

Our Journey From Red to Black Ink (Including a GBA Peer Review)

By Martin LaRoche, P.Eng., M.Sc.
aka: Mr. TheRock

Overview of the Presentation

A Short Primer on our Geography and Shared History

A Little Bit of Background – How We Lost our Way

Our Sad State of Affairs 2012 to 2015

Engineering Our Future – A Roadmap (but with Potholes)

Progress on Our Journey 2016-2017-2018

Stopping to ask for Directions from our GBA Peers! Nov 2018

A Revised Itinerary - The Roadmap for 2019-2021

A Short Primer on our Geography



That's 643907.203 square miles!

Source: Google.com

My Cottage in March



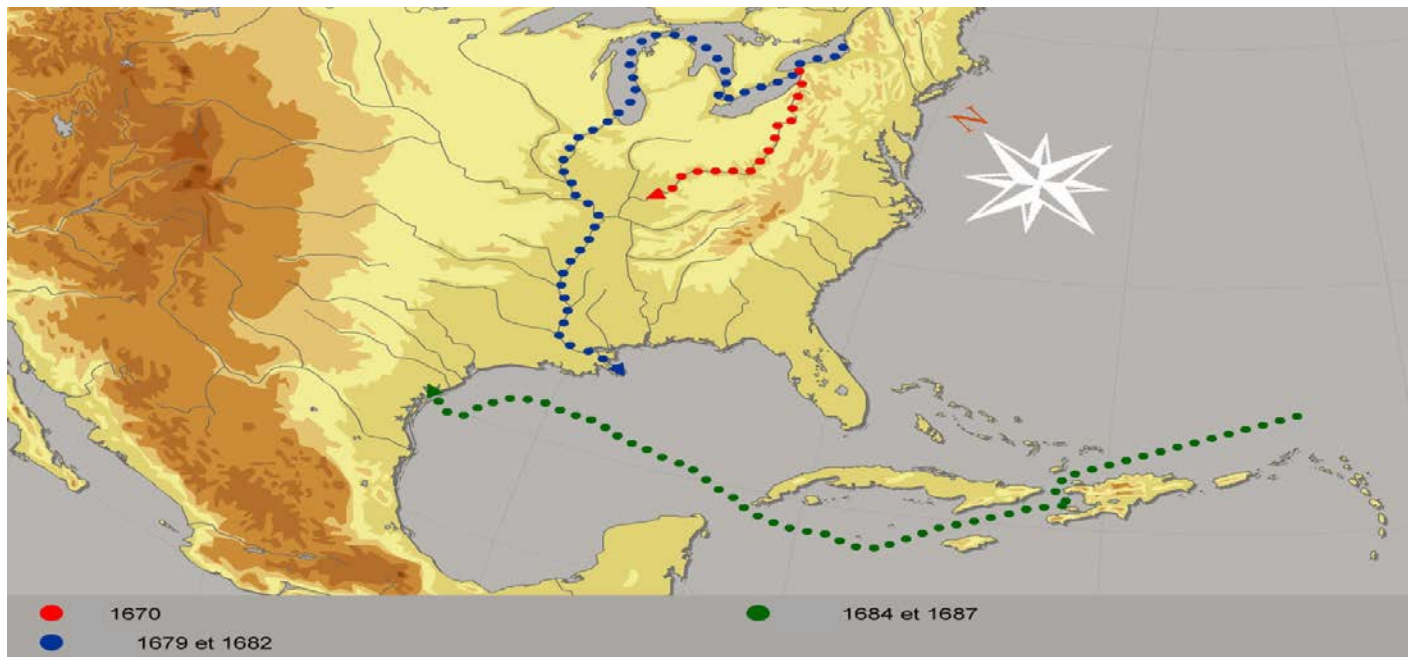
Our Shared History

1534: Jacques-Cartier discovers Canada

1608: The French settle Quebec City

1642: Montreal is founded

1682: Cavalier de Lasalle then founded New Orleans!



Our Shared History

1759: General Wolfe in front of Quebec City

Sept 1759: Last chance for the Brits to invade the City



1759: The Brits win a big battle in Quebec City and take Canada!

Our Shared History

Then in 1775

The AMERICANS ARRIVE!!

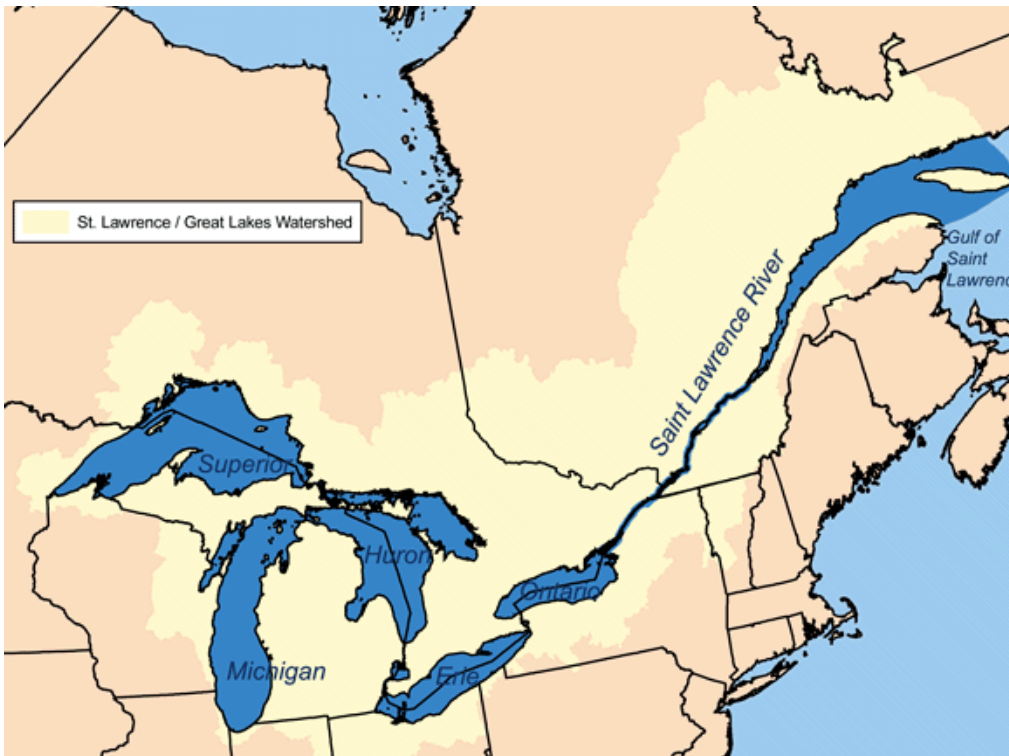
In the end: The French Canadians can keep their language and religion in exchange for fighting with the Brits against the Americans who try to conquer Canada

And this is why we still speak French in Quebec!

