



SNC Lavalin

Fourth Quarter 2021 Results

Conference Call Transcript

Date: March 3, 2021

Time: 8:30 AM ET

Speakers: **Denis Jasmin**
Vice-President, Investor Relations

Ian Edwards
President & Chief Executive Officer

Jeff Bell
Executive Vice-President and Chief Financial Officer



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Operator:

Good morning and welcome to SNC Lavalin's Fourth Quarter 2021 Results 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 (phonetic 0:00:39).

Good morning, everyone. Thank you for joining the call.

Our Q4 earnings announcement was released this morning, and we have posted a corresponding slide presentation on the Investor 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.



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Also, during the call, we may refer to certain non-IFRS measures and ratios. These measures and ratios are defined, calculated, and reconciled with comparable IFRS measures in our MD&A, which can be found on SEDAR and 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.

Let's start on Slide 4. 2021 was a milestone year for SNC Lavalin as we executed on our strategy and delivered on our plan and targets with a strong underlying performance from our core SNCL Engineering Services business. Through dedicated focus and strong execution, our global team delivered on all financial metric targets in our outlook and exceeded on our cash flow generation. We announced and clearly articulated our Pivoting to Growth Strategy at our Investor Day in 2021, a roadmap for delivering long-term shareholder value creation.

We continued to take a series of strategic actions towards focusing on the strengths of our core business going forward, including its unique end-to-end services, decarbonization and sustainable solutions, long-term relationships, and strong public sector focus. Our actions have included the continuation of winding down and disposing of non-core businesses and exiting underperforming geographies while focusing on accelerating our growth in the professional services and project management space. This wind down included the successful closure on the sale of the Oil & Gas business, an important strategic milestone for the Company in our effort to de-risk the business. We also made progress toward the completion of our LSTK projects, including reaching a claim settlement on the LSTK Eglinton project. While we made progress towards completion of the LSTK projects during the fourth quarter, unfortunately we incurred a \$231 million dollars loss, which I will cover in details later



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in my remarks. On the sustainability front, we announced our Net Zero Carbon by 2030 roadmap, identified primary ESG objectives, notably in diversity, equality, and inclusion. We joined the UN Framework Convention on Climate Change's Race to Zero global campaign. All in all, it was a year of significant momentum and achievement.

Turning to Slide 5. We highlighted our Pivoting to Growth Strategy at our Investor Day in September, outlining the three key pillars to growth: geographic footprint, executing our capabilities, and accretive capital allocation to drive value creation. We have a leading presence in our core markets of Canada, U.S. and the U.K. and are focused on seven specific customer end markets. Core to our strategy is the strong growth in backlog for EDPM, which grew 15% between the end of June 2019 and the year end 2020 to \$3.1 billion. We are focused on deploying our global capabilities locally to our clients, leveraging our end-to-end services in Engineering Net Zero expertise. We are consistently capturing market share and growing relationships with our robust client base. Part of our core strategy is de-risking the portfolio through the winding down of our LSTK projects. We have made significant progress as we ended 2021 with a \$1.2 billion backlog, a 65% reduction versus the end of June 2019. With the forecast completion of the majority of the remaining LSTK projects in the next year, we have greater visibility into the remaining future additional potential financial risks, and I will discuss these in much greater detail in a few minutes.

Turning to Slide 6, I'll now walk you through the Q4 highlights and the 2022 outlook for Engineering Services and SNCL Projects. Engineering Services continued to deliver solid results in the fourth quarter '21, leveraging the depth and breadth of our services, the capabilities of our teams, and the long-standing relationships with our client base. Revenues were up 9.7% over Q4 last year to \$1.7 billion. Excluding the impacts of foreign currency, we achieved robust organic growth of 11.9%. Segment Adjusted EBIT of \$237 million was 55% higher year-over-year and represented 14.2% margin. But note that growth in this quarter was aided by a favourable outcome of \$93 million from a confirmed arbitration decision related to unpaid additional services performed on a completed contract in EDPM.



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The Engineering Services backlog remained strong at \$10.9 billion. Our LSTK backlog decreased by \$671 million year-over-year to just over \$1 billion, and we have clear visibility to the conclusion of these projects over the next several quarters. During the fourth quarter, we incurred additional losses on these projects, primarily due to unfavourable cost re-forecasts driven by COVID-19 impacts, supply chain disruptions, and inflation. In 2022, we anticipate continued progress on our journey to align the Company on key growth trends such as climate change and net zero, government funded infrastructure programs, and digital innovation. Our value proposition in this arena remains compelling and we anticipate SNCL services organic revenue growth between 4% and 6% to be well within our reach, with Adjusted EBIT to segment revenue ratio of 8% to 10% and deliver positive net cash generated from operating activities.

Next, I'd like to move to our business lines, starting with Slide 7 and the results for EDPM. EDPM revenues surpassed \$1 billion this past quarter, the first such instance in our history, and was up 15.2% compared to the fourth quarter in 2020 based on organic revenue growth. The increase was primarily driven by continued strong growth in the U.K. transportation and water defence markets and includes the \$93 million favourable outcome arbitration decision referenced earlier. Segment Adjusted EBIT of \$179 million increased more than 100%, resulting in a 16.9% EBIT margin. Excluding the \$93 million, the EBIT was consistent with a strong quarter in 2021, while full year EBIT grew 12%.

