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SNC-Lavalin Group Inc.
Third Quarter 2021 Results
Conference Call Transcript

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

Jeff Bell
Executive Vice-President and Chief Financial Officer

Denis Jasmin
Vice-President, Investor Relations



Operator:

Good morning, and welcome to SNC-Lavalin's Third Quarter 2021 Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

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

Denis Jasmin:

Thank you, Ariel. Good morning everyone, and thank you for joining the call.

Our Q3 earnings announcement was released this morning, and we have posted a corresponding slide presentation on the Investors section of our website. The recording of today's call and its transcript will also be available on our website within 24 hours.

With me today are Ian Edwards, President and Chief Executive Officer, and Jeff Bell, Executive Vice President and Chief Financial Officer.

Before we begin, I would like to ask everyone to limit themselves to one or two questions to ensure that all analysts have an opportunity to participate. You are welcome to return to 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 are also available on our website.



Also during the call, we may refer to certain non-IFRS measures. These measures are defined and reconciled with comparable IFRS measures in our MD&A, which can be found on SEDAR and on our website. Management believes that these non-IFRS measures provide additional insight into the Company's financial results and certain investors may use this information to evaluate the Company's performance from period to period.

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

Ian Edwards:

Thank you, Denis, and good morning everyone.

Starting on Slide 4, SNCL Engineering Services delivered another sturdy performance with good Segment Adjusted EBIT growth and sound results across all three segments. With one quarter to go, we remain on track to achieve our 2021 outlook.

The wind-down of our LSTK projects continues to advance with significant reductions in backlog and continued constructive discussions with our clients on recoveries for the additional costs related to COVID-19 impacts. Additionally, we closed the sale of the Oil & Gas business, an important strategic milestone for the Company.

Quarterly performance was driven primarily by Engineering Services, which generated revenues of \$1.5 billion, an increase of 2.2% over Q3 last year. Excluding the impacts of foreign currency, we saw strong organic growth of 4.2%. Segment Adjusted EBIT margin of 9.8 % was consistent with the prior year.

Bookings were strong for the quarter with a book-to-bill ratio of essentially 1, with backlog growing to \$11.1 billion, up 3.7% over the prior year. SNCL Projects, the LSTK contracts backlog, was reduced by approximately \$240 million, bringing the remaining backlog down to just over a billion.



In summary, we've delivered another solid quarter, demonstrating that the execution of our strategic initiatives to transform this company, are generating results.

We remain on our journey to transform and align SNC-Lavalin, through three fundamental growth megatrends: addressing climate change, governments' infrastructure development programs and driving digital innovation. In all of these areas we have distinct capabilities and a compelling value proposition.

Now let me review our three pillars of success on Slide 5, these were disclosed during our Investor Day last month. First is where we play? We are positioned with a leading presence across Canada, the U.S. and the U.K., with targeted operations in other key geographies. We have seven specific end markets, deliberately focused on infrastructure where governments are investing heavily to achieve Net Zero.

Second is how we win? We are focused on deploying our global capabilities locally to our clients, leveraging our end-to-end services and engineering Net Zero expertise, winning market share and growing relationships with our clients as an integrated partner.

The combination of operating in these strategically selected markets with this focused approach drives how we will grow and create long-term value. We will continue to leverage our capabilities across our markets to deliver high quality services while investing in both organic and inorganic opportunities.

Turning to Slide 6, I'd like to talk to you about a critical element for our success, and that is our people. The growth we envisage will only be realized through the hard work of our teams of talented people, with the drive and skills to recognize our vision. We are laser focused on attracting, retaining and developing the people we need to grow the organization. This broad-based effort is characterized in three themes to provide an inspiring set of professional development opportunities to retain our employees and attract new talent to ensure our success.



The first theme is the strength of our data and technology capability to meet the demands of the future, which includes:

- Our advanced engineering global technology center in India, which continues to grow, now with more than 2,000 employees, all supporting the organization by providing a source of highly technical professionals;
- And the advancement of world-class technical digital and professional training programs for our people, through which we have trained approximately 10,000 people to date.

The next talent theme is the development of our people:

- The talent management process continues to evolve and support in-depth succession and career path planning;
- In collaboration with Oxford's Saïd Business School, we have developed our signature leadership development program;
- Our business is global and talent deployment and career development is encouraged through our mobility program;
- And, we also remain focused on employee satisfaction as a tool to reduce turnover. We have conducted a number of measures including regular surveys to understand and listen to the needs of our employees, so that we can implement improvements to address what we hear. Our most recent feedback tells us that 88% of our employees are proud to work at SNC-Lavalin, and 85% would recommend the Company as an employer, both of which we believe to be industry-leading figures.

The final theme to build talent to provide the capacity for growth, is by injecting the organization with youth.

- So far this year we have onboarded approximately 750 new hires through our graduate and apprentice development programs, an important source of talent to complement our more senior engineers.



- And perhaps most importantly, diversity is embedded in our culture and we are working to leverage that through strong ED&I programs to meet our gender diversity targets.

Next, I'd like to move to the business lines and start with Slide 7 and the results for EDPM.

EDPM generated revenues of \$917 million, up 2% compared to the same quarter last year, up 4.1% on a constant currency basis. This increase was primarily driven by strong performance in the U.K. transportation, water and defence markets. Segment Adjusted EBIT of \$86 million increased 6.6%, resulting in a 9.4% EBIT margin, approximately 40 basis points above the prior year.

