Thank you, Nigel, and good morning, everyone.

Starting on Slide 17, we reported an IFRS loss in Q4 of \$293 million, which includes the net present value of the federal charges settlement of \$257 million, and restructuring costs of \$100 million, mainly related to the closure of Valerus.



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Adjusted net income from E&C in Q4 2019 was \$79 million, or \$0.45 per diluted share, compared to a net loss of \$284 million, or \$1.62 per diluted, for Q4 2018. The improvement was mainly attributable to a significant decrease in losses from the Resources segment, as Q4 2018 included a significant loss in that segment due to a negative costs before capital on a major mining LSTK project in Chile. In addition, the Company incurred lower financial expenses in Q4 2019, compared to Q4 2018.

Adjusted net income from Capital in Q4 2019 was \$19 million, or \$0.11 per diluted share, compared to \$54 million, or \$0.31 per diluted share, for Q4 2018, mainly due to the decrease in our stake in the Highway 407 ETR dividends following the partial sale of our interest in the Highway 407 ETR in August 2019.

Total revenues for Q4 2019 amounted to \$2.4 billion. SNCL Engineering Services revenue totaled \$1.6 billion, an increase of \$1.9%, compared to Q4 2018, mainly due to a revenue increase of 21% in Infrastructure Services reflecting the increased level of activity in Linxon. SNCL Projects revenue for Q4 2019 decreased by 16% to \$826 million, mainly due to the continuing backlog runoff of our LSTK construction projects in the Resources and Infrastructure EPC Projects segment, as well as no new bidding in that market.

The SNCL Engineering Services business line had another strong quarter. It recorded a positive segment EBIT of \$191 million, representing a 12% EBIT to revenue ratio, or 10% if we exclude Capital. In contract, the SNCL Projects business line recorded a negative EBIT totaling \$28 million in Q4 2019, but represented a \$17 million improvement versus Q3 2019.

Total corporate SG&A for Q4 2019 totaled \$28 million, \$21 million for E&C only, in line with our expectations, compared to \$55 million in Q4 2018. Note that the corporate SG&A for Q4 2018 included a guaranteed minimum pension equalization expense for past service costs of \$25 million. Corporate SG&A expenses for E&C only is expected to be between \$80 million and \$90 million in 2020, while these expenses for Capital are expected to be between \$25 million and \$35 million.



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The Company's balance sheet is strong. As of December 31, 2019, the Company had \$1.2 billion of cash, \$1.2 billion of recourse debt and \$400 million of limited recourse debt. We also had \$2.4 billion in unused capacity under the Company's \$2.6 billion committed revolving credit facility.

Turning to Slide 18, cash flow from operating activities are significantly improved at \$312 million in the fourth quarter of 2019. If you look at the cash flows generated by the SNCL Engineering Services business line only, which will be the core of our business going forward, year-to-date operating cash flow, excluding Capital, generated \$733 million, representing a strong segment EBIT conversion ratio above 100%, mainly driven by strong working capital performance at year end and advance payments in Linxon. The Capital segment generated \$197 million. You can also see on this slide that the cash flows from SNCL Projects are the main cause of our negative \$355 million operating cash flows for the year. We expect the quarterly profile of our operating cash flows to be consistent with our prior period, resulting in better operating cash flows in the second half of the year versus the first half.

Slide 19 details the Company's cash and debt positions as at December 31, 2019. The outstanding recourse debt that the Company has are three debentures for a total of \$675 million and a \$500 million term loan. The Company also has a limited recourse loan with CDPQ with an outstanding balance of \$400 million. The net recourse to debt EBITDA ratio, calculated in accordance with the terms of the Company's credit agreement, improved considerably, moving from 3.4 times at the end of September to 2.1 times at the end of December.

Slide 20 summarise the results by segment. The Resources segment recorded a loss of \$51 million, due to the three drivers previously mentioned, while the Infrastructure EPC segment recorded an EBIT of \$23 million, as we continue to progress on our major LRT project. All segments under SNCL Engineering Services performed well in the quarter and in line with the full year segment EBIT margin, except for Nuclear, which has a particularly strong quarter.