Our backlog grew a robust 10% to \$3.1 billion, representing a full year book to bill ratio of 1.07, this supporting our growth expectations. Growth was driven by major wins across all core geographies in Canada, the U.K., and the U.S., such as our five-year contract to perform engineering and technical services to FEMA's national flood insurance program, our five-year agreement with Network Rail in the U.K. and Ireland's motorway and dual carriage network. We also continued to utilize our development in the digital landscape, which is core differentiator in our suite of offerings. We focused on providing our engineering expertise through digital and program management capabilities that we anticipate will continue to expand throughout '22 and beyond. Our pipeline of opportunities in '22 remains robust, and our strong backlog provides good visibility in supporting our favourable outlook for the year as well as for our longer-term financial targets.



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You can see on Slide 8 some of our recent wins that demonstrate our journey to delivering Engineering Net Zero. We've recently won two projects in the built environment: in the green area of hydrogen, and in the transmission and distribution consultancy services. While our expertise in carbon is sustainably, is broad and deep, we continue further development across the organization with a target to provide training to everyone. A thousand employees have been trained in the last quarter. We've also refreshed our approach to the Whole Life Carbon Management, a global community of practitioners and specialists which has been brought together to support the most strategic programs and projects. We have committed our future to delivering Engineering Net Zero, and these projects and our continuous investment in people and capabilities demonstrate that SNC Lavalin is at the forefront of carbon neutral design and delivery.

Turning to Slide 9. our Nuclear segment Q4 revenues decreased by 9% based on our organic revenue growth and were down approximately 1% for the full year. Segment Adjusted EBIT of \$35 million was driven by a higher profit contribution from our Canadian projects. Despite the lower revenue base, we successfully drove EBIT margin to 15.8%, representing approximately 100 basis points of improvement. Backlog sequentially increased in Q4, with contract extensions from Bruce Power and Cernavoda as well as additional field services with the U.S. Department of Energy. A flourishing global agenda focused on carbon net zero provides us with a promising pipeline, leaving us well positioned to capture additional potential work, should it emerge. Driving our performance and confidence for continued success in this arena is our proprietary suite of software and licensing rights for the nuclear reactor designs and operational support licenses.

Moving to Slide 10 and Infrastructure Services. The segment had another solid quarter, with revenues of \$387 million representing growth of 18.1% compared to the fourth quarter 2020, again based on organic revenue growth. Segment Adjusted EBIT of \$23 million was slightly lower, resulting in reduced EBIT margin of 6%. This segment ended the year with a backlog approximating to \$7 billion, in line with the backlog as of the year end of 2020. We continue to see opportunities with a record number of bids submitted in the fourth quarter by Linxon, decarbonization trends to support our work in renewables, such as wind, solar and hydro, for which we see numerous Infrastructure Services opportunities over the next several years.



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Turning to Slide 11 and Capital, fourth quarter revenues grew by more than 188% to \$65 million, including \$41 million of dividends received from Highway 407. The traffic pattern trends on Highway 407 are rebounding, and recent statistics are encouraging. We continue to execute on our strategy of releasing value in the portfolio where opportunities arise, with recent transactions on John Hart and the McGill University Hospital being good examples of this.

Moving to Slide 12, I'd like to provide more colour as to how the external environment continues to impact our remaining LSTK contracts, and how we are responding to this. There are three substantial headwinds that are impacting our cost to complete estimates on these projects: the COVID-19 pandemic, supply chain disruptions, and inflation. Productivity impacts due to COVID-19 increased significantly with the Omicron variant, resulting in absenteeism levels as high as 50% at times. This impacted the productivity on the LSTK projects, resulting in additional costs and project completion delays. Furthermore, supply chain disruptions have created equipment delivery delays while inflation and materials, equipment delays, and trade costs led to increases as much as 10% to 20%. These factors have had a significant impact on the estimated cost to complete the projects.

You may recall in the fourth quarter of 2020 we recorded losses on these projects of approximately \$90 million, and these were based on assumptions that included COVID-19 impact. With that subsiding in Q2 2021 and with vaccine roll out, the supply chain would remain relatively stable, and inflation would continue in the range of low single digits. Subsequent estimate revisions resulted in additional losses through the three quarters of '21. Now, given our experience to date, along with our revised expectations for the timing of a return to normal operations, in Q4 we developed new estimates for the cost to complete the remaining LSTK projects.

This has resulted in the recording of additional losses in the fourth quarter totaling \$231 million. These losses reflect our current estimates of the future expected cost necessary to fully complete the last remaining LSTK projects, and with a significant majority of these costs being related to post 2021 to project completion. These estimates reflect our current assessment of the environment as well as management and project site experiences from the last two years of the pandemic. We also continue to



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have discussions with our customers regarding certain recoveries, which we believe we are entitled to receive.

Moving to Slide 13, we illustrate some of the unprecedented factors that we've been managing as we work to complete these projects. As you can see from the chart on the left as an example, how many workers were absent from work on one of our project sites during the last pandemic wave compared to the previous wave, leading to absenteeism of almost 50% at times on certain projects. You can also see from the chart on the right that we've gone from low single-digit inflation in the building and construction indices across Canada to 11.2%, with the composite index up to 17.2% in the Ottawa and Gatineau market. These events caused significant productivity losses, delay, and cost increases.

Now, on to Slide 14. I want to be perfectly clear that the LSTK charges we've booked in Q4 reflect our best estimate of the cost to complete for these projects. I think it's important to point out that the issues that caused us to record these additional losses are mainly the result of macro factors that will lead to higher costs to conclude the remaining projects. Our execution remains strong and we are effectively managing the variables within our control. We expect two of the three remaining Canadian LRT projects to be concluded over the next year, and physical work is expected to be complete by the end of '22. This provides us with greater clarity for our forecast to complete. In fact, the projects engineering and design is essentially complete, which provides more certainty on material quantities. The trains are running on a test basis on all three LRT infrastructure projects.