Our backlog grew a strong 15.3% to \$3.2 billion, a new record high for EDPM, driven by major wins across all core geographies in Canada, the U.K. and the U.S.

We also continue to leverage our digital expertise, fortifying our capabilities in digital transformation, an enabler for all we do. This further demonstrates differentiation in our core service offerings through increased focus on design transformation, program management and digital twinning.

We are focused to provide the engineering expertise required to evolve the world towards a globally connected and data-driven operating system for the built environment. Our recent digital twin project wins in the U.K. validate this part of our strategy.

Our reimbursable contract model, as well as our strategic shift to contracting models to collaborate on a risk-balanced approach are providing benefits in a period of disruption and potentially inflation in wage rates, allowing us to work with our customers on the best outcomes for all.

Looking ahead, our pipeline of opportunities remains strong, and our strengthened backlog provides good visibility in supporting our positive outlook for the balance of the year, as well as for the longer term financial targets.



On Slide 8, two recent wins illustrate and demonstrate our leadership in applied sustainability and delivering low-carbon outcomes on both retrofit and new build basis. SNC-Lavalin has been a pioneer in engineering Net Zero and the adoption of dedicated government and private sector initiatives to address climate change opens up substantial opportunity to utilize our expertise and again, to gain market share.

An example of our global leadership is a flagship project win we recently received to design and manage the delivery of Net Zero retrofit for almost 4 million square feet of U.K. government office space. We're really pleased to partner with the government to decarbonize this entire estate. I'd also point out this was a recent award and the value has not yet been added to our backlog.

The second project we would like to discuss is a new build program for the design and ongoing maintenance of a pioneering net zero emissions power plant. This is a one-of-a-kind design, which will eliminate all our emissions including traditional pollutants and CO2 emissions.

In response to climate change, government around the world are accelerating their pursuit of reduced carbon footprints through regulation, incentives and investment. We maintain our leadership position with our Engineering Net Zero initiative, providing clean and affordable solutions to our clients in engineering a sustainable society. We see significant opportunity for SNC-Lavalin in the months and years ahead with the governments in our geographies whose focus is on infrastructure spending.

These remarkable projects demonstrate that SNC-Lavalin is at the forefront of carbon-neutral design and delivery.

Turning to Slide 9, our Nuclear segment continues revenues decrease by 2.1% on a reported basis and were in line on a constant currency basis. The decrease was as a result of a strengthening of the Canadian dollar versus the U.S. dollar, lower volumes in Asia and lower volumes of activity on refurbishment projects in Canada. This was partially offset by a higher volume in Europe where we continue to work on the Hinkley Point C Power Station in the U.K.



Segment Adjusted EBIT of \$36 million was essentially flat with prior year with EBIT margin, posting approximately 20 basis point improvement, above our target range. We remain encouraged by the significant opportunities ahead as our team continues to pursue a number of development prospects, particularly in decommissioning and waste management in the U.S.

In the near term, we're seeing strong activity in Engineering and Field Services with general market conditions positive due to government support for carbon Net Zero. Decisions are expected soon on several U.S. DoE environmental management programs and we see continued positive momentum in the U.K.

Longer term, we believe Nuclear will be a beneficiary of the stimulus funds in the U.S., the U.K. and Canada.

Our proprietary portfolio of software and licencing rights for the nuclear reactor designs and operational support licence, is a key element to our continued success. Along with waste management reduction and process technologies, our capabilities are differentiated and, in many cases unique, enabling us to secure contracts.

Moving to Slide 10 and Infrastructure Services, the segment had a solid quarter with revenues of \$343 million, representing growth of 5.9% compared to Q3 2020. On a constant currency basis, revenue increased by 7.6%, driven by increased levels of activity in hydro power and Linxon where backlog totalled over \$1 billion due to new orders in the U.S. and a demand for grid modernization and support growth in renewable energy and electrification.

Segment Adjusted EBIT of \$23 million was slightly low with a reduced EBIT margin of 6.6%, resulting primarily from higher procurement costs on several projects.



We see opportunities in renewables such as wind, solar and hydro, as well as data centres, rail and transit, and social infrastructures in the Americas and Europe that cause us to remain excited about the numerous opportunities ahead.

Turning to Slide 11 and Capital, the segment continues to be impacted by persistently lower levels of traffic on Highway 407 as we continue to experience the effects of COVID-19 disruptions.

The increased COVID-19 vaccination rates in the third quarter allowed the Province of Ontario to enter Step 3 of the reopening in nonessential businesses, outdoor activities and public spaces and schools, which resulted in an increase of 24% in traffic levels compared to Q3 2020. Therefore, we remain cautiously optimistic that we will see increasing revenues over the short to medium term as life gradually returns to more normal patterns.

Our other concessions continue to perform well. Looking ahead, we're building a pipeline of new public/private partnership opportunities to leverage our Engineering and O&M capabilities, including several PPPs in Canada and the U.K., as well as in the wastewater treatment and hospital spaces.

Moving to Slide 12 and the Infrastructure EPC projects, we continue to substantially work down the LSTK construction backlog to \$1.1 billion or 42% of the year-ago level of \$1.9 billion. Like many other companies in our industry, we continue to navigate the headwinds in relation to the COVID-19 pandemic and increasing pressures from the ripple effects of labour shortages, inflation and supply chain disruption all add to these challenges. Our team is effectively managing these issues across the organization, and we are tracking the impacts closely and continue to have discussions with our customers regarding recoveries.