Moving to Slide 21, now that we have restored some consistency and predictability to the operations, we feel it is appropriate to give a bit more detail on our SNCL Engineering Services outlook for 2020, as this represents the growth and future of SNC-Lavalin. We expect for 2020 the gross revenue from



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SNCL Engineering Services, excluding Capital, to grow by a low-single-digits percentage. This expected revenue increase is based on the following growth assumptions: low-single-digit revenue growth in EDPM, mid-single-digit growth Nuclear, and high-single-digit growth in Infrastructure Services. We're also expecting to see segment EBITDA as a percentage of gross revenue from SNLC Engineering Services, excluding Capital, to be between 10% and 12%. The effective tax rate for adjusted E&C is expected to be in the low- to mid-20s. Also note that we now expect the cash tax payable on the Highway 407 ETR gain to be less than \$25 million.

Lastly, I want to remind you that you can find in the appendix of this presentation the 2019 segment EBITDA by quarter, as we believe this information will be useful going forward now with the Company.

This concludes my last quarterly presentation for SNC-Lavalin, as Jeff Bell will be replacing me on the next earnings call. I would like to thank you all. It was a great pleasure interacting with many of you over the past four years.

We can now open the lines for questions. Thank you.

Operator

Thank you. We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question comes from Yuri Lynk of Canaccord Genuity.

Yuri Lynk

Good morning. Just a question on your guidance for 2020. It's certainly helpful to get it for the Engineering business. Relative to some of your peers, I would say that the range is a bit large in terms of the margin guidance you're giving, so anything—is that just being conservative, or are there some variables that are still up in the air at this point that could swing 2020 one way or the other? Any colour



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on that would be helpful.

Ian Edwards:

It's Ian. Thank you for the question. I think, probably, two things in respect of that. The first, as you pointed out, is we do want to be conservative in replacing the guidance that we've put on the table; and secondly, we, historically, and expect to continue to see quarter-on-quarter variance within each of the business lines, so the guidance is really in respect of the annual with variance from quarter to quarter.

Yuri Lynk:

Okay. Is any of it related to the fact that you're reporting gross revenues versus net and there might be some variability in the conversion of gross to net revenues?

Sylvain Girard:

Yes, there is some impact from that, because the flow-through volume, as we call it, that comes in, they tend to vary from quarter to quarter. If you look at our quarterly split for '19, you'll see the margins range across the Engineering Services segment, you'll see some variation there from quarter to quarter, and a lot of that is coming from flow-through, and other seasonality.

Yuri Lynk

Okay, and last one for me. What should we be expecting for operating cash flow in 2020, specifically around your expectations for the lump-sum turnkey project performance this year?

Ian Edwards:

I'll let Sylvain go through the details on the numbers on that, but, clearly, in the lump-sum turnkey part of the business, we continue to be focused on improved performance, and continue to work our way through the Resources sector's backlog in 2020, and the Infrastructure backlog in 2020 and 2021, in the main, where we see that we're through the remaining backlog. Obviously, key is to work through that and produce as much consistency as possible, but in the Infrastructure sector, there are milestones and receivables from closed jobs, or past jobs, that we need to deliver on, so that adds some volatility into the year-on-year. But, Sylvain, maybe we can just talk to what we consider to be the end point of



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this.

Sylvain Girard:

Yes, maybe I'll give some colour on the operating cash flow in total and then add a couple specifics. We're not providing a specific guidance on operating cash flow, on the basis that the volatility of cash inflows and outflows on LSTK can move these numbers, but overall, for the year, we're expecting OCF to be positive.

As it relates to the lump-sum turnkey projects, we do look at these projects over the whole run of life. At this moment, we see the entire runoff to be a positive cash event, but it's unlikely to be positive in 2020, the lump-sum turnkey, basically because of planning of milestones, as well as claims settlement.

For Engineering Services, we should continue to have a strong EBIT to cash conversion, and I think, you can see in the prior quarter and this quarter, you can probably an estimate a range for that.

Then, lastly, as I pointed out in my remarks, the quarterly profile will be similar to 2019, with a stronger finish, stronger second half versus first half.

Yuri Lynk:

Okay, thanks for the colour. I'll turn it over.

Operator:

Our next question comes from Benoit Poirier of Desjardins Capital Markets.

Benoit Poirier:

Good morning. Just related to the cash flow with the LSTK contracts, as you're burning off \$1.4 billion, roughly, of LSTK contracts in 2020, so could you repeat the moving parts and whether you expect overall positive free cash flow related to that, or are there some variances, depending on the milestone, that could put some negative towards that, Sylvain?