On this slide, we've detailed the assumptions used to develop our estimate, informed by what we know today. We firmly believe our estimates to be accurate as of today. However, we've performed a downside risk analysis in the event that the assumptions that we've made change and potentially impact our cost to complete these projects. With the forecasted completion of the majority of the remaining LSTK projects in the next year, and the greater visibility that provides, we believe that the remaining potential for future additional financial risk, if any, to complete these projects should not exceed \$300 million. Again, we believe our current estimates to be accurate and present this analysis to help size any future risk.



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Meanwhile, we continue our strong execution winding down these legacy projects, and anticipate their conclusion as we focus on our core engineering business and our Pivoting to Growth Strategy. As I mentioned earlier, we continue to aggressively pursue all potential recoveries, which will take some time to work through the process.

Turning to Slide 16 on the Resources segment, our fourth quarter revenue was negatively impacted by commissioning challenges, COVID-19, supply chain headwinds, and inflationary pressures on our last remaining Resources LSTK project. However, our mining services business continued to show growth in Q4 and is winning new work successfully and building backlog.

With that, I'll turn over to Jeff to discuss the financial highlights.

Jeff Bell:

Thank you, Ian, and good morning, everyone.

Turning to Slide 18, total revenues for the quarter increased by 15% to \$1.9 billion compared to Q4 2020. The SNCL Engineering Services revenue totaled \$1.7 billion compared to \$1.5 billion in Q4 2020 with year-on-year growth driven by EDPM and Infrastructure Services, while SNCL Projects revenue totaled \$209 million compared to \$152 million in Q4 2020.

Total segment Adjusted EBIT for the quarter was \$67 million, which was comprised of \$237 million for SNCL Engineering Services, \$61 million for Capital, and negative \$231 million for SNCL Projects. As Ian mentioned, the SNCL Engineering Services EBIT included a \$93 million favourable outcome from an arbitration settlement, while SNCL Projects included unfavourable cost reforecasts on the remaining LSTK projects.

The IFRS net loss from continuing operations was \$15 million for the quarter, which was composed of a loss of \$68 million from PS&PM and a profit of \$53 million from Capital. The adjusted net loss from PS&PM was \$26 million, or \$0.15 per diluted share compared to a net loss of \$1.53 per diluted share in



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Q4 2020. This improvement was mainly due to a lower loss in SNCL Projects and higher EBIT in SNCL Engineering Services.

Backlog ended the quarter at \$12.6 billion compared to \$13.2 billion at the end of Q4 2020, primarily due to the continued run off of the LSTK construction contracts backlog. SNCL Engineering Services backlog totaled \$10.9 billion at the end of the year, driven by a nearly 10% increase year-over-year in the EDPM segment. The Nuclear and Infrastructure Services backlogs remained solid at \$835 million and \$7 billion, respectively.

From a full year perspective, Slide 19 shows total revenues for the year increased by 5% to \$7.4 billion compared to 2020. SNCL Engineering Services revenue totaled \$6.2 billion, 3.3% higher than 2020 and in line with our most recent outlook. Excluding the impacts of foreign currency, SNCL Engineering Services achieved an organic revenue growth of 5.5% driven by growth in EDPM and Infrastructure Services.

Total segment Adjusted EBIT for the year was \$489 million, which was comprised of \$660 million for the SNCL Engineering Services, \$119 million for Capital, and negative \$290 million for SNCL Projects.

Corporate SG&A expenses from PS&PM was \$117 million, slightly higher than we expected, as the decrease in corporate function expenses was more than offset by higher insurance provisions and transition services costs related to the disposed Oil & Gas business. We expect 2022 corporate SG&A to be about \$100 million for PS&PM. Capital had \$28 million of corporate SG&A, in line with last year, and we expect a similar level of expenses for 2022. Note that in 2022 we also expect between \$35 million and \$45 million of restructuring and transformation costs, a reduction from the \$70 million in 2021, as restructuring activities begin to wind down.

IFRS net income from continuing operations was \$100 million for the year, which was composed of \$27 million from PS&PM and \$73 million from Capital. The discontinued operations net income amounted to \$566 million as a result of a net gain on the disposal of our Oil & Gas business. The adjusted net income from PS&PM was \$152 million, or \$0.87 per diluted share, representing a significant



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improvement compared with Q4 2020. This improvement was mainly due to lower losses from the resources and infrastructure EPC project segment combined with a higher contribution from the EDPM segment.

If we now turn to Slide 20, our days sales outstanding continued to improve, reaching 53 days at the end of the quarter for EDPM, an 11-day improvement as compared to Q4 2020. This improvement was mainly a result of our continued efforts on cash collection and early government payment programs, particularly in the U.K., related to COVID-19.

At the end of December 2021, the Company had \$608 million in cash and the Company's net limited recourse and recourse debt to Adjusted EBITDA ratio was 1.7 times, already within the 2024 target range of 1.5 to 2 times.