Turning to Slide 13, on the Resources segment, we completed the sale of our Oil & Gas business during the third quarter. Jeff will walk you through the numbers on that shortly.



Our Mining services business continues to perform well and saw a strong increase in revenue and prospects driven by increased emphasis on sustainability and the demand for materials needed for electrification.

With that, I'll now turn the call over to Jeff.

Jeff Bell:

Thank you, Ian, and good morning everyone.

Turning to Slide 15, total revenues for the quarter increased by 1.6% to \$1.8 billion, compared to Q3 2020. SNCL Engineering Services revenue was higher by 2.2%, in line with our outlook range for the year. SNCL Projects revenue was higher by 2.4%. Segmented Adjusted EBIT for the quarter was \$139 million, which was comprised of \$145 million for SNCL Engineering Services, \$24 million for Capital, and negative \$29 million for SNCL Projects. This latter negative EBIT was mainly due to the Infrastructure EPC Projects segment, which had a loss in the quarter due to close out costs on certain projects and varying impacts of COVID-19 on productivity and supply chain costs.

Total Corporate SG&A expenses amounted to \$52 million in the quarter, higher than the same period last year. The increase was mainly due to revised estimates on long-term employee incentives, certain insurance provisions and the in-year phasing of spend on digital initiatives. The higher costs in the quarter are primarily as a result of in-year phasing, and we continue to expect Corporate SG&A for PS&PM to be about \$100 million for the full year, in line with our previously stated expectations.

IFRS net income was \$601 million for the quarter, which was composed of \$19 million from continuing operations and \$582 million from discontinued operations. The discontinued operations net income included a gain of \$578 million on the disposal of our Oil & Gas business, due to the reclassification to net income of the non-cash cumulative exchange differences on translating foreign operations.



The adjusted net income from PS&PM was \$40 million, or \$0.23 per diluted share, representing a significant improvement compared with Q3 2020. This improvement was mainly due to a lower income tax expense, as Q3 2020 included a \$53 million reduction of deferred income tax assets and lower net financial expenses, partially offset by the increase in Corporate SG&A that I just mentioned.

Backlog ended the quarter at \$12.8 billion, compared to \$13.2 billion at the end of Q3 2020, primarily due to the continued runoff of the LSTK construction contracts backlog, which totalled \$1.1 billion at the end of the quarter. SNCL Engineering Services backlog increased by 3.7% during the same period, driven by the strong increase in the EDPM segment that I mentioned earlier. In Nuclear, backlog decreased by 17% over the last 12 months, mainly due to the progress on the Company's long-term refurbishment contracts in Canada. As for Infrastructure Services, the backlog remains solid at \$7.1 billion, 2% higher than at the end of September 2020.

If we turn now to Slide 16, our days sales outstanding continued to improve, reaching 56 days at the end of the quarter for EDPM, a 12-day improvement as compared to Q3 2020. This improvement is mainly the result of our continued effort on cash collection and early government payment programs, particularly in the U.K., related to COVID-19.

At the end of September 2021, the Company had \$520 million in cash. The Company's net recourse debt to EBITDA ratio on the revolver credit facility, calculated in accordance with the terms of the Company's credit agreement, was 1.9 times, well below the required covenant level of 3.75 times.

If we move on to Slide 17 and cash flow, net cash used for operating activities was \$65 million in Q3 2021, compared to a net cash used of \$136 million in Q6 2020. On a year-to-date basis we have generated \$19 million, mainly due to a good conversion rate of SNCL Services EBIT to operating cash flow. SNCL Engineering Services continue to generate strong cash flow from operations with \$77 million in the quarter, while Capital generated \$34 million. After cash taxes, interest and corporate items, you can see that we generated \$55 million of operating cash flow. As expected, SNCL Projects had an operating cash flow usage in Q3 totalling \$109 million mainly due to working capital



requirements on the remaining LSTK projects, while Discontinued Operations had a usage of \$11 million.

For full year 2021, we continue to expect the Company's operating cash flow to be largely breakeven as we expect fourth quarter positive cash flows from Engineering Services and Capital to be broadly offset by a continued usage of cash in SNCL Projects.

And finally, turning to Slide 18. With respect to 2021 outlook, we are reaffirming our SNCL Engineering Services revenue expectation of low single-digit percentage growth year-on-year, which reflects the impact of the current weaker U.S. dollar. Having delivered a 9.4% Adjusted EBIT margin year-to-date, we are tightening our SNCL Engineering Services Segment Adjusted EBIT margin outlook for the full year, from a range of 8% to 10% to a range of 9% to 9.5%.

This concludes my presentation. I'd like to now hand the presentation back to Ian.

Ian Edwards:

Thanks, Jeff.

Turning to Slide 20, I'd like to conclude my remarks with a few key takeaways.

We are proud of our global team and the performance they have delivered through the first three quarters of the year. Our Engineering Services businesses have delivered another strong quarter. We have a strong pipeline of new business opportunities in front of us across all our core markets, driven by governments investing in new infrastructure and sustainability initiatives.

We continue to de-risk our portfolio and the completion of the Oil & Gas business divestiture represents a significant strategic milestone in our transformation, while we also continue to make consistent progress on unwinding the LSTK backlog.



We remain focused on executing our Pivot to Growth strategy, and optimizing the delivery of sustained revenue and free cash flow growth.

Thank you, and we can now open the call for questions.

Operator:

Thank you. We will now begin the question-and-answer session.

We will pause for a moment as callers join the queue.