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Sylvain Girard:

Benoit, what I said is that, first, the overall runoff, which is a multiyear runoff, as you can see in the chart, we expect that to be a positive cash flow event, but in 2020, because of the planning of milestones, the cash advance received so far, and the outstanding claims that we have on a few projects, that we spoke about before, the timing of those will put pressure on the cash flow for 2020, and right now we see it's unlikely that the LSTK cash flows will be positive in 2020.

Benoit Poirier:

Okay. Can you talk—without being precise, Sylvain, could you talk about the magnitude of what you could get in 2020?

Sylvain Girard:

Yes, no, we're going to be that precise, because these can move around. I mean, they just can—you know, settlements can easily get accelerated or can be pushed back, so, unfortunately, that's—the only thing I can tell you is, as I said, the overall picture, we see the overall picture to be positive.

Benoit Poirier:

Okay, perfect. When we look at your net recourse debt to EBITDA big improvement on a sequential basis to 2.1, could you walk us through your target going forward, and also how we should expect the number to finish towards the end of 2020?

Sylvain Girard:

Well, I think the priority continues to improve that ratio. We spoke in the past about a gross debt to EBITDA type ratio of 1 to 1.5, we're not there yet, but I think this is going to be continuing towards 2020, but we see the ratio continuing to improve as we replace poor EBITDA quarters with better ones in 2020, and that's basically the priority right now.

Benoit Poirier:

Okay, perfect. Ian, could you give us an update on the LRT project with respect to Eglinton, REM and Trillium?



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Ian Edwards:

Let's take Eglinton first, because there's been some media about Eglinton. Clearly, this is a project that is more than halfway through, so we're well advanced in the project. There have been issues in the past three years with respect to working in an urban environment, in tight communities, with permitting and community interface, and all of those kind of third-party issues, but they're not unusual, and they have had an impact on the project. We are working very close with the client to optimize the best completion date for that project, expected now in 2022, early 2022. Clearly, these are all issues that are out with the original contemplation of the contract. We're also working closely with the client to resolve those, from a commercial perspective. We're actually really pleased with where the project is heading and how we're dealing with the challenges, together with the client.

On REM, as you saw, we had various challenges, together with the client, some of which was attributable to the existing tunnels near, and some other issues, that were needed again to face, together with the client. Our business is about providing solutions to challenges and our business is about overcoming those challenges with the client, such that it's a win/win outcome, and we achieved that at the end of the year with the client on REM, and put a commercial arrangement in place, so that we could really focus on driving the performance of the project and completing that project on time. So, very satisfied with the outcome there.

On the Trillium project, again, a lot of media noise around the bids. We are very satisfied with our bid. We have now been working on the project for over a year. We got past the first construction season last year. I was actually on the project last week. We're setting ourselves up for a busy construction season. We're ready for that. It's gone well so far, but it's early days. We're less than 20% complete on that project, but all things look positive from that perspective so far.

Benoit Poirier:

Okay, perfect, and last one for me. Ian, could you talk about the strategic review, the timing around the ramp-down of Valerus, and also Resources Services, if you could give us the big numbers from a revenue and EBITDA contribution standpoint, and also the timing around the review?



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Ian Edwards:

As we've said, clearly, as part of the new strategic direction, the Resources business is under review, and the objective of the review is to get the business into profitability, to get the business performing, and to get the business to produce cash. Now, in addition to that, which we've also been fairly open about, we are exploring the potential for divestitures within the business, or as the business as a whole, to really understand where the best place for this is in the long term, is it with ourselves or is it with somebody else.

So, as part of the journey, if you like, to improve the business, we're highly focused on working through the LSTK backlog, which we spoke about. We had a loss in the midstream facility within Valerus, which we either we're looking to sell or close down, and we decided ultimately that, from a timing perspective, that the most efficient for ourselves was to close that facility down, which we've done, which formed the basis of some of the reporting that we put out this time. Then, the whole business of transforming this business into a services-based business from an LSTK business needs the right-sizing of the overhead, which we're actively in the process of both last year and we will be this year, also.

Specifically, on the numbers, I don't know if you want to reiterate those, Sylvain, if you would.

Sylvain Girard:

Maybe I'll need to ask the end of your question, but on the Valerus closure, the timing for that is in Q1, we'll be pretty much done with the completion of the outstanding backlog, so we're well advanced into that, so that'll be done, and then throughout Q2, we'll be finalizing the liquidation of the remaining inventory, but all the charges were taken in the Q4 results.