If we now move on to Slide 21 and cash flow, net cash generated from operating activities was \$115 million in the fourth quarter. On a full year basis, we have generated \$134 million, better than the Company's outlook of broadly breakeven, mainly due to a good conversion rate of EBIT to operating cash flow in SNCL Engineering Services. SNCL Engineering Services continued to generate strong cash flow from operations with \$544 million for the year, while Capital generated \$100 million. After cash taxes, interest, and corporate items, you can see that we generated \$362 million of operating cash flow for the full year. As expected, SNCL Projects had an operating cash flow usage which totaled \$266 million, mainly due to the LSTK losses in the Q4 results and working capital requirements, while discontinued operations generated \$38 million.

For the full year 2022, we expect the Company's operating cash flow to be in the range of zero to \$100 million, as we expect that operating cash flows related to the LSTK construction contracts, including the losses taken in Q4, should be more than offset by SNCL services and Capital operating cash flows.

Note that we also expect between \$80 million and \$100 million of acquisition of property and equipment in 2022.



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Finally, turning to Slide 22 for our 2022 outlook. As Ian indicated and in line with our 2022 to 2024 financial targets presented during our latest Investor Day, in 2022 we expect SNCL Engineering Services revenue to grow between 4% and 6% with a segment Adjusted EBIT margin in the range of 8% to 10%. We also expect our Engineering Services segment, which is mainly composed of our formally EDPM segment, to deliver a segment Adjusted EBIT to segment net revenue ratio between 14% and 16%.

Let me also remind you that starting in Q1 2022 we will present our segmented information based on the new structure presented at our Investor Day in September. To help with your financial modeling, you will find in the Appendix of this presentation the 2021 restated segmented numbers by quarter on this new basis.

This concludes my presentation and I'll now hand back to Ian.

Ian Edwards:

Thanks, Jeff.

Turning to Slide 24 I'd like to conclude my remarks with a few key takeaways. First, we're proud of the work of the SNC Lavalin colleagues as we execute on our strategic transition to future growth. That process is ongoing, and we will continue and require steadfast dedication by our team to achieve the ambitious goals we've set. Our core business is executing well and delivering strong financial performance. We have a solid backlog, a strong pipeline of new market business opportunities, positioning us well across our core markets, fueled by governments investing in new infrastructure and sustainability initiatives. We remain focused on executing our Pivoting to Growth Strategy and optimizing our delivery of sustained revenue and free cash flow generation.

In 2022, we have two primary focuses to drive growth: accelerating growth in Engineering Net Zero through the rich capabilities we've developed as a sustainability solutions company, and executing the de-risking of the business through further progress in rolling off the LSTK backlog. Finally, we remain laser focused on our ESG initiatives and achieving the targets we outlined in our three- to five-year



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strategy. We believe we can achieve our carbon net zero emissions by 2030 and we will continue to invest in people to create a first-class workplace culture focused on the development, health and safety of our employees, without whom our strategic goals would not be attainable.

With all that, I thank you and we'll 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 Jacob Bout of CIBC. Please go ahead.

Jacob Bout:

Good morning.

Ian Edwards:

Good morning.

Jacob Bout:

I wanted to start off with the \$230 million in cost reforecast in the quarter. How is that weighted among the remaining LSTK projects? Because if I look at Slide 14, is the read here that given that Trillium and Eglinton is a little further along, is more of this weighted towards them, or?

Ian Edwards:

Yes. Yes, it's a good question. I mean, and the impacts are really across all of the remaining LSTK that we've got. Now, having said that, clearly if you look at the four LSTK projects we've got, the first in the Middle East is complete and is in commissioning. Very, very much at the end of the process. Second, two of them, Trillium and Eglinton, are expected to be complete this year, 2022, with physical work. Now, what that means is that the construction activities will be complete in 2022, and the



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commissioning activities, certainly for Trillium, will roll on into '23, but actually the Eglinton will go into operation this year. Then REM obviously, it's the latter part of all of the backlog in the graphs that you see as the backlog comes down. You can also see that backlog is really diminished through the latter part of this.

With the different impacts that we've reforecast—and I would also stress that the reforecasting that has taken in the COVID, the supply chain and the inflation is an end forecast cost. Those forecasts are actually assessing what the new completion dates are and what the new costs are to complete the projects. It's very difficult to give you a precise answer without going into several layers of detail as to how each one of those components has affected each job. Really, I mean, other than kind of saying that the assessment has been done in a great amount of detail, I'm not really sure I can break it down further than that for you.

Jacob Bout:

Okay. Maybe a follow-up here, just on any recourse that you may have on some of the reforecasted numbers. Say, you know, you've given three main impacts: the COVID-19, supply chain, inflation. As we think about possible compensation going forward, what part of it should we be looking at? Is it primarily COVID? And then how much of that if you break it down into the buckets for that future potential risk of \$300 million, how much would be Omicron versus supply chain versus inflation?

Ian Edwards:

I think I probably need to walk through. I mean, maybe the best way of dealing with this, because I recognize there's going to be numerous questions with respect to both the loss in Q4 and also the assessment of risk going forward. Maybe if you just give me a little bit of time, everybody. Let me just walk through how we think about these two things, and how we think about the effect, and also how we think about our entitlement for recovery. It's going to be a long answer, but I think it's probably beneficial to future questions that want to pick off specific parts of this. I recognize the need for clarity.

If you take the \$230 million loss, which is end forecasted loss, which we've reforecasted based on a change of events that we've seen in Q4—and those change of events are obviously COVID, supply



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chain disruption, and inflation. COVID, as we've said for the last two years, has had a productivity loss of 15% to 25%. What's different, I think, with the Omicron variant is that we were seeing absenteeism up to 50% on some of the jobs. We had a very significant spike in productivity loss. In actual fact, I was on both jobs, Eglinton and Trillium, recently to see and feel just how impactful productivity loss has been, and when you think about these jobs at the end of their stages, with social distance requirements that restricts the number of people you can put on the job, with absenteeism, it obviously means we're struggling to get labour on the job.