It's thanks to you my American friends.
Merci!

Our Shared History (cont'd)

Montreal becomes a big hub of commerce;
The population of Montreal grows rapidly.
Why? The boats can't navigate further.



Immigration is mostly from
England, Scotland and
European countries.

No French immigration

Our Shared History (cont'd)

Around 1850, Montreal is about 50% French and 50% English

The French Canadians are the cheap labor. Many choose to go to the North Eastern shore of the United States: Gadoury, Lefebvre, Duval, Bouvier, Disney (D'Isigny), LePage, Pettite, Favre,... for a better life

You may even know some of these names!!!



Our Shared History (cont'd)

How to move from Dominated to Dominator:
Demography, Education (and a little help from the cold climate!!!)



=



↑ 6 out of 12 months

& Hockey

Our Shared History (cont'd)

With very big families, French Canadians go from 50% of the population of Quebec in 1850 to 90% in 1950

French Canadians start to lead the political scene of Quebec and undertake a "Revolution Tranquille": a revolution with no guns or battles

Between 1960 and 1965 - A revolution with education and ownership of companies and infrastructures.

Our Shared History (cont'd)

Quebec starts building lots of large infrastructure and also many reservoirs and many large scale dams for hydroelectricity.

Quebecer in fact become known for their expertise in hydroelectric power generation!

Even today, the rest of Canada still refers to us by this expertise!

Our Shared History (cont'd)



“Those Dam Quebecers!!”

A Little Bit of Background

Origins of SNC-Lavalin:

1911: Arthur Surveyer

1937: Surveyer, Nenniger and Chenevert found SNC inc.

1960: SNC inc. designs the Daniel Johnson Dam



A Little Bit of Background (cont'd)

1980's: Lavalin is another major engineering company in Quebec founded in the 50's, with projects in many foreign countries

1991: SNC Inc. buys Lavalin and becomes SNC-Lavalin with about 8,000 employees

A Little Bit of Background (cont'd)

SNC-Lavalin adopts a business model of:

Design – Build – Finance – Own – Operate & Maintain

SNC-Lavalin owns and/or has financial participation in many large assets in Canada and other countries around the world



A Little Bit of Background (cont'd)

1991 to 2012:

Culture of executing projects in silos
4 sectors : Infrastructures, Mining,
Oil&Gas, Energy

Leaders of sectors are kings
the company is very decentralized



A Little Bit of Background (cont'd)

2007: SNC-Lavalin buys Qualitas , Geoprofessional business with 400 people which grew organically and through small acquisitions. (*Now Qualitas is known as SNC-Lavalin GEM*)

2007-2012: Acquisition of 4 other companies to get to 660 employees!

With the "silo and no integration" model but....

The market is thriving and the margins are good!

And then.....

A Little Bit of Background (How we lost our way) (cont'd)

2011: SNC-Lavalin makes a lot of money in Libya. The Khadafi regime falls, and SNC-Lavalin employees help Khadafi family members to escape from the country

2012: SNC-Lavalin is accused of corruption by an international court

The company can't work for the World Bank and other International Finance Banks for 10 years.

Ex-Managers of the company are now in jail or awaiting trial

A Little Bit of Background (How we lost our way) (cont'd)

2012: In parallel to the Libya issue, corruption and collusion in the province of Quebec are revealed

SNC-Lavalin and many other engineering and construction firms were involved

Then: Starting in 2013:

Public clients selecting engineering firms mostly on price.

Margins drop dramatically

Our Sad State of Affairs 2012 to 2015

SNC-Lavalin, the mother company:

- 30,000 employees
- Lots of turmoil (collusion, corruption accusations) between 2012 and 2015; lots of turnover
- New management and centralization since 2012
- The "**One Company Concept**" starts to take shape but is still a "concept"

Our Sad State of Affairs 2012 to 2015

(cont'd)