Our first question comes from Chris Murray of ATB Capital Markets. Please go ahead.

Chris Murray:

Good morning, folks. Just, Jeff, maybe if you can give us a little bit of a breakdown on some of these SG&A costs that you took in the quarter and your commentary around stuff hitting about \$100 million. Just maybe walk us through kind of what's recurring, what's nonrecurring and how to think about this on a go-forward basis, if we can, please.

Jeff Bell:

Sure. Happy to do so, Chris.

As I think you heard me say in the script, in terms of a go-forward basis we're expecting about \$25 million a quarter, \$100 million in the year. That also aligns with what we've talked about at Investor Day.

I think what you saw in the quarter itself is just some quarter-over-quarter variability and phasing within the year. If you look back over the year you would have seen actually Q1 and Q2 were below that normalized run level, so we had a bit of a catch-up on things like long-term incentive scheme provisions. Those really reflect the fact that the share price has been growing significantly over the



course of the year so we have to account for that. We had some phasing in the year in terms of our digital initiative spend, that we hold a lot of that centrally and just more in this quarter as opposed to a previous quarter. Then some other items just around as the business has grown and we've been renewing within the insurance market, for instance; we're seeing some higher costs there. But I think in terms of go-forward, our previously stated outlook and guidance would remain the same of around \$25 million a quarter.

Chris Murray:

Okay, that's helpful. Thank you.

Then the other thing just to maybe check in on is the wind-down of the projects. I guess two pieces to this question. One, again, a bit of a loss again this quarter, and then you also made the comment that you expect the cash flow to be negative into Q4. I guess two pieces to that. One, is the run rate that we're seeing now of that loss rate of about \$25 million a quarter, is that what we should be thinking about for the next few quarters until at least you runoff the transportation projects? Any colour around how to think about shaping that.

Then I guess the other piece too is you talked—I guess we're coming to the end of a number of these projects and you have at some point or previously mentioned that you thought that cash flow neutral on these things, but we do seem to be digging a bit of a hole here. I'm just trying to maybe get an idea of how the cash flow profile, at least for the projects that looked to be winding up, probably in the next six months it looks like, how we should think about those.

Ian Edwards:

Chris, let's both answer this. I'll pass it over to Jeff for the cash flow element of it, but give you a bit of an update where we're at.

We're obviously still getting headwinds from COVID, but as you can see we're rapidly declining the backlog. I mean, nearly \$250 million of progress in the quarter is really good progress from the three



last jobs, and as you know these—in 2023 we're going to be down to one project. So, we are working our way through it.

There's a few moving parts, of course, which kind of makes it a big difficult to precisely answer your question because we don't know when things are going to turn back to normal from a COVID perspective because of the productivity loss that we've talked about before. And we are seeing some post-COVID effects from labour inflation and supply chain disruption.

What we're trying to do is be as transparent and as open as we possibly can on a quarter-to-quarter basis and let you know how these things are going. But another significant moving part here is recovery from the clients. I know I've said this quarter-to-quarter and it is going to take time to establish our entitlement. We know we've got strong entitlement from a principle perspective, but actually proving the quantum of that is detailed. I mean, these projects have got lots of kind of moving parts and lots of elements that we have to kind of work through and in a lot of detail, so we've got very significant teams working on that to recover our entitlement, and we're not going to stop until we've got back what we think we've lost that we're entitled to from the contracts.

I would say all of that as a bit of a backdrop. We're obviously really pleased with the rundown that we've got. We're not pleased about the losses, but we are making a lot of progress.

Jeff, maybe just add to that from the specifics of the cash flow.

Jeff Bell:

Yes, maybe I'd make two comments, Chris.

I think in the short term we are—the pressures that Ian has talked about that we saw in Q3, I think we'd say we continue to experience those in Q4 so far, so I think there is, I think there's a real possibility we could see losses in Q4 that way, but we've obviously got to play that quarter-by-quarter.



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I think to your longer term point, yes, we do believe in terms of the portfolio of ongoing and recently closed projects that they will be cash flow neutral in the long term, but to Ian's point, that may take some time. So, what you are seeing and what we are experiencing is the fact that as those projects move to completion we are spending the cash. We, as Ian has said, remain in very constructive discussions to try and negotiate and settle some of that out, but ultimately some of that may not be possible until we're settling out final accounts with the clients farther down the road. We'll just have to work our way through that as best we can.

Chris Murray:

All right, I'll leave it there. Thanks, folks.

Ian Edwards:

Thanks, Chris.

Jeff Bell:

Thanks.

Operator:

Our next question comes from Jacob Bout of CIBC. Please go ahead.

Jacob Bout:

Good morning.

Ian Edwards:

Good morning.

Jacob Bout:

Wanted to go back to the Engineering Services backlog. I know it's been up year-on-year, but for the past couple of quarters it has been relatively flattish. It appears that we're seeing increases in EDPM



and I guess to a certain extent Nuclear, but they are being offset by Infrastructure Services being worked down. How do we think about this in the quarters ahead? What does this mean for 2022 as far as organic growth for Engineering Services? I know you gave an Investor Day target of 4% to 6%, but a fairly wide range.

Ian Edwards:

Yes, okay. Thanks, Jacob.

First of all, the backlog is strong in Engineering Services. We're up at over \$11 billion and that's up almost 4%, so if you bring all of the Engineering Services together, backlog is strong. We're actually feeling in pretty good shape for the transition through to '22 and delivering against the 4% to 6% range in 2022 that we put out at the Investor Day.