Supply chain has also disrupted these jobs reasonably significantly for just unique things. For example, in Trillium, most of the stations, the concrete and steel are finished and we're waiting on glass. We can't actually enclose the station and work inside the station in winter because we're waiting on glass. That's components from China post pandemic. Then all of these things add to delay, and delay is cost. Obviously, we reforecast the cost based on the actual completion that we see now ahead of us. As you can see, inflation has been pretty significant.

Anything that we believe, anything that stems from an origin of COVID, whether it be supply chain, or even post-pandemic inflation, we would look to recover from our customers. Now clearly, these are difficult negotiations, and these are difficult disputes to resolve. We clearly have a different outlook to our customers, otherwise we would have resolved them by now. But we will continue to pursue recovery of these losses. But our way of dealing with this is to be prudent in the reporting and to look at the end forecast costs, and get it into our reported figures on a real-time basis as we see these things happening.

Let me just put that. That's the Q4 loss of \$230 million. Again, bear with me a little bit, because I want to be a bit more clear about the \$300 million risk assessment. We're acutely aware that the forecasting we did a year ago has not gone to plan. Clearly, things have changed. Macro effects have changed. That's had an effect on our reported numbers, and therefore there's the \$230 million loss. What we wanted to do here with the \$300 million is to say, well, what's the worst thing that can happen? Let's assume that the assumptions that we've made for our forecasting are wrong. And what's the worst thing that can happen if those assumptions are wrong? Again, I stress that with only a year out on two



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of the bigger jobs, in Trillium and Eglinton, our ability to get a lens on this, even if things are different, even if Omicron happens again, even if inflation spikes again, our ability to assess that risk is stronger than it's been in the past.

We're trying to be very clear here that if you take absenteeism, for example, we've assumed that things are going to return back to normal in Q2. Maybe some residual COVID impact, but we think generally things are going to get back to normal in Q2. Now, if that doesn't happen, then we've modeled a real worst-case scenario, maybe another Omicron variant, maybe sustained productivity loss, and that's what this \$300 million represents. Similarly for inflation, if we see continued spikes in inflation and increase in inflation, what's the worst-case scenario that that would lead to? That's been modeled in the \$300 million. We're really trying to give a fix here of what is the what if. What's the worst thing that can happen here, and what if those macro factors kind of get worse from our modeling for Q4?

I hope that's helpful. I know there's probably going to be follow-on questions to that.`

Jacob Bout:

No, I appreciate the colour. I'll turn it over. Thank you.

Operator:

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

Yuri Lynk:

Hi, good morning.

Ian Edwards:

Good morning, Yuri.

Yuri Lynk:

Good morning. Just on the current assumptions you're making on Slide 14, I mean, we're well into the first quarter. I mean, how is you're expecting productivity to improve in Q2? How is it tracking this



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quarter? I assume that you're seeing inflation stabilize and the disruptions alleviate themselves a little bit. But maybe any colour you can provide on...

Ian Edwards:

Yes. Yes, for sure. For sure. I think the answer is in line with our expectation from the reforecasting in Q4. I mean, clearly, we've been doing that reforecasting in absolute real time based on what we've been seeing as we've been coming out of the Omicron. I mean, absenteeism levels have fallen down. We're probably at a stage of, if you can call normal pandemic levels, but we're even coming out of that now. I mean, some restrictions round social distancing, some restrictions around hygiene and mask wearing, etc., etc. We're seeing the end to it, and that's having a positive impact. We've modeled inflation, as you've said, based on what we have seen, and certainly there was sort of exponential inflation growth in the back end of 2021, but we've seen that stabilize out a bit. Long story short, I think certainly from our forecasting that we believe we're going to produce the projects to in the Q4 results is in line with our expectation.

Yuri Lynk:

The \$300 million downside, can you just describe the cash portion of that, or how we should think about cash versus noncash?

Ian Edwards:

I'm going to let Jeff answer the majority of this question. I'm going to say this a few times. It's probably worth repeating. It is risk, you know. We're trying to model risk here, so we're trying to model a worst-case risk, but we have thought about that impact.

I'll let Jeff just respond to that.

Jeff Bell:

Yes, Yuri. As you'd imagine in the context of the drivers we talked about, the majority of that potential risk would have a cash impact. Not all of it, so probably it obviously depends on kind of relative weightings, but we would say a majority of that is cash, but not all of it.



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Yuri Lynk:

Okay. That's my two. Thanks.

Operator:

Our next question comes from Sabahat Khan of RBC Capital Markets. Please go ahead.

Sabahat Khan:

Great. Thanks, and good morning.

Just on the updates that you provide on each of the projects in terms of the remaining backlog and kind of, I guess, the timing to complete. It looks like the dollar amounts are generally in the same ballpark as the last quarter. I know Trillium, I guess, is pushed out a little bit. I guess, does the backlog go up with your views on inflation net of the work that you complete? How should we think about these numbers and the directions in movement, kind of the puts and the takes there?

Jeff Bell:

Yes. Sabahat, it's Jeff. Why don't I take that one, Ian?

What we've seen in Q4 is the fact that with the cost forecast and the cost forecast going up, that obviously impacts our percentage of completion, which drives our backlog. In essence, in Q4 we saw a relatively flat level of backlog. In reality, that's made up of the fact that we continue to make good progress in terms of delivering on the projects, but we've got higher costs and therefore a delay in terms of from a percentage of completion of continuing to work that revenue amount down.