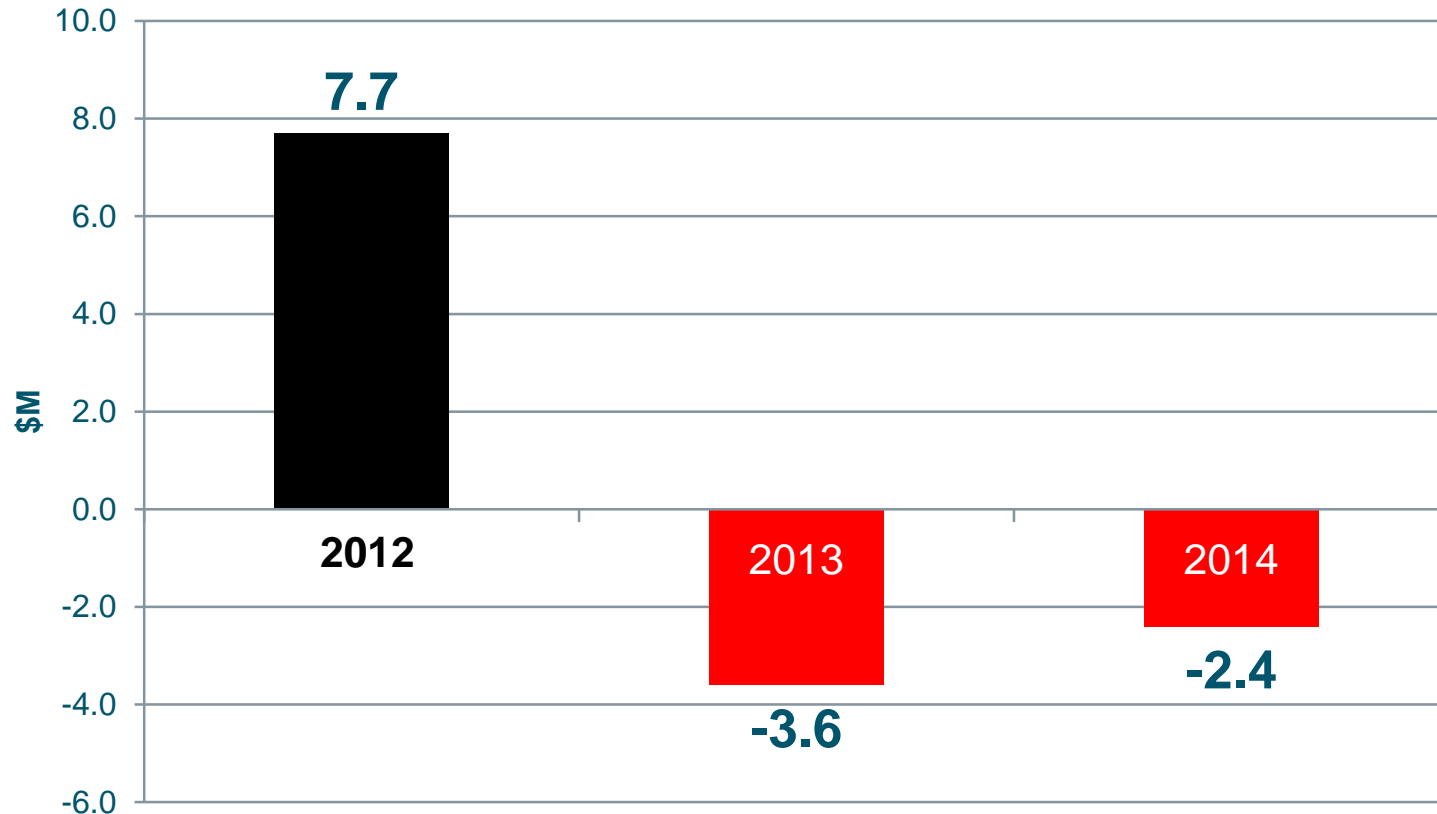
- Qualitas (*SNC-Lavalin GEM*) went from 660 employees in 2012 to 565 employees in 2015
- Qualitas (*SNC-Lavalin GEM*) culture of silos inside the SNC-Lavalin culture of silos



Our Sad State of Affairs 2012 to 2015

(cont'd)

EBIT in Millions



Our Situation in 2015

In May 2015 I joined SNC-Lavalin to manage
SNC-Lavalin GEM

The Good!

Very strong technically:
#1 in Quebec in
geotechnical and
materials engineering

Staff very dedicated
to the company;
impressive number of
employees with 15,
25 and 35+ years

The Bad!

17 Separate
Offices not
working
together

Average
mark-up had
gone down
from 2.5 to 2.2



Our Situation in 2015 (cont'd)

- Management is weak; Department Managers coordinate but don't manage. No understanding of the P&L's for their projects or departments
- Project management is weak; Only a few Project Managers understand project financials. We lose money on many projects
- DSO is over 120. Many AR's over 360 days with private clients.
- Billable time is out of control; Jan to April 2015 shows numbers below 45%

Our Situation in 2015 (cont'd)

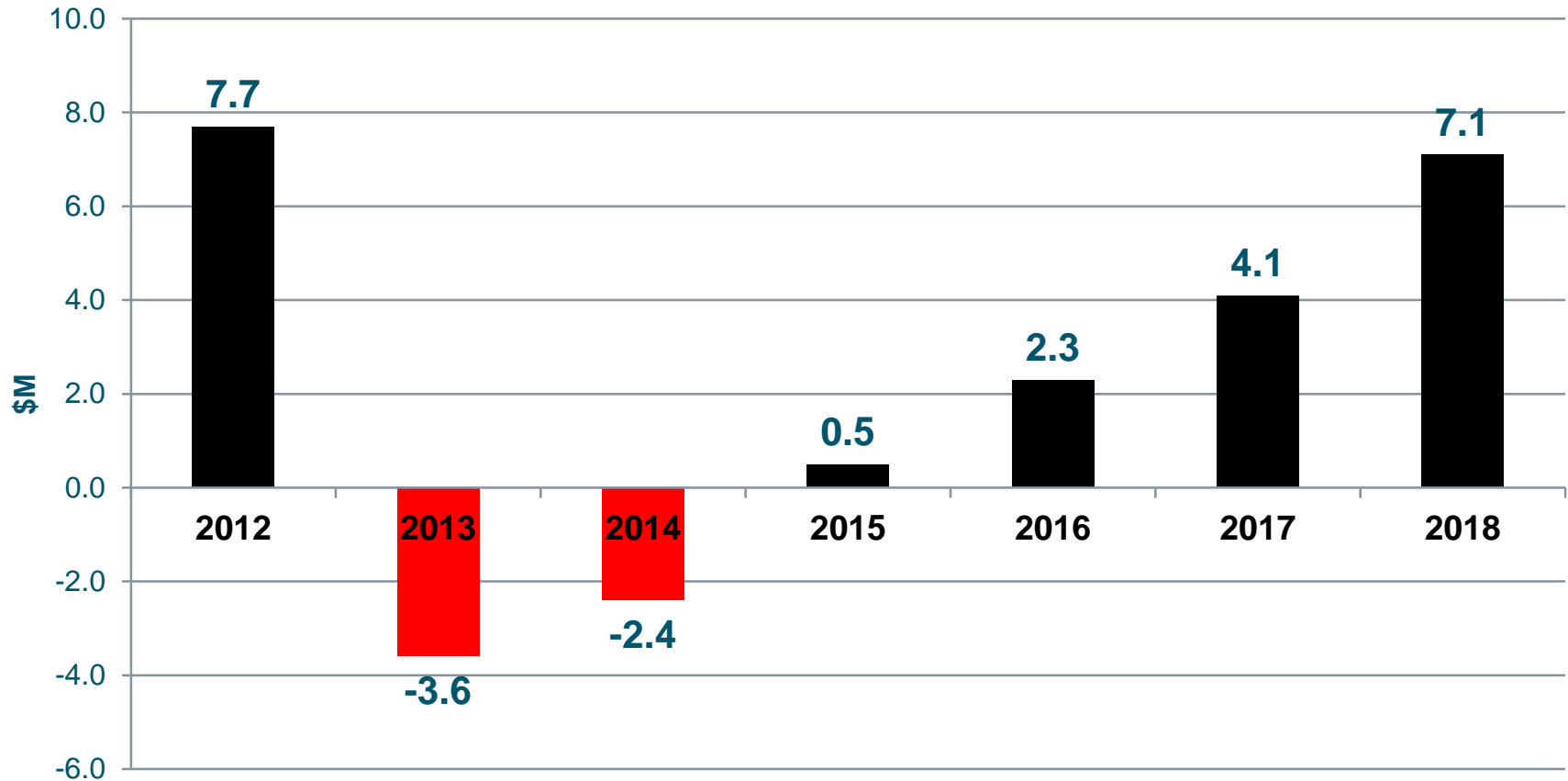
- Oracle had been imposed in 2014 with no plan for implementation and no training by Corporate
- We're billing with "recycled admin assistants"... with Oracle !!