There's numerous reasons that we're feeling good about that. Obviously you can see that our strategy around digital and achieving digital work and more kind of consultancy work around Net Zero is actually bringing results with the wins that we've announced. We're very confident about the U.S. market. We think that revenues will flow pretty good through the U.S. market with the infrastructure program that is there.

I would say there's some ups and downs, I agree, across the whole portfolio of business, but on the whole I think we're feeling in pretty good shape going into '22.

Jeff Bell:

Jacob, it's Jeff. I think the only other thing I would say is particularly with Nuclear and Infra Services, they are a bit lumpy. Things like refurbishment contracts tend to be in the backlog all at once and then work their way down as you do those units over the next couple of years. Similarly on O&M, they tend to be often large contracts that come in.



So, as Ian said, although we've seen some decrease there, it's not something that we worry about. We think of it as well positioned for the future.

Jacob Bout:

Okay. Then the other thing I wanted to ask about was the engineering Net Zero. Can you quantify just how big of an opportunity you think this is, and maybe order of magnitude how big were the Government Property Agency and the Whitetail Clean Energy ones?

Ian Edwards:

Obviously a difficult question because it's almost as if some clients going forward, the differentiation of being able to apply our traditional design or consultancy services in a way that assists them to reach Net Zero is almost like the differentiation in the winning edge to get those projects. And in addition to that, like the Government Property Agency project, that's a project in itself so it's obviously a new revenue stream. I think the market is changing so rapidly, as we're all seeing significant change in every field with respect to ESG and achievement of Net Zero, I think it's quite difficult at the moment for us to quantify the size of the market. We'll keep kind of monitoring that and observing that, and when we perhaps see a better handle on the short to medium term then perhaps we could share that, but right now it's evolving and we're trying to position ourselves clearly in the best place to win.

On the specific question around the Government Property Agency contract, I mean it's one of those projects that you get in a partnership at the beginning and a consultancy arrangement, and then we model that and we model what's necessary, and then we grow with it. I can't give you a specific kind of revenue number on that just right now.

Jacob Bout:

That's my two. Thank you.

Ian Edwards:

Thanks.

**Operator:**

Our next question comes from Yuri Lynk of Canaccord Genuity. Please go ahead.

Yuri Lynk:

Good morning everyone.

Ian Edwards:

Good morning.

Jeff Bell:

Good morning.

Yuri Lynk:

Good morning. I wanted to follow-up on the Whitetail Clean Energy project. It's very interesting in the context of the energy crisis in Europe and the U.K. How many of these type of opportunities are out there? Your role with them, I mean with Whitetail you're owners engineer. Is that the strategy going forward? Is there not more value in supplying more technical expertise rather than overseeing the project for the client? Any colour on that would be helpful.

Ian Edwards:

Yes, okay. Good question.

Let me answer the Whitetail part first. We have a role supporting the owner. We are in there supporting him with design and we're in there with oversight of construction of the facility. Traditionally that's what business we've been in into in the U.K. from legacy Atkins.

What we are looking at across our three core geographies—the U.K., Canada and U.S.—is going beyond those traditional kind of consultancy and design services to actually do more and actually in the



execution of the project, but only if the contracting model is on a reimbursable basis or a risk profile that's not LSTK.

So, in this particular case, the construction would not be something that we would want to get involved with because it's more likely to be an LSTK and we're very, very clear that we're not going to do that.

However, there is opportunity in all of these kind of projects where investment is high for clean energy projects, as you know, so we're seeing a very, very large increase of numerous types of low-carbon energy or electricity distribution, or indeed, decarbonization of assets. It is a very big market and where we're seeing it the most is in Europe and U.K., but I think it's definitely coming in North America.

Again, quite difficult to quantify but very, very exciting and that's why we've positioned ourselves through our Engineering Net Zero thought leadership offering.

Yuri Lynk:

Okay, that's helpful.

For my second question, just some clarity on the LSTK loss in the Infrastructure segment. The MD&A refers to the COVID impacts, which we've talked about, but it also talks about cost associated with close-out of certain projects. I thought there was only three projects in that portfolio, so what are you referring to there exactly?

Jeff Bell:

It's Jeff. Why don't I take that? There are only three main projects. There are kind of a handful of sort of small ones that have closed or are in the process of closing that we have a bit of sort of trailing final account settlement on them, so it refers to those that we've closed out. I wouldn't classify them as significant but it was a part of the results in Q3 so we wanted to say that.

Yuri Lynk:



Okay. Are there many more of these tiny ones?

Jeff Bell:

No, no.

Yuri Lynk:

Okay. Thanks, guys. I'll turn it over.

Ian Edwards:

Thank you.

Operator:

Our next question comes from Mark Neville with Scotiabank. Please go ahead.

Mark Neville:

Hey, good morning, guys.

Ian Edwards:

Good morning. Hi, Mark.

Jeff Bell:

Good morning.

Mark Neville:

Maybe just to follow-up on, I think it was Chris' questions. Just on I guess supply chain inflationary pressures. Is there anything sort of written in the contracts—I guess I'm thinking for the LSTK—that would protect you there? Again, I'm thinking labour, material inflation in terms of recoveries there? And I guess a similar type question, is there any sort of protection or a risk in your Engineering Services business with these inflationary pressures?