I would also say that we do get change orders and directives from the client, where they ask us to do some additional work, either regulations have changed, or they need more of particular items, or they make slight changes to the project itself. Obviously, that leads to some additional revenue. It's the smaller portion for sure, but that contributes to it as well.



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I think what I would say is that the profile of the remaining backlog that we've put out in the results today, that shows it continuing to strongly decrease over 2022, such that by the end of 2022, in line with Ian's comments about being largely physically complete, particularly on Trillium and Eglinton, we'd expect that backlog to be less than half of what it is today.

Sabahat Khan:

All right, great. Then maybe a question away from the LSTK stuff. You provided guidance that looks to be line, for the Engineering Services side, that looks to be in line with what you noted at your Investor Day last year. Maybe give some build-up to that, and how you're thinking about growth across maybe geographies, and maybe any contribution you expect this year from the U.S. infrastructure bill and anything you want to call out on end markets. Trying to get a little bit more colour on your expectation for this year, given where we are in the pandemic.

Ian Edwards:

Yes, for sure. I mean, as you know, we deliberately positioned the Company with 80% to 85% now of our revenues coming out of Canada, the U.S., and the U.K. We're feeling really good about the pipeline of opportunities ahead of us in those three core geographies. I mean, obviously the three companies are committed to infrastructure spend, and as you rightly call out, biggest opportunity in those three for ourselves for growth is the U.S. They're also committed to sustainability, infrastructure, and sustainability energy, so our offering specifically around those components has really led to a lot of project wins through the second half of 2021.

If you look at the book to bill ratios, the backlog growth, you know, our revenues in 2021, I mean, everything indicates that we can be really confident of the outlook that we gave for growth on an organic basis, the 4% to 6% in '22 and beyond. We're feeling really good about it. I mean, the U.S. market, as you called it out, I'll speak to that directly. I mean, we have 4,000 to 5,000 people in the U.S., which is significantly less than some of our larger peers. We have a very, very specific plan of how we're going to organically grow and inorganically grow our U.S. business. It's a state-to-state play, very much in line with how we communicated in the Investor Day. All in all, we're feeling pretty good about the Engineering Services business going forward.

Jeff Bell:

This is Jeff.

I think the only thing I'd add to that is, I think with the infrastructure bill, our expectation is we'll see more of that in the second half of the year than the first half of the year, and there's a natural seasonality in the business, so I think our view would be very confident on hitting those revenue growth targets. But as we've seen the last couple of years, it tends to be a bit stronger in the second half versus the first half.

Sabahat Khan:

Okay, and then just maybe just more of a high level one. We talked a little bit about the Nuclear segment, and the outlook there, but I think over the last few months you put an interesting release around some work on the fusion side of energy, which seems to be, if it ends up working out, maybe even more accepted than nuclear. Can you talk about the role you're playing there? The fate of nuclear within the clean energy discussion, I guess is TBD, but this seems like something that might be more accepted. I just want to get an idea of how involved you are here, and what this could mean in terms of dollars over the coming years.

Ian Edwards:

I think that the nuclear agenda is pretty much in play across many, many countries. The most advanced is obviously the U.K., where they're committed to nuclear energy. The build, we're very, very active in building Hinkley and we're positioned really well to build Sizewell and I think we'll see further on new build work. I think with recent events, I think a lot of energy policies of countries will potentially change, and I actually think they were on the change anyway to think about nuclear as really one of the strongest options for clean energy. Canada is obviously, certain provinces are committed to it with life extension and even the potential for new build. I think in the longer term, I think we're going to see a resurgence of nuclear energy, and I think we're really excited about that, having our own technology and having our own capability.



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In the short to medium term, certainly opportunities in feasibility studies. Certainly, opportunities in the U.K., potential opportunity in Canada. Then really on the fusion side, we are involved in the initiative in the south of France which is looking at fusion technology. I mean, I think it's a long way from being about a proposition that we can generate electricity from, but actually being part of it gives us that sort of technology, the technology advantage, and the technology knowledge.

Sabahat Khan:

Thank you.

Operator:

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

Mark Neville:

Hi, good morning, guys.

Ian Edwards:

Good morning.

Jeff Bell:

Good morning.

Mark Neville:

Maybe just to go back on the projects. Like I assume, I mean, I can appreciate that you need to try to put a number on this, and probably nobody wants these losses to go away more than you guys, but I guess I'm just curious. Maybe why leave so much downside risk on the table, and sort of, I guess, maybe why not take a bigger provision, I guess, is my question? I'll start there.

Ian Edwards:

Well, the Q4 forecast, our forecast, as I've said, I mean, that is a reflection through sound logic and sound assumptions of what we believe the out-term cost to completion of these projects are. But I think



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we have to recognize that we said that a year ago and things have changed since a year ago. We wanted to be clear what the worst case could be if a whole bunch of things from a macro environment, macro trend environment, occurred again in 2022.

Obviously as we get closer to the end, the impact and the influence and the ability to model those risks becomes much more stronger. We haven't felt in a position as strong as this to be able to model the risks before. But with most of this kind of from a physical work perspective being complete by the end of this year, we feel, first, we can forecast the outstanding cost, \$230 million, and second, we want a scenario and what if a whole bunch of things happen. What's the worst thing that it could be? Well, what is that? We assess that \$300 million. We felt that would kind of help in sizing that.