And...

- By June 2015: the CFO doesn't even want to sign the financial statements of SNC-Lavalin GEM!

Sneak Preview: Our Situation Today!

EBIT in \$Millions



Engineering Our Future Roadmap & Action Plan

(Identifying potholes)

- One day meeting with 30 managers and supervisors ; get feedback on issues and challenges; Hey, “Empty your hearts”
- Followed by a 2-day strategic planning session with my direct reports.

The Goal:

- 1. What do we do short term to stay alive?*
- 2. What is our 2 year look ahead?*

Engineering Our Future Roadmap & Action Plan

(Identifying potholes)



Engineering Our Future Roadmap & Action Plan

(Filling in potholes)

- Getting Oracle back on track: Must have numbers that make sense! Training for Dept. managers, project managers and support staff
- Training for Project Managers: **Project financials 101**
- Tool to open projects with the right mark-up and follow budgets on a weekly basis
- Billable time: Hey, this is important !

Engineering Our Future Roadmap & Action Plan

Get the wrong people off the bus

Time for Organizational Changes!

- One of my direct reports is not in the right position - replaced
- Our CFO is not the right person - replaced
- Billing with “recycled admin assistants” – replaced

Success is highly dependent on having the right people at in the right places with clear accountability

Engineering Our Future

A Roadmap & Action Plan

Get the right people on the bus

- Luc Leger here in the room is made in charge of operations support
- Managers and supervisors are made accountable for the Quality System and Health & Safety
- I become very much involved on large P3 and Design Build projects, breaking silos with other sectors; we MUST get that work
- Full time VP Business Development is appointed for external clients
- Hiring of a specialist in proposal writing for quality based RFPs. We now have two in 2019!

Business Development is not a part time hobby!

Engineering Our Future Roadmap & Action Plan

Building an Environment for Working Together

- A division wide SNC-Lavalin GEM IT network was deployed, so people can work together and exchange information
- An integrated filing system was developed for projects; not 17!!
- A SharePoint was built, where all employees can find procedures, forms...

Collaboration is essential when you have many offices. Today we share of expertise and equipment, we share clients, and optimize utilization: This is the Power of the Group!

Engineering Our Future Roadmap & Action Plan

Dare to Ask: Are we on the right Track?

Employee surveys are done in 2016 and 2017

Results are promising but show we still need to improve in Key Areas

- Agility, agility, agility
- Professional Development
- Autonomy
- Soft skills for Managers

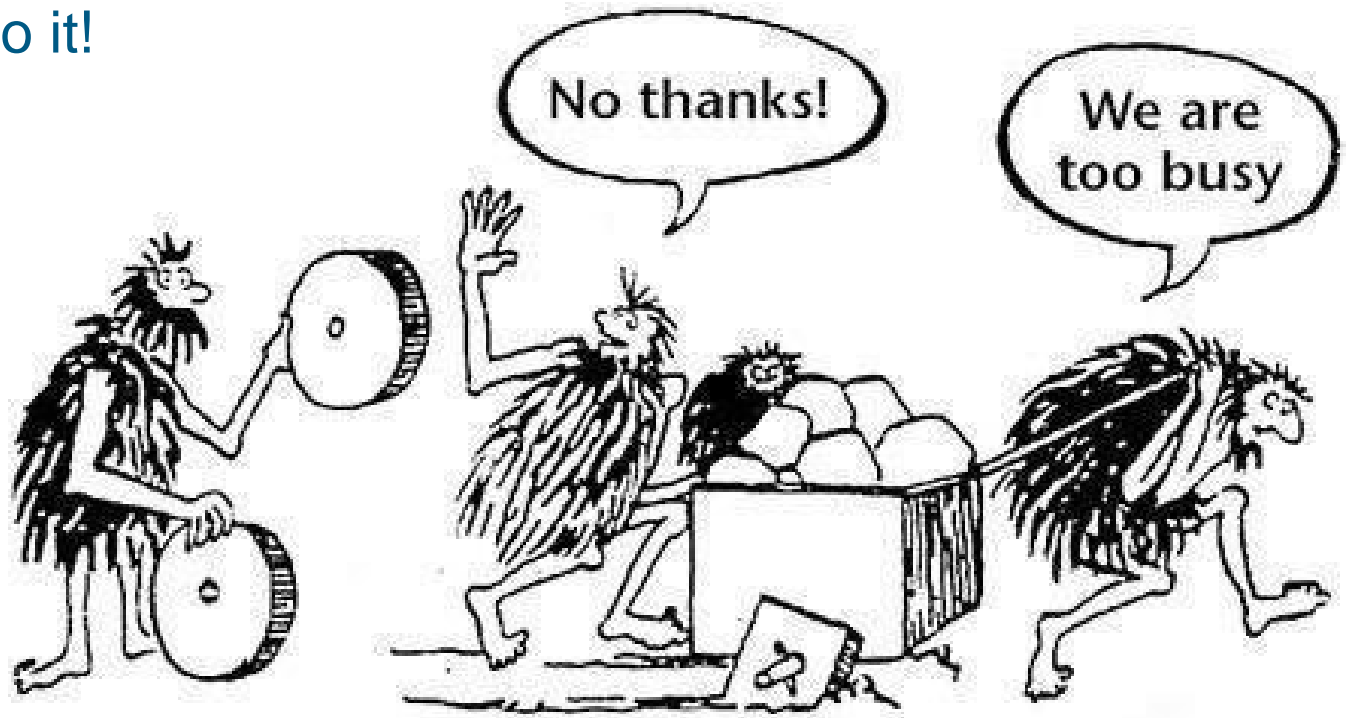
We organize Kaizen workshops with employees because;

***If you dare to Listen;
Your employees will tell you a lot about what you need to do!***

Engineering Our Future Roadmap & Action Plan

...And Listen to The Answers

Yes, we all do it!