Then, if you don't mind, Benoit, what was the tail end of your question?

Benoit Poirier:

I just want to know the size of the Resources Services from a revenue and EBITDA standpoint right now, Sylvain, roughly.



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Sylvain Girard:

It depends on where we end up with the review, to be honest. The service piece of the business is above \$1 billion at the moment, but depending on the strategic review, it will modify that number.

Ian Edwards:

I mean, its current status, in terms of backlog, you can deduct from the SNCL Projects and the LSTK portion of that being \$3 million.

Benoit Poirier:

Okay, perfect. Thank you very much for the time.

Ian Edwards:

Thank you.

Operator:

Our next question comes from Mark Neville of Scotiabank.

Mark Neville:

Hey, good morning. Maybe just to follow up on the cash flow conversation for 2020—again, understanding you're not going to sort of pin down exact numbers for the Projects business for cash flow for this year, but, Sylvain, you made a comment about the business on a consolidated basis being sort of cash flow positive. Engineering Services in 2019 did—call it \$730 million of operating cash flow. I'm just trying to understand the comment about positive cash flow for the business and if we're thinking sort of hundreds-of-millions-of-dollar sort of magnitude sort of negative from projects pressure this year, or again something of that size?

Sylvain Girard:

Well, I think I've said most of what we wish to say at this point, unfortunately. It's hard for me to add much more to that. I think you all saw the volatility that LSTK is displaying. We had a good Projects forecast around that, but things can move around. On Engineering Services, we provided a data point



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at the end of Q3, you could see the performance before, and obviously the full year performance is quite high, so I would not assume a conversion ratio of EBIT in line with the full year of 2019 for that segment, it has to be something below 100%, and so you probably can—this segment will behave more like a typical services business, so you can probably figure that out. So, that's what I'd say. Now, we're saying, as an overall company, we'll be positive.

Mark Neville:

Okay. Maybe just on the EBIT segment ranges, again—I guess the EDPM, the 8% feels a bit conservative, but that—I'm sort of just trying to capture sort of the quarter-to-quarter volatility for the year and an 8% number feels like it would be a bit light. Is that sort of the right way to think about it?

Sylvain Girard / Ian Edwards (both answered) :

Yes, that's the right way to think about it. Yes, it is.

Mark Neville:

Okay. Maybe just following on the Resources, as well, a couple questions. Maybe just first, the loss that you reported in Q4, how much was sort of tied to reforecasts?

Sylvain Girard:

Ian broke it down among the three pieces. So, it's not necessarily last quarter. There was a little bit more in reforecasts as a percentage than in Q3, somewhere between 40% and 50% was reforecasts, and then the rest was split between Valerus and overhead.

Mark Neville:

Sorry, what was that number, the percentage? Sorry, I missed it.

Sylvain Girard:

Between 40% and 50%.



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Mark Neville:

Okay. Okay, maybe just a last one. Just on the service business within the Resources, and correct me if I'm wrong, I think you said a \$3 billion backlog tied to that business; is that right?

Ian Edwards:

No, what I said was that—if you look at the SNCL Projects, \$3 billion of the backlog that we reported in SNCL Projects is LSTK.

Mark Neville:

Right.

Ian Edwards:

So, the main one is the backlog in Resources Services, yes.

Mark Neville:

Yes, okay, okay. Again, as you're sort of working through, I guess, sort of alternatives for the business, I guess my question would be, I mean, is there any—presumably, it could be a good business, if it was all service and right-sized, but are there sort of any synergies for this with the rest of the business? Is there any sort of reason, beyond it being a good business, to own it, or maybe why it might not be better in someone else's hands?

Ian Edwards:

I think a couple of things I would say. For sure, I mean, we have businesses in the same geographies as our Resources business, whether that's the Middle East, North America or Europe, but that's part and parcel of the review that we're doing, to see how profitable can this business be and how important is the LSTK component of this business going forward, so all of these things are kind of under review. The most important thing that we're trying to get to is it has to be approaching the same profitability as the rest of our SNCL Engineering Services business, and that's what we're trying to determine before we make further decisions. These decisions are not necessarily kind of binary on the whole business. I mean, there may be business lines within the business that we need to either make further decisions



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around or move, to answer the question.

Operator:

Our next question comes from Jacob Bout of CIBC.

Jacob Bout:

Hi, good morning.