Mark Neville:

Okay, that's helpful. Maybe an unfair question. I appreciate the colour there. Maybe on the operating cash flow for 2022 up to \$100 million, Jeff can you maybe help us understand roughly what's ES versus projects?

Jeff Bell:

Yes, I think, as I think I said in my script, we would expect to continue to see similar levels of EBIT to operating cash flow conversion in the Engineering Services business. Therefore, I think as we look at 2022, we would expect to continue to see a cash flow usage on the projects as they complete out in 2022. Probably not dissimilar to what we saw in 2021 based on the, you know, particularly on the losses we booked in Q4. Obviously, a lot of those costs, the significant majority of those costs, are for the future periods beyond Q4 2021. We'd expect most of those to come through in 2022.

I think from a cash flow perspective, the relative amounts between Engineering Services and SNCL Projects probably doesn't look dramatically different than what we saw in 2021, and therefore, not surprisingly, we ended up with a range that's fairly similar to what we saw in 2021 as well.

Mark Neville:



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Great. I guess, if you're correct about your current assumptions on the cost to complete, will the majority of the cash flow that needs to happen happen in 2022?

Jeff Bell:

Yes, it would. As Ian said, most of the physical work, or almost all of the physical work, ends up being done on areas like Eglinton and Trillium in the current year. Yes, we would, or Resources project. Yes, we would expect to see that happening there. As Ian said, obviously we think that a significant portion of these costs are recoverable, are related to COVID and its secondary impacts. Therefore, from a cash perspective, we think we have claims for those and would look to recover those over time.

I think what we tried to do in 2022 is be quite prudent about that, because I think our observation is these are complicated discussions to have. Therefore, it may take to the final account settlement process on the projects were indeed longer, if there's some third-party process we need to go through to try and arrive at an answer. Obviously, from a cash flow perspective that would be upside going forward. We haven't assumed any of that in 2022.

Mark Neville:

Sure. It's getting late, so I'll turn it over, but thanks for the time.

Ian Edwards:

Thank you.

Jeff Bell:

Thanks.

Operator:

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

Maxim Sytchev:

Hi, good morning.



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Ian Edwards:

Good morning.

Jeff Bell:

Good morning.

Maxim Sytchev:

Jeff, I just wanted to clarify the opening cash flow guidance, because in the MD&A, you say that including the losses taken in Q4, and then you provide sort of the range. If you were to exclude those losses, would there be a different number, or is it just kind of the language which is a bit confusing? I'm just trying to clarify this.

Jeff Bell:

Yes, it wasn't an intention to be confusing in the language. Obviously, as I said, within that \$230 million of loss that we booked in Q4, a minority of that is actually related to Q4 itself, as we've been talking about. The significant majority of that is for future period. While it would have had some impact on Q4 cash flow in 2021, the significant majority of that would be in 2022 where we would expect to realize from a cash basis in 2022 and is included within our 2022 operating cash flow guidance.

Does that help, Max?

Maxim Sytchev:

Yes, no, that totally clarifies. I appreciate the...

Jeff Bell:

Okay, okay.

Maxim Sytchev:

...nuance, thank you. Then the other question I had, in terms of if you were to strip out the \$94 million from EDPM, correct me if I'm wrong, but I think the margin on EBIT would be around 8% for the



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quarter, which would be a compression versus last year. Is there anything to kind of read into it, or how should we think about on the going-forward basis?

Jeff Bell:

I don't think we had a number. I think if you strip it out, Max, our number was more around 9%, so very much in line with what we've been doing in previous quarters. Happy to take the math offline, but yes, the underlying business we saw in EDPM in Q4, very much in line with what we've seen over the previous quarters, low single-digit organic revenue growth year-on-year, and an EBIT percentage around that sort of 9% level in the middle of our target.

Ian Edwards:

Yes, no, I agree with that.

Maxim Sytchev:

Okay, that's helpful. Then maybe, Ian, just if I squeeze in just one more. In terms of, obviously there's a lot of growth anticipated in the U.S. Do you mind maybe just commenting on the ability to recruit to be able to take advantage of this uptick? Thanks.

Ian Edwards:

Yes, yes. Yes, I mean, it's certainly, there's a race for talent. There's no doubt about that. I mean and I think our view is we have to continually innovate to be ahead of this race. Now, currently our turnover rates are what they were pre-pandemic, which is a good thing. Our recruitment rates are strong. We've been able to grow our full-time equivalent headcount to meet the growth demands of the strategy going forward and the outlook going forward. So far, we're able to manage the race, so to speak, and we're able to recruit what we need to grow the Company.

Maxim Sytchev:

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

Ian Edwards:



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Thank you.

Operator:

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

Jean-François Lavoie:

Yes, thank you very much for taking my questions. I just wanted to come back on the Nuclear segment and was wondering if you could provide more colour on the wind down of the JV with Alltech that was reported by *The Globe and Mail* and now we can...

Ian Edwards:

Yes.

Jean-François Lavoie:

...position the division to continue to expose yourself and win in the decommissioning market. Please.

Ian Edwards:

Yes. Yes, no, thanks for the question. The first thing I'd say is it's not a material impact to the business. The reason I'll say that is because we actually modified our relationship in this joint venture going back to our new strategic direction. Because originally we went into this relationship with lump-sum intentions, taking construction and lump-sum risk, and we had to modify that to take a services approach to it and a fee-based approach to it. While we've been in this relationship, that's what it is, and obviously revenues and profits are smaller because of that kind of involvement within the joint venture.