Engineering Our Future Roadmap & Action Plan

Some Surprises Along the Way

- End of 2015: Environmental team is transferred to my division. 150 employees with a very different work culture!
- 2016: Billing transferred to Romania. Oh my god !!!
- 2016: IT services outsourced to another company. Really ?!
- 2016-2017: Lots of turnover in HR and recruiting

Be ready for the unexpected. It will happen.

Engineering Our Future Roadmap & Action Plan

What should you do when the road is bumpy?

- Stick to your plan
- Adjust the roadmap
- Be resilient

**Think with your
team:
Invest in one or
two-day meetings**



**“Maybe we can turn it around ...
I mean the chart, not the business.”**

Engineering Our Future Roadmap & Action Plan

Overcoming Hurdles

- With 50,000 employees, SNC-Lavalin is a big boat that doesn't turn fast enough
- So: We do a couple of things without asking Corporate...
I call that being proactive 😊
(Sometimes it's easier to beg forgiveness than ask permission)
- I receive a few "No's" to some of my requests and improvement projects

Engineering Our Future Roadmap & Action Plan

Overcoming Hurdles

My definition of a "No":

- My argument was not good enough
- Not presented to the right person/people
- Not enough allies or not the right ones to help me get that **yes**
- Timing was not right – try again later

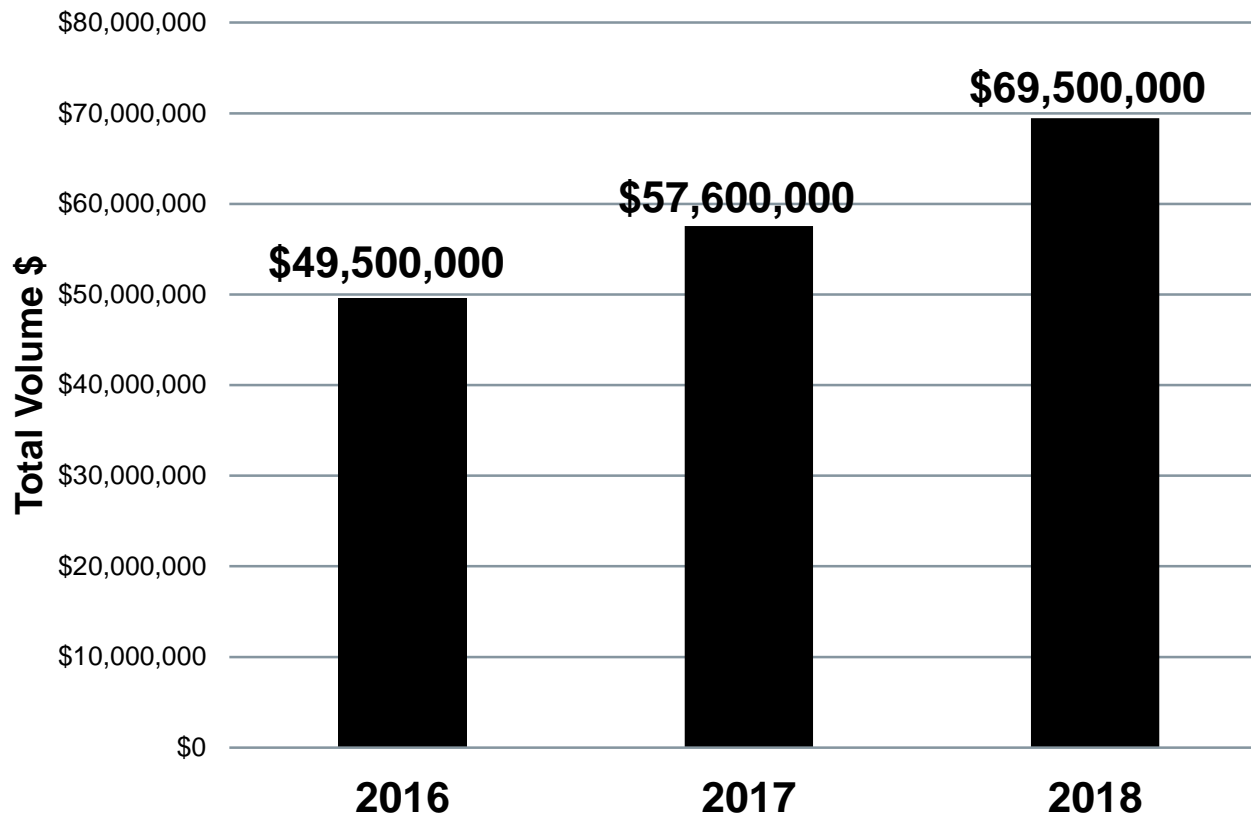
***Don't take a No for a No if you are convinced.
Be strategic, be patient, and be tenacious.***

Progress on our Journey

2016, 2017, 2018

Things are looking up!