Ian Edwards:

Good morning, Jacob.

Jacob Bout:

Yes, I wanted to go back to the revenue guidance that you've given. So, I guess you're guiding to low-single-digit gross revenue growth, and I compare that to your book to bill of 1.2 times, and the guidance feels, you know, conservative to me. Can you just kind of walk us through some of the puts and takes; and maybe also how you're thinking about this coronavirus?

Sylvain Girard:

Maybe I'll say a few things and then Ian can jump in on that. One thing to consider, the EDPM, where you had the lower range of revenue growth, had a pretty strong finish in 2019, so I think that has a bit of a bearing into the number we see for 2020.

Then, in terms of your book to bill, that's correct, it was strong growth, and that's why we still continue to see strong growth in Infrastructure Services, which was a key driver of that book to bill.

Ian Edwards:

As an overview comment, what I would say is, clearly, we're working to a new plan, and the new plan has several components, and one of them is growth in SNCL Engineering Services. Our focus on those business lines, in EDPM, Nuclear and Infrastructure Services, they all have different growth potential and they all have different growth plans, and I think, with the guidance that was given, again, we want



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to be prudent at this time, because we're working our way into this plan and we're six months into it. Clearly, our expectation in the longer term exceeds that.

On the virus, the question on the virus, I mean, obviously, we're concerned, just the same as all other companies, countries and people. We have a process in place, that we've implemented globally, which collects local data, local impact, and we collect that together and make decisions around how we need to protect our people and how we need to protect our business. Clearly, the most mature, if you like, region where the virus is present is in China, and we have taken measures in our China business and our Hong Kong business to implement working from home and travel restrictions. The impact is kind of not very, very significant from those businesses right now. I mean, 2019, Hong Kong represented about 1.2% of our revenues and China about 0.4% of our revenues, but to say what the impact globally on our business is going to be, I wouldn't be able to speculate at this time. We're putting plans in place to deal with it, just as we did in China and Hong Kong, but I couldn't really give you anything beyond that, to speculate on the impact.

Jacob Bout:

Okay, that's helpful. Maybe a question here just on the EBIT margins. Nuclear, you're saying 13% to 15%. When we look at the decommissioning work versus the CANDU work, how should we be thinking about that from a margin perspective? Is it similar or is it more heavily weighted to one type versus the other?

Ian Edwards:

There's two parts to that, I think. One is in how it's reported and the other is in the absolute profitability of the business. I don't think they're dissimilar in terms of profitability with those two lines of business, but how it's reported, maybe Sylvain can just comment on that.

Sylvain Girard:

A lot of the decommissioning work that will take place will be in the U.S., and the work in the U.S. will be done through our joint venture with CDI, and you'll see that coming through as an equity pickup, so it is—part of the outlook number we've provided, in terms of the range we've provided, includes that



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equity pickup from those projects.

Jacob Bout:

Okay, I'll leave it there. Thank you.

Ian Edwards:

Thank you.

Operator:

Our next question comes from Chris Murray of AltaCorp Capital.

Chris Murray:

Thank you. Good morning, folks. Just following up on Jacob's question, actually, I have a couple of questions about the Nuclear business. I guess, first thing, you've sort of guided to mid-single-digit revenue growth, and, again, back to—maybe it's a presentation thing, but can you just walk us through—you've won a lot of awards, you certainly have some of the decommissioning working coming in, so I'm a little surprised that the growth rate is, frankly, as low as it is going into the year. So, can you walk through some of the moving parts and what you're thinking? I think the other thing, if you can touch on it, how do you think about this business over the next couple of years? Do you think there's some additional opportunities for other decommissioning work or are there other projects that you think that are out there?

Ian Edwards:

Yes, thanks, good question. Currently, if we think about the kind of main components of the business, we've got life extensions happening in live projects in Canada, we've got waste remediation business, which is primarily located in the U.S., and we've got the decommissioning business, which is currently located in the U.S., we've got new build, which is supporting the Hinkley construction in the U.K., and then we've got technologies, which are kind of global, which we're selling and promoting globally to the nuclear industry. There's clearly growth potential in the three core geographies there, of the U.K., the U.S. and Canada, to do more of those business lines in the three countries. So, there's absolutely



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growth potential, as power plants come offline and waste needs remediation. They're long-term contracts. If you look at the new contract we won on waste, that's a 10-year contract, and the decommissioning contracts have got a relatively slow start before they run full, there's a lot of pre-engineering and a lot of preparation work. So, for sure, this is a really exciting business for us, and, probably, what you're seeing right now is what I would call the start of a growth phase.