Our partner really wants to move in a different direction, and I think he wants a partner that is prepared to take more risk. We're in the process of winding down the relationship, which I think was reported in the media. That's actually not concluded yet, so we're in the process of working our way through that. But what I would stress is that the market was only in the U.S. and we've got decommissioning and life



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extension opportunities in the U.S., the U.K., and Canada, so we still have a strong value proposition and we still have existing contracts that are outside of this.

But the biggest part, the biggest part of our revenues actually come from waste remediation right now, and those are contracts with the Department of Energy in the U.S., and they were outside the CDI. They were not in this joint venture. When we've analyzed everything and relooked at the market and our strategy, we're very confident that the outlook we've given in the Investor Day for growth and for performance will not be materially affected by this kind of winding down with CDI.

Jean-François Lavoie:

Okay, that's good colour. Then Jeff, I just wanted to come back on the cash cost impact that we'll see in 2022 term, the LSTK losses. From a seasonality standpoint, would it be fair to assume a bigger cost in the first half versus the second half? And just wondering how we should play out with the working capital expectation for next year. Thanks.

Jeff Bell:

Yes, I think that's a fair assumption. As you can imagine, we're putting more of the physical work in place over the course of the first six to nine months from a full year perspective, because of course in that period, for instance, we've got Eglinton and Trillium running, in a sense, full tilt, and then Eglinton obviously starting to wind down in the second half of the year as it completes. Yes, I think if I was weighting it one half to another, I'd weight the cash flow impact more to the first half than the second half.

Jean-François Lavoie:

Okay, and just one follow-up, sorry, about the \$300 million, the worst-case scenario that you've done. Is it fair to say that it's for the entire completion of these projects, or it's only for 2022, the \$300 million?



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Ian Edwards:

No, no, no. It's for the entire completion. It's for the whole kind of completion of everything. We looked at all the projects, all the potential outcomes, modelled those risks for all of those potential outcomes to completion, and then defined the assessment around that.

Jean-François Lavoie:

Okay, thank you very much.

Operator:

Our next question comes from Michael Tupholme of TD Securities. Please go ahead.

Michael Tupholme:

Thank you. First question, just somewhat of a follow-up related to some of the cash flow questions you've received, Jeff, but a bit different. You've been talking in the past that over the life of these projects you expected them to be cash flow neutral. This is the LSTK projects. Is that still the case? If you can just provide an update on that front, and how the \$300 million estimate that you've provided, if that comes to fruition, how that might change whatever your answer is with respect to life cash flow neutrality.

Jeff Bell:

Yes, I mean, I think we still see that as a possibility, for sure. I think, going back to my previous comment about when we expect to see some of the cash, I think the two elements that make it difficult to completely nail that number down at this point, one is timing. When will we actually be able to resolve the claims that we think were due under the contracts for things like COVID? As I said, while we've had some success on that. Our view is that it may take a while, certainly to the end of the projects and potentially beyond in order to get a final resolution to what that looks like.

It's also a bit dependent on the absolute weighting within our estimated cost to complete, as part of our results. Or if indeed any of the future potential financial risk were to come to pass, the relative weighting of that around COVID type issues, which we think we are entitled to versus other issues. I think a bit of



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colour. I think it depends obviously on those two vectors. I'm not trying to be purposely vague. It just does depend on what those look like. We do see a path to that, but it will depend on both of those over time. It may be certainly beyond 2022 before we have a final view of that.

Michael Tupholme:

Okay, that makes sense. Then secondly, obviously a lot of discussion and focus on the three remaining transit projects and the \$300 million estimate you've put out there. I'd like to understand with respect to the Resources segment, which I understand is now going to be (inaudible 1:07:39) to Engineering going forward. But there was a \$40 million Adjusted EBIT loss in the fourth quarter in that area. Was that affected by sort of all of the same factors that you highlighted, just broadly speaking, for SNCL Projects in the quarter? Then with respect to the \$300 million estimate, does that cover potential future issues on that Resources project, or how do we think about Resources going forward?

Ian Edwards:

Yes, that's a fair question. The project was going reasonably well, but also had suffered through those three kind of key COVID external, the supply chain issues, particularly in the Middle East where our supply chain and movement was quite difficult, and also inflation. We hit another obstacle in commissioning, and when we put those things together, it put us in a place where we felt we needed to assess any likely kind of damage from the customer.

Now, we would expect to negotiate away from that, because we've got good claims on one side. We've got risks on the other side, but we felt we wanted to put into the Q4 estimate a kind of a case where we were imposed damages, and that's what leads to that loss. Now, in the \$300 million risk assessment, there's a little bit more, but we're almost close to as bad as it could be from an imposing in damage and etc. We will keep working with the client to get a better outcome for everybody, but we felt we needed to do that in the Q4.

Michael Tupholme:

Okay, and then just to clarify on that point, when is this particular Resources project actually fully completed and turned over to the client?

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Well, we're negotiating actually right now with the client to try and give it to him early in terms of the things that need to be done to commission and produce the product. I'm not trying to avoid the question, but it's around about the end of Q1, but let's just say ballpark it's the end of Q1. But there's some nuances to that, maybe into the beginning of Q2.

Michael Tupholme:

Okay, thank you.

Operator:

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

Denis Jasmin:

Thank you, everyone, for joining us today. Sorry, we're out of time. I know there's still more people asking questions, but please feel free to contact me directly. I'll be pleased to answer any questions you may have. Thank you very much, everyone, and have a good day. Thanks.

Operator:

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