**Ian Edwards:**

The short answer is yes but it's not kind of explicit. I mean, if you take the case which is public, the challenge that we made in Ontario, which was public, it was around it was an emergency enacted in the Province and I think it came down with us that it was and the consequence of that emergency, we believe, are recoverable through the contract. One of the consequences is not just the delay and disruption that were talked about from productivity loss. One of the consequences of the pandemic, we also believe, is inflation. Labour shortages, inflation associated with those labour shortages and supply chain disruption. So, all of those are things that we believe and that we will pursue to get recovery from, but there's two people in this—in this kind of dispute, if you like, there are two people, the client and ourselves, and we've got to work that out together, either through negotiation or the dispute resolution process. And these type of things, unfortunately, it takes time, and we have to recognize that most of our clients are government or government sponsored organizations and they've got to be very, very clear that the settlements that they're making are the right settlements.

It's a bit complex and I can understand the continued level of questions around it. I think all I can say is we think we've got entitlement and we're going to work hard to make sure we recover it.

Jeff Bell:

I think as a second part of the question I'd add to that is outside of LSTK, I think you were asking what does that look like? Broadly in the Engineering Services businesses, it's mostly a time and materials type business, so those inflationary costs tend to work their way through from a time and materials perspective because the contract lengths themselves are not very long. We don't see a huge issue there and particularly as you get into the O&M part of the business where you're signing very long-term contracts, they all tend to have an inflationary clause in there about them. So, as Ian says, it's really in the LSTK area that it requires the most management.

Ian Edwards:

Absolutely. Thanks, Jeff.



Mark Neville:

But just given how significant and how quick some of these inflationary pressures have been, I guess Jeff, within Engineering Services, the backlog, there's no real concern or risk there?

Jeff Bell:

At this point we're not seeing it. I mean part of it of course is that there's not that much flow-through of materials itself in those Engineering Services business. It's mostly about labour rates and those naturally work through our rate card type process. I'm not saying there's nothing, but I think at this point we see it as broadly manageable and not a significant issue at this point.

Ian Edwards:

Yes.

Mark Neville:

Okay. Fair.

Maybe just on those recoveries, I guess is it fair to assume or to think that you'll probably need to close out these projects in order to sort of come to a final determination between yourself and the clients? Or is this something that could be resolved along the way?

Ian Edwards:

Again, I can't give a guarantee to the answer, but we are hopeful that we will settle before the close-out. I mean, this is a pretty unusual situation and we are hopeful that we will. To be clear, we're having very constructive dialogue with the clients; it's not—I think everybody wants to find a solution and move on. So, yes, we do remain hopeful. It's different on each job, of course, as well, but on the whole, yes, we do.

Mark Neville:



Okay. Maybe if I can ask one last question then? Just on the cash conversion within Engineering Services looked a little lighter this quarter than recent quarters. I don't know if there's anything worth mentioning in there, or just timing? Just curious your thoughts there. Thanks for the time.

Jeff Bell:

No, I would agree with that. The main driver of that, of course, is in the use of working capital, which you would have seen on that one slide where we go from Engineering Services EBIT to EBITDA less changes in working capital, so that drag on the working capital really has a couple of elements to it. One is within EDPM. As we've signalled before, some of the deferred payment items from last year like U.K. VAT payment, those payments are now due. They give kind of a 6- to 12-month extension, so we're seeing that come through. And we're seeing the natural unwind of some of the more prompt payment codes and payment practices that different geographies had implemented.

The second is we've been working down some advance payments we had seen that were atypically large towards the end of last year in our Linxon business as we actually complete the scope of work there.

That's the reason why we're just seeing a bit of that here in the back end of the year as a drag on that cash flow conversion, but generally as that normalizes out over the next few quarters, wouldn't expect that in and of itself to continue.

Mark Neville:

Okay. Thanks for the time, guys. Appreciate it.

Jeff Bell:

You're welcome.

Ian Edwards:

Thank you.

**Operator:**

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

Devin Dodge:

Thanks. Good morning, guys.

Ian Edwards:

Good morning.

Devin Dodge:

Just a couple of questions on EDPM. We noticed that some of your European based engineering and design peers, they've been calling out that utilization levels have been a bit under pressure. I think they're calling out elevated inflation—sorry, elevated vacation times amongst their employees and a slower ramp up on some larger projects. Just wondering if you're seeing similar trends in your business, and if so, do you expect this headwind to maybe linger around for the next quarter or two?

Ian Edwards:

Okay, yes. Thanks for the question.

Not really, I think is the short answer. Our business is primarily in the U.K., so the majority of our people are in the U.K. We do have a business in northern Europe, in Scandinavia. I think, interestingly, for ourselves, as you can see through some of the wins that we've managed to achieve through the year, we're into some fairly new kind of areas of business in this digital offering and this Net Zero offering. I mean, the last project to model the utilities, the underground utilities in the U.K. is a great win. We've been able to keep our business on a very positive footing in winning work and keeping revenues up.



We're not seeing a lowering of utilization. I think we all have to be mindful, probably more, about making sure we've got the talent to execute the growth that we need, which again, we have and we've been able to navigate the market to do that.

Not the same for us, I would say. I don't know if that comment comes more from the European side of their businesses, but ours is quite small.

Devin Dodge:

Okay. Okay, that's good colour. Thanks for that, Ian.

Maybe a quick question for Jeff. The MD&A mentioned a favourable arbitration settlement from a completed project in the Middle East in the EDPM segment. Can you give a sense for how meaningful that was?

Jeff Bell:

Yes. It was in the Middle East. It was as contract that was completed a few years ago that we've been in arbitration and settlement with. I'd kind of have that in the sort of low kind of \$10 million to \$20 million range type of area. I would say at the same time we saw a few additional kind of risk provisions around all of that.