Sylvain Girard:

Maybe if I can add to Ian's answer. It's kind of related to Jacob's question earlier, which is the revenue that will come through the JVs, CDI, for instance, you won't see those hit the revenue line. The percentage we gave there was basically what you will see appear in the revenue line, but there is going to be growth that will just show up to the bottom line as equity pickup.

Chris Murray:

Maybe to that point, then, because, I mean, it makes it—the lack of transparency is going to be a little challenging for us. So, if we think about growth year-over-year, let's assume—and maybe it is fair—I mean, you made the comment about 13% to 15% margin, similar to the rest of the business. Is it fair to think that, as we see that equity pickup, that kind of reverse engineering, that kind of gives us a better feel for what the actual kind of revenue or activity level is in terms of what you're doing?

Sylvain Girard:

Well, I think we provided you enough to probably roll up the numbers. Now, if you're trying to break out what is equity pickup versus not, yes, you're right, you'll struggle a bit to do that. That's one area that we'll be looking at from a reporting standpoint, now that we've provided some colour on the activities done through JVs. That's something, I guess, Jeff will be looking at and see what's appropriate to do at that point.

Chris Murray:

All right, fair enough. Just my other question—and, Ian, I don't know how you want to address this one. You did announce in your press release the fact that you'd completed the work of the Board Committee in terms of its special activities, but at the same time, I guess, the other question that that posed was,



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does that sort of impact what you're thinking about doing with the Resources business? I'm just wondering if you can kind of square maybe that disconnect there, because if you're going to look to do maybe larger transactions, or something like that, I would have thought you would have kept the Committee in place.

Ian Edwards:

First of all, the Committee was very useful to me in the first half of last year in getting to the point where we defined the new strategic direction, and then continued to be helpful as we made some decisions, and looked towards further decisions, but I think we got to a point where now we've defined where the future of the Company is, in terms of it being a professional services and project management company, that it's really about execution now, and it's really about building on that strategic plan to take the Company forward successfully around those sort of macro-parameters, macro-strategic goals. That'll just be normal Board sort of support, normal Board oversight, normal Board function, and I think that's really why we got to the point where we thought the Special Committee could be disbanded.

Chris Murray:

Okay. So, we shouldn't read anything into your thoughts around what you're going to do with the Resources business with that Committee going away, you're still going to continue to look at perhaps divestitures if necessary?

Ian Edwards:

Absolutely. All options, absolutely, and we'll make those decisions with Board oversight and Board approval, as we need to, and communicate them, obviously.

Chris Murray:

All right, thank you.

Operator:

Our next question comes from Devin Dodge of BMO Capital Markets.



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Devin Dodge:

All right, thanks. Good morning, guys.

Ian Edwards:

Hey, Devin.

Devin Dodge:

I just wanted to take maybe one more stab at the cash flow question, Sylvain. Do you expect the overall business to be free cash flow positive in 2020?

Sylvain Girard:

I think we gave you all we wanted to give you, to be honest, on this one, so—and don't take my answer as meaning no or yes, but it's just I think you've got to run through your model, and I think we've provided enough for you to get to a decent OCF, and we provided guidance on CapEx, as well. So, I think you'll see what that comes out to.

Devin Dodge:

Okay, okay. If you guys continue on your continued profitability trend from the last couple of quarters, and we have leverage getting down kind of maybe to the lower end of your targeted range by the second half of 2020, do you think you'll be able to maybe re-engage on at least small-scale M&A, or maybe even share buybacks, in the back half of the year?

Ian Edwards:

Thanks for the question. I think, first of all, we don't want to get ahead of ourselves. I mean, the main drive of the Company and what we're trying to achieve right now is improve performance, work our way through the LSTK backlog, support our SNCL Engineering Services business, and all of that is to get to that point, of course. We intend—with Jeff onboard now, Jeff's going to look at the capital allocation strategy, such that we can communicate that at a point in time, but certainly, right now, the main focus is on continued performance and continued kind of generation of cash, and on continued improvement.



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Devin Dodge:

Okay, makes sense, and maybe one last one. Just on the concession portfolio, are there any candidates being monetized over the next 12 months, other than partnership with BBGI or another party?