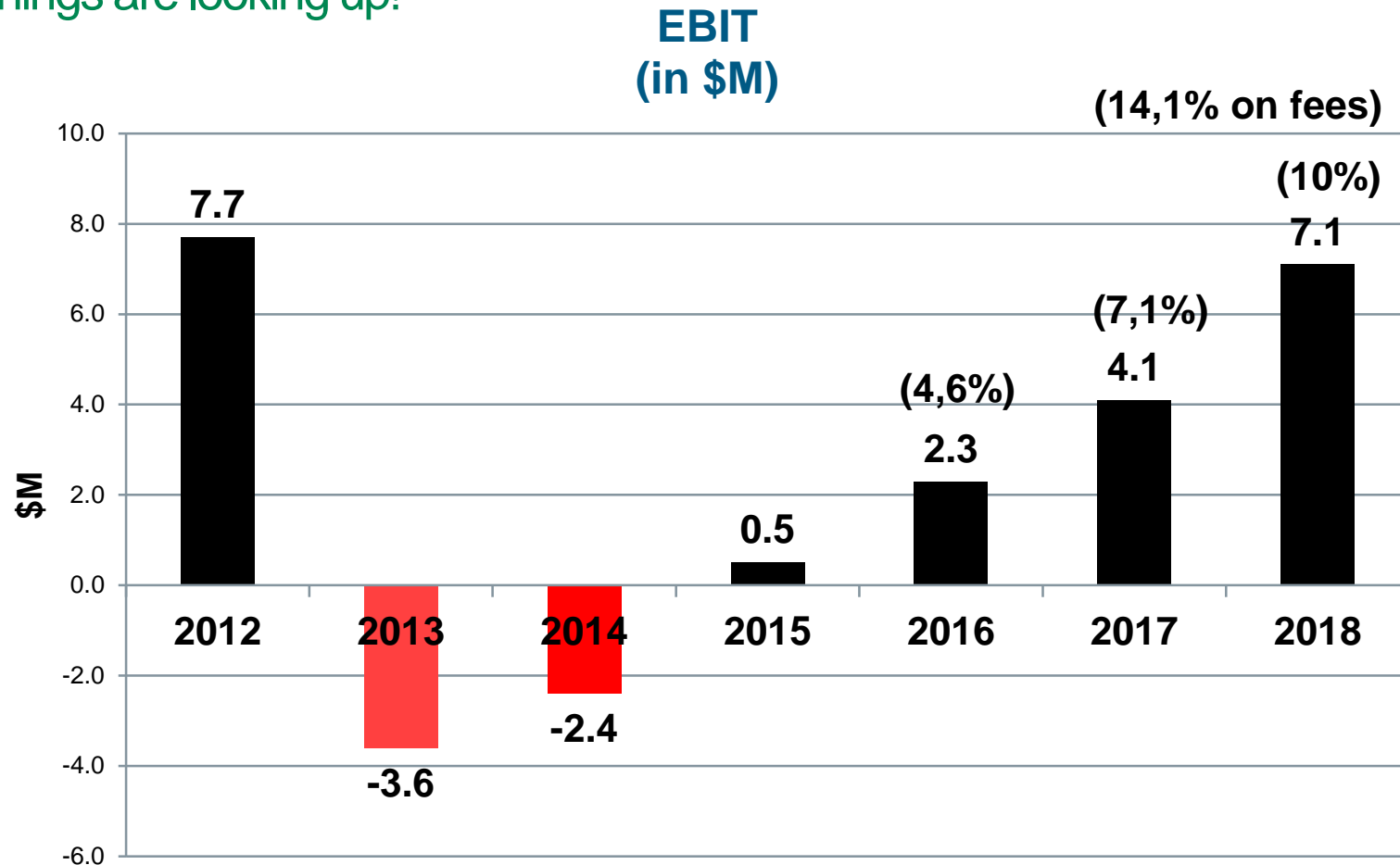
External Revenues



Progress on our Journey

2016, 2017, 2018

Things are looking up!

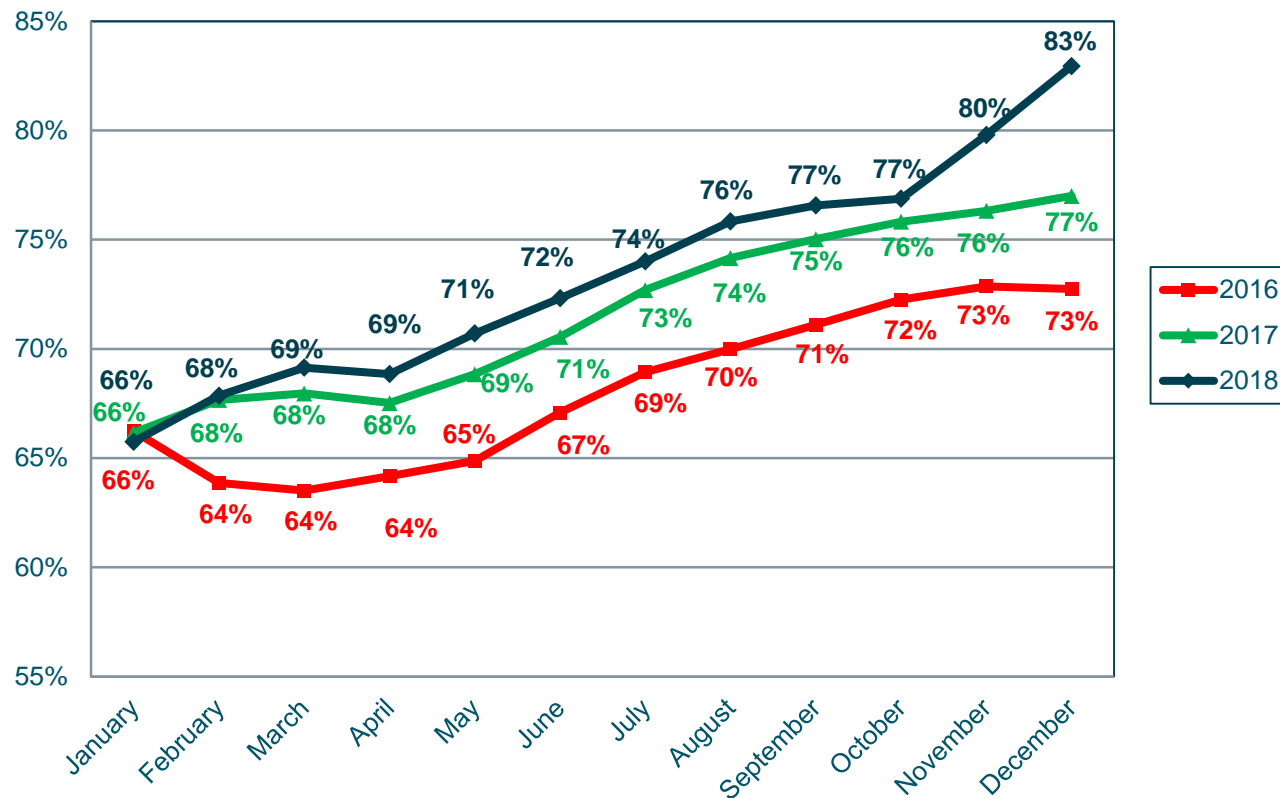


Progress on our Journey

2016, 2017, 2018

Things are looking up!