I think what I'd leave you with is that we think the underlying operating performance or the performance we saw from EDPM in the quarter was representative of its underlying operating strength. There were some puts and takes that I'd call one-off in nature, but they largely netted themselves out, including the arbitration settlement.

Devin Dodge:

Okay. Okay. Maybe just to sneak in one last one here, just can you—just looking at the LSTK backlog for the last Resources project, it feels like the burn-off of that backlog has been more gradual than we would have expected. Just any colour there on what's driving that kind of (cross-talking 52:06).

**Ian Edwards:**

That's a fair observation. The job is, it's in its final stages. We're 90 percent complete, but it has shifted because of COVID. I mean Oman, in the Middle East, it did suffer quite a bit during the course of this year, but we're really close to the end now. It's about commissioning and hand-over to the client. We think we're in pretty good shape on that job. We're not concerned. We've reported prudently in the past and we think we're getting to the end of that and put it behind us.

Devin Dodge:

Okay, thanks. I'll turn it over.

Ian Edwards:

Thank you.

Jeff Bell:

Thanks, Devin.

Operator:

Our next question comes from Jean-Francois Lavoie of Desjardins Capital Markets. Please go ahead.

Jean-François Lavoie:

Thanks for taking my questions. I just wanted to come back on Corporate costs for a minute. Given the phase-out of the digital initiatives you are seeing right now, I was just wondering if we should see a decline in the Corporate costs in 2022 or it will be still about \$100 million for the year?

Jeff Bell:

Yes, we said at Investor Day that over the 2022 to 2024 period we would expect about \$100 million. Now, that may have a bit of variability in it, but I think certainly in the near term, particularly on digital, it is an area that we think we have some really core capability in it. We've been developing what we think



is some really industry-leading IP around with all of that, and we do hold some of that at a Group level because we think it's important that it has group visibility and the ability to drive and make sure we're getting the return from that that we want.

While it does flex a little bit in here, as we've seen in the current quarter, I think we would continue to see that, certainly going out through 2022 and beyond for a bit. I think that's be how I'd be holding that.

Jean-François Lavoie:

Okay. Okay. Then, you mentioned on the SG&A front, I was just wondering, Jeff, if there would be an opportunity to smooth this line over, let's say four quarters, to avoid the volatility that we are seeing since the beginning of 2021.

Jeff Bell:

Yes, I think clearly we look to drive it in that way. What we've simply seen over the course of the year is just the unwind of some provisions related to historical accounts. As we've seen this year, a bit of in-year phasing differential in terms of our digital spend or some quite valid increased costs on insurance premiums, while at the same time as part of our cost transformation initiative we've been driving down some of the underlying functional costs that are in there and seeing good progress.

So, I couldn't agree more, but there are some variable factors in there that do tend to move it around a bit quarter-by-quarter.

Jean-François Lavoie:

Okay. Thanks for the colour.

Shifting gears to EDPM, the organic growth was strong in the quarter. I was just wondering if it would be possible to carve out the performance of the U.S. business, just so that we can appreciate how the organic expansion in the country is progressing.

**Jeff Bell:**

I think we're continuing to see good performance from the U.S. business. I think one of the things we're seeing is a lot of good progress on master frameworks, master service agreement. Some of that is taking a little longer to turn into actual revenue. So, we saw a bit of a headwind on that in Q3, but we think the business is really well set up, both for Q4 but particularly going into 2022. And as we move into 2022, I think there will be more opportunity for us to, in our new organization, structural and reporting segments to give a bit more visibility on that as well.

Jean-François Lavoie:

Okay, great. One last for me. On the Nuclear front, you mentioned that the pipeline of future projects was looking good. (Inaudible - 56:51) expect some awards (inaudible).

Ian Edwards:

We're losing you a little bit then, but I think the question was around when is the awards going to come through from the pipeline that we see ahead.

Jean-François Lavoie:

Yes, exactly.

Ian Edwards:

I think that's a fair question. There's some large contracts which are out there that we're currently bidding and negotiating in the U.S. for the Department of Energy, but also in Canada, for power operators in Canada that we would hope that we will secure during the course of 2022.

But what I would also say is there's a lot of book and burn business here as well from a services perspective that gives us a good, steady flow of revenues through the business which are not large. You know, which are just kind of engineering and consultancy and technical services kind of mandates. But you should see something certainly in '22.



Jean-François Lavoie:

Great. Thanks for the time.

Operator:

Our next question comes from Frederic Bastien of Raymond James. Please go ahead.

Frederic Bastien:

Thank you. Guys, I know you can't speak to the Highway 407 board's decision to reinstate the dividend earlier this week, but do you have any comment on the magnitude of the dividend that was declared? It stood out as a big positive to me, given the implications on your cash flows heading into next year. I was just wondering what your thoughts were there.

Jeff Bell:

It's Jeff. Maybe why don't I take that one?

I mean, you wouldn't be surprised that my answer is no, I don't think we really are in a position to comment more directly than obviously what the 407 board or management team has. I think what I would say—and you heard this in Ian's remarks—we, like the other owners, are pleased to see the increase this quarter from this time last year. It was up about 24%, 25%. I think we're clearly seeing continued improvement in traffic as restrictions in Ontario are lifted as vaccination rates have climbed to the level they are, and we remain—I think cautiously optimistic was the term—that we would continue to see improved traffic flows. I think our view is, is that it's really the extent of the dividend level going forward is really going to be tied to the 407's experience of traffic levels and the progress they're seeing in terms of returning to more normalized patterns. But I think it's hard for us to comment otherwise is where I'd probably leave that.