Sylvain Girard:

Not right now, it's not in the plan right now.

Devin Dodge:

Okay, fair enough. I'll leave it there. Ian, I hope you're feeling better soon ...

Ian Edwards:

Thank you.

Devin Dodge:

... and, Sylvain, just best of luck in your next steps.

Sylvain Girard:

Thank you very much.

Operator:

Our next question comes from Maxim Sytchev of National Bank Financial.

Maxim Sytchev:

Hi, good morning.

Ian Edwards:

Good morning, Maxim.



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Maxim Sytchev:

Just a quick question. When we look at Infrastructure Services, do you mind just giving a bit more colour on that standardized EPC contracts, the \$892 million, and maybe if you can discuss the risk profile around those things, if possible?

Ian Edwards:

So, two things. One is the projects we undertake with ABB, under Linxon, we call those standardized projects rather than really EPC, because the business is, first of all, about supply of ABB products. A major portion of it is installation of those components, and a very small element of it is in the construction that supports that. They're very repetitive, standardized products, and we think we can take those to different customers with ABB and grow a successful kind of lower risk business from that.

The other component is our district cooling business. In the Middle East, we are a leader of district cooling facilities. We've been doing this for well over a decade. We've got more district cooling facilities in the Middle East than our peers. It's been a successful business for a long time. Again, it's very, very similar. These things are repeat, cookie-cutter type of projects that we build and install, so we don't see it as high-risk business.

Maxim Sytchev:

Okay, fair enough, thank you for that. Then, a question, I presume, maybe for Sylvain. On the working capital position in Q4, was there anything from Champlain, or was it all just all the other projects contributing to the Q4?

Sylvain Girard:

No, there was nothing from Champlain. We would have liked that, but no. The contribution on the working capital reduction was pretty much spread across the—almost all segments.

Maxim Sytchev:

Okay. Then, in terms of—when we try to visualize—I understand, again, timing on milestones right now, it's a bit hard to pinpoint exactly how those things are going to play out, but when you talk about sort of



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the lag duration of these projects to be OCF positive, should we then be expecting a significant reversal in, I don't know, 2021, 2022, in terms of working capital recovery, I mean, just in terms of how will it play out from a cash flow perspective, if it's possible?

Sylvain Girard:

Based on what I said, so overall life positive, 2020 unlikely to be positive. You start on—on a number of new projects, you start with a set of advance payments or milestone payments, that you're just going to burn off—especially the advance, you'll burn that off through the life, but then you'll also have some margin recognition through the life, as well. So, as we blend the two together, it's basically how you end up with a net positive, which is something we've been tracking, and will continue to track, I guess, at different points in time, what is the balance between what we've already received versus what it remains to be received on a project, and the margin associated with that, and that gives rise to, essentially, your net margin at the end of a project, and then you compare that to the cash flow position you had at the beginning of it and is that a positive event or not. So, that's how we do it. I'm not sure if that answers your question, but—

Maxim Sytchev:

No, and I guess, directionally, as the backlog in LSTK shrinks pretty aggressively over the next two years, if we're trying to think directionally, the non-cash working capital there should be reversing sort of in the opposite direction; correct?

Sylvain Girard:

Oh, absolutely. Today, I'd tell you the overall duration would be a positive event, and I'd tell you that 2020 will be negative. Well, it means that 2021 will catch up on that situation—well, 2021 and 2022 will catch up on that situation, and those will all be a positive event.

Maxim Sytchev:

Okay, that's helpful. Thank you so much.



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Ian Edwards:

Thank you.

Operator:

Our next question comes from Michael Tupholme of TD Securities.

Michael Tupholme:

Thank you. Good morning. I want to go back to the outlook and the low-single-digit percentage guidance. I just want to clarify, in the prepared remarks, did you actually provide some more specific details around our expectations for each segment? If you did, I believe I missed that, if you could just go over that again.

Sylvain Girard:

Yes, I did. EDPM, I said low-single-digits, Nuclear mid-single-digits, and Infrastructure Services high-single-digits.

Michael Tupholme:

Okay, great, thank you. Secondly, in terms of the Resources segment, you provided some information about how the loss in the quarter on an EBIT basis broke down between the overruns, Valerus and the right-sizing. I'm just wondering, as we look forward, with the Valerus shutdown—I'm trying to get a sense for when these elements of the losses start to go away. So, Valerus could see losses contributing in the first quarter and into the second quarter, and at what point do the right-sizing issues sort of, is that dealt with and we cease to see losses from that perspective? I realize the cost to run maybe is a bit harder to predict, but can you just talk a little bit about, as we move through the year, when these elements of the various loss features start fading away?