Billable Time

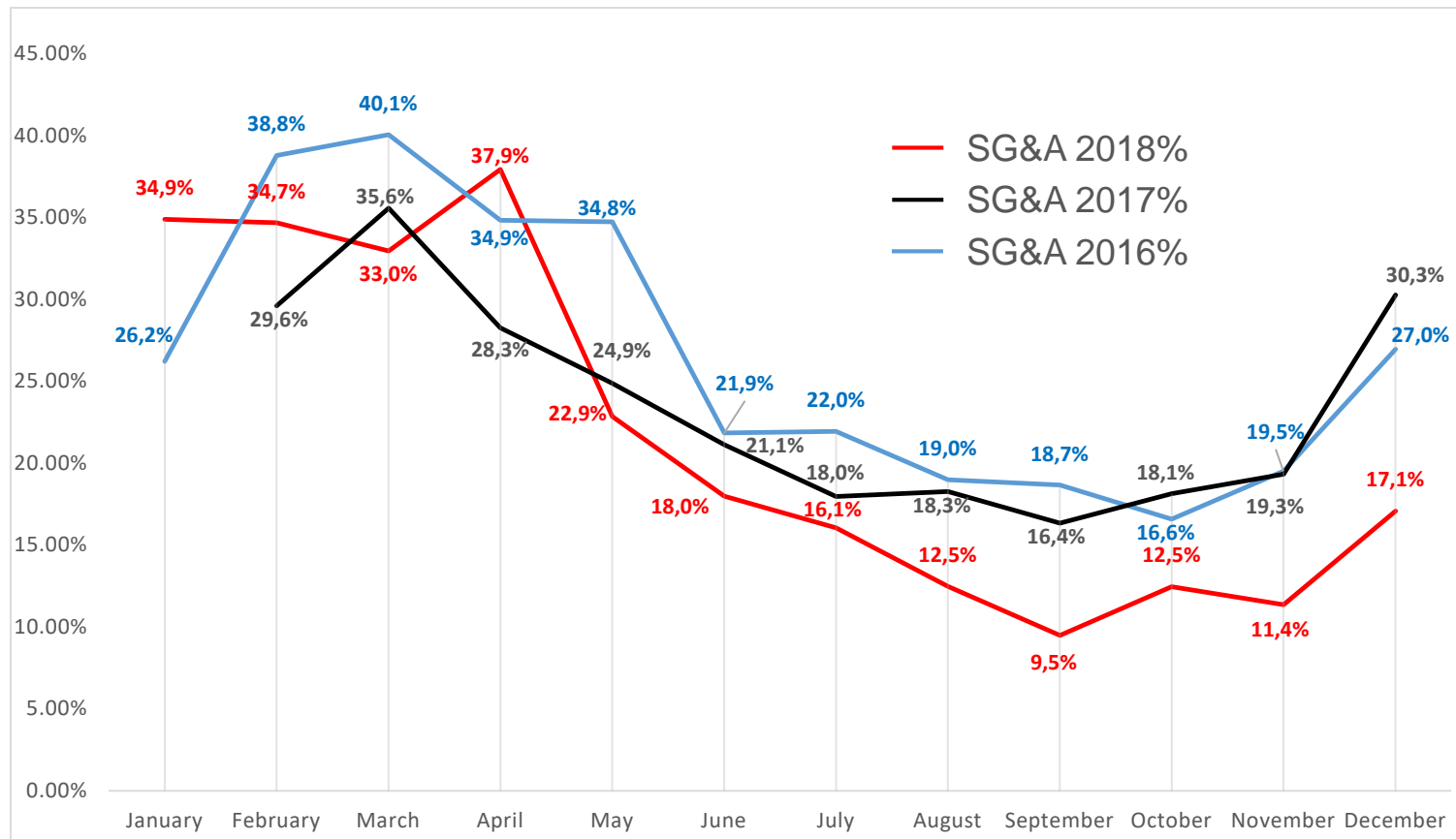


Progress on our Journey

2016, 2017, 2018

Things are looking up!

SG&A



Progress on our Journey

2016, 2017, 2018

Things are looking up!



Client satisfaction

93.5% in 2017

96.6% in 2018



Voluntary leaves :

- 2016: 18.9%
- 2017: 16.1%
- 2018: 11.5% (6.2% for our full time employees)

This is what I call the “Happiness Index” of a Company!

Progress on our Journey

2016, 2017, 2018

Big Improvements in Health & Safety Even with more people!

First aids	Lost Time Injuries
2016: 32	2016: 1
2017: 19	2017: 0
2018: 12	2018: 2

In 2017, our division wins a major provincial award for H&S!

H&S is a journey itself. An everyday challenge where Managers must carry the ball.

The Key is to find ways to touch the heart of your employees.