Frederic Bastien:

That's fair. Yes, that's fair.



Now, next one. You announced a couple of project wins in Texas this past month. Can we read anything into that? Is it reflective of the momentum you're currently enjoying in the state? Market share gains? Any comment you could provide there?

Ian Edwards:

Yes. I mean, I think you can read into it that where we've got established businesses, which is some of the southern states, Texas, Florida, we have a very, very good track record and are very capable of winning really good programs and projects. The expansion that we want in the U.S. is all about replicating that in other states. I think if you picture the slide that we put in the Investor Day where we show where we currently are, where we've actually already established new presence and that white space that we're intending to establish our presence, wins such as the ones recently in Texas really give us that confidence that we can start connecting together across the U.S. the capabilities that we've got. It's a combination of capability that is local, which is client-facing and builds those relationships, but also brings in our global capability and applies that directly to the client and at the geography that it's needed.

For me, it's a good sign of our strategy going forward.

Frederic Bastien:

Great. All right, thank you both.

Ian Edwards:

Thank you.

Operator:

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

Maxim Sytchev:

Hi, good morning, gentlemen.



Ian Edwards:

Good morning. Good morning, Max.

Maxim Sytchev:

Jeff, maybe the question for you, just on the—I think you mentioned restructuring in Nuclear. Do you mind maybe talking about specifically what area was impacted and how we should be thinking about the payback and sort of the margin profile on a going forward basis, if it's possible?

Jeff Bell:

Sorry, Max. I was on mute there on my phone.

What I was going to say, Max, was if I said restructuring in Nuclear I may have misspoken. That wouldn't have been my intent. I think what I was referring to was restructuring in the transformation program we have across the Group in terms of realigning to the go-forward business. A lot of that obviously focuses on functional cost and we're making good progress on those functional costs. What I was trying to indicate, I think, related to one of the previous questions was in our Corporate costs we are seeing good underlying cost improvement in terms of the functional cost of those that sit in Corporate, but we're seeing that also, and to a larger extent, across the rest of the businesses themselves. I'm pleased with that progress so far to date.

Maxim Sytchev:

Right. Just in terms of going forward restructuring, should we still expect some costs incurred on that line item?

Jeff Bell:

Yes, I think you would. 2021 has been a significant year for us on that front, particularly with the disposal of the Oil & Gas business and what that's allowed us to do and continuing to push that agenda forward. We would certainly see 2022 as another core year of that transformation program. I think after



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that, we'll never—as an organization looking to always optimize our cost base, there will always be an ongoing element, but I think we will have felt we've dealt with the large elements by the end of next year and then it's more, not completely but gets more towards a steady state of just continuous improvement in 2023 and beyond.

Maxim Sytchev:

Okay, fair enough. Thank you.

Then, Ian, if I may, just as we think about the U.S. and obviously hopefully some sort of infrastructure bill resolution, I guess a two-part question. The first one is just in terms of your anticipated growth profile in that geography if we do have a positive outcome from the bill. Then maybe, you talk about the electrification opportunity for Linxon. Have you guys quantified it in terms of, again, how much growth that could be driving? Thanks. That's it for me.

Ian Edwards:

Obviously when we've done all of our planning and market analysis across all the core geographies and with our capabilities, we saw four things rise to the surface which really drive growth beyond GDP growth. The U.S. was one of them.

If you think about what we've set out there is 4% to 6%. The rest of the business kind of growing at GDP. Then there are obviously—those four things are going to have to grow further than that. And absolutely, the U.S. is a very significant portion of that.

I mean specifically, what we've seen is there's a lot of pent-up demand in the U.S. from certainly some restrictions on cash flows going into the states during the pandemic, but what they continue to do is award master framework agreements and award projects, award—and as soon as this bill has kind of passed and we see the money flowing through to the states, we will see a pretty, pretty buoyant outlook. I mean, there's a general consensus across the U.S. that was reached in a recent conference



where general organic growth, 7% to 9% was quoted. I don't know if that's accurate or not but I'm just relaying what we heard.

I think it's obviously for us very clear strategy, very clear plan. We think we're going to produce some good growth from that.

Linxon? We have to kind of—it's a relatively new business, three years old. It's a great business because it's a contribution of both our own capability as project management and ABB and now Hitachi manufacturing and products. We are focused on the U.S. We're focused on the U.K. Historically we've been quite strong in the Middle East. The electrification and distribution of electricity is key to Net Zero.

Have we quantified the market? The market is just so significant that it's more about how quickly do we want to grow this business and how much capability have we got to apply it? And we've taken a view in our kind of strategy and growth expectations that support the 4% to 6% at that level. In other words, I don't think the market is a constraint to growth there. I think it's the rate that we want to grow it to be sensible.

Maxim Sytchev:

Okay. Okay, that's it for me. Thank you very much.

Ian Edwards:

Thank you. Thanks, Max.

Operator:

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

Denis Jasmin:



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Thank you, everyone, to join us today. Have a nice Friday. If you have any more questions, please don't hesitate to contact me. It will be my pleasure to answer you. Have a nice Friday everyone, and a good weekend. Thank you. Bye-bye.

Ian Edwards:

Thank you.

Jeff Bell:

Thank you.

Operator:

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