Sylvain Girard:

I'll answer the Valerus piece and then Ian will add some colour on some of the overhead actions.

On Valerus, as I said, we're aiming to complete the remaining backlog by the end of first quarter, and



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by that time the operating loss associated to those orders should all be taken, so we don't foresee much, if anything, of that in Q2. Q2 will be more the finalization of the inventory liquidation. We're trying to do this in somewhat of an orderly fashion to maximize value, but the impairment itself has been taken in Q4.

Ian Edwards:

As an overview comment, if you take the LSTK and the overhead as the other two components, I mean, clearly, we've moved 20% through the backlog, and as we work through this year, every quarter the backlog diminishes, and as it diminishes, the risk diminishes with it, and our direction of risk comes to a close. So, we would expect to see continued improvement as we work through that LSTK backlog.

Similarly, with the overhead, as we transition the business from LSTK to a services business, we are taking actions. We took significant action in the second half of '19, with respect to right-sizing the overhead, and we have a plan to continue to make those changes in Q1 and Q2 of this year. Without giving a precise kind of guidance to that, the way we see it, it's an improving situation.

Michael Tupholme:

Okay, and are you able to talk at all about the cadence of the runoff of the Resources backlog? I mean, obviously, LSTK is at \$400 million over the course of this year, is that front-end weighted, is it evenly spread through the year, and just on that point; the graph you present on Slide 15 makes it seem as though most of that Resources work is completed in 2020, yet the table on Slide 14 shows two projects going into 2021, so are they finished at the very front end of 2021?

Sylvain Girard:

I don't think there's a huge quarterly split difference in this. I don't have the exact numbers with me, but I wouldn't assume that there is anything materially quarter-to-quarter on this.

Ian Edwards:

But there's a small component of one of the projects we post in 2021, as you rightly pointed out, and I think the only other thing we could say is that 20% of the backlog in Q4 was brought down.



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Michael Tupholme:

Okay. Just further on Resources, and I guess more broadly, I guess, the whole LSTK backlog, as the whole team, and Nigel, in particular, completes the work of sort of monitoring these projects and project oversight, have you identified any new risks, either in the fourth quarter or up until today, that you hadn't previously identified in Q3?

Ian Edwards:

You mean risks in the projects?

Michael Tupholme:

Correct.

Ian Edwards:

Well, the projects are a dynamic situation always. I mean, risks are closed and risks are experienced. I mean, that is part of the construction process. Frankly speaking, it's very difficult to answer that question by saying there's no new risks, but at the same time we'll have closed a lot of risks out. I mean, at each of these projects, we've got very detailed risk analysis schedules, and, clearly, the management on the project, the whole drive is to close them out as quick as possible, but also identify what's ahead as quick as possible. Nigel, I don't know if you want—

Nigel White:

Yes, perhaps I will. What I would say is that I think—well, I certainly believe now that we've got a heightened sense of investigation and interrogation as challenges arise on a project, and we dynamically manage those risks as we move forward, and the team are very focused on that, and, let's say, we've reinforced our protocols to make sure that we do that well.

Ian Edwards:

One thing we can say is, obviously, as we work through the backlog, we're looking closely at producing a diminishing risk perspective.



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Michael Tupholme:

That's helpful, thank you. Then, just lastly, can you clarify or tell us when—the two items—when the 407 tax payment actually gets paid and the first payment in respect of the federal charges settlement gets made?

Sylvain Girard:

The tax is Q1. The settlement will end between Q1 and Q2. There's a bit of a timing issue that could move it between Q1 and Q2.

Michael Tupholme:

Okay, thank you.

Operator:

This concludes the question and answer session. I would like to turn the conference back over to Mr. Denis Jasmin for any closing remarks.

Ian Edwards:

I'd just like to thank everybody for bearing with me today, I've got a bit of a cough, so sorry about the croakiness, and thank you very much for the questions. Denis?

Denis Jasmin:

Yes, thank you very much, everyone. If you have more questions, you can always contact me. Thank you very much, and have a beautiful day. Thanks.

Operator:

This concludes today's conference call, you may disconnect your lines. Thank you for participating and have a pleasant day.