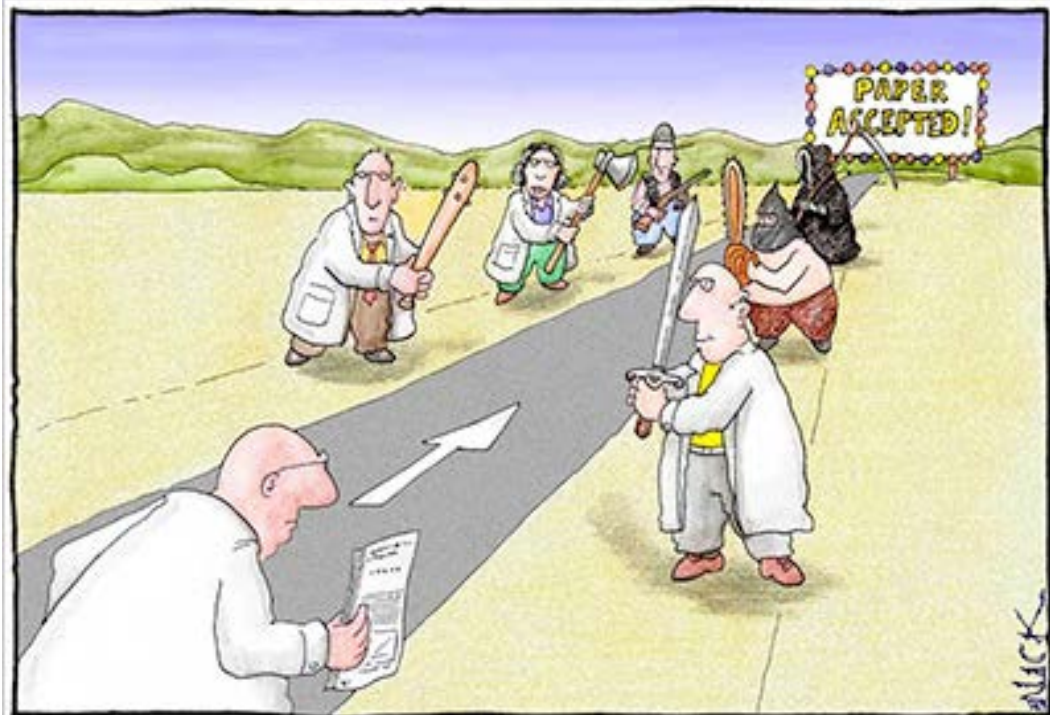
Stopping to ask for Directions: GBA Peer Review - Nov 2018

Peer Reviewers:

Stewart G. Osgood, PE (Team Leader)
President and CEO, DOWL

Travis J. Wambeke, PE, PG, MBA
CEO, GeoProfessional Innovation

Mark K. Kramer, PE
Chairman and CEO, SME



Most scientists regarded the new streamlined peer-review process as “quite an improvement.”

GBA Peer Review - Findings



Employee Interviews:

Results are lower than other GBA peer-reviewed firms for Project Management, HR, IT, facilities, administration

Strength: H&S is a priority for employees and management

Client Survey:

Results are in-line with other GBA peer-reviewed firms for client satisfaction

Strength: Quality of client service experience added value we bring to clients through depth of expertise

GBA Peer Review - Recommendations



- Stop complaining about billing in Romania and IT services. Be proud of being part of SNC-Lavalin and related advantages.
- Billable time is seen as the # 1 thing to think about; this must be relaxed a bit and changed now that we have improved financially
- Martin must visit offices more frequently to meet and talk with employees. And ask: “What can I do to better support you?”

GBA Peer Review - Recommendations (cont'd)



- Improve the annual performance reviews of employees by having smart goals and a clear path for professional development;
- Let go clients with low margins and focus on clients who need us for added value and who will pay the right price
- Accelerate the digital transformation
- Improve our facilities and upgrade our equipment
- Less KPIs for Dept Managers and Project Managers, K-I-S-S.

A Revised Itinerary

Our Roadmap 2019-2021

Two-day meeting End of January 2019 with my management team: We adapt the roadmap!

Initiatives already started:

- Tour of the offices by Martin – Seen as very beneficial
- New software for field and lab is being built and implemented
- By the end of 2019 75% of our data in the field will be collected electronically!

A Revised Itinerary

Our Roadmap 2019-2021 (cont'd)

Next Steps:

Some lower margin clients will be let go or we will do less work for them; We operate in a transition

BD will be oriented towards services with higher margins: geotechnical design, concrete durability, acoustics, forensic engineering, metallurgy, 3D scanning, climate change adaptation

BD will be oriented towards clients who will pay for our added value: large contractors, law firms, some selected developers, large industrial companies...

A Revised Itinerary

Our Roadmap 2019-2021 (cont'd)

Management Training on soft skills

Strong emphasis on the 2019 performance reviews and objectives. Managers are being trained and we're working on having objectives specific to every function and each employee

Less KPI's: New reports and new dashboards are being prepared for easier follow up.

A Revised Itinerary

Our Roadmap 2019-2021 (cont'd)

Guess what... New hurdles out of our control:

SNC-Lavalin's 2018 financial results were negatively impacted by a bad Design-Build Mining project and tense political relationships between Canada and Saudi Arabia...

No Deferred Prosecution Agreement granted for the accusations of corruption in Libya in 2012. There will be a trial.

CAPEX freeze in 2019...

What can be done?!

Resilience, empathy, tenacity, focus, K-I-S-S...

How did get here?

Corruption and Collusion

When it becomes the normal practice, it is the end



Past Corruption and Collusion at SNC-Lavalin

- Corruption with the Kadhafi regime in Libya before 2012 – 47M\$
- Corruption in Montreal for the new CUSM Hospital in 2012 – 22M\$
- Collusion between 2003 and 2012 in the province of Quebec; many other engineering and construction firms involved
- 10 year ban on bidding on internationally funded projects

Past Corruption and Collusion at SNC-Lavalin

What has been done since 2012?

- All managers and staff involved in corruption and collusion were fired and some were charged and are now in jail
- New management in place since 2013
- Ethics and Compliance became the #1 priority company wide.

Past Corruption and Collusion at SNC-Lavalin

Where are we now?

- ✓ We now have an Ethics and Compliance Executive Vice-President
- ✓ A rigorous Code of Conduct that every employee must know and follow
- ✓ On-line yearly mandatory training on many Ethics and Compliance topics
- ✓ Duty to Report and a 24h confidential service line to report any internal incident
- ✓ Ethics and Compliance support agents to answer all our questions

Past Corruption and Collusion at SNC-Lavalin

Where are we now?

- ✓ A clear Code of conduct for suppliers and sub-contractors
- ✓ An Ethics and Compliance moment at the beginning of every meeting
- ✓ SNC-Lavalin part of TRACE INTERNATIONAL for third party risk management solutions