



SNC • LAVALIN

SNC-Lavalin's

Strategic divestiture of O&G and

LSTK litigation matters review update

Date: Tuesday, February 9th, 2021

Time: 8:30 AM ET

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 Strategic Divestiture of Oil & Gas and LSTK Litigation Matters Review Update.

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. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

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

Denis Jasmin:

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

This morning, we have announced the agreement to sell our Oil & Gas business and the results of legacy LSTK litigation matters and commercial claims review. We have posted a corresponding slide presentation on the Investors section of our website.

The recording of today's call and its transcript will 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.

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



SNC • LAVALIN

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 to the nearest corresponding IFRS measures in our MD&A, which can be found on SEDAR and our website.

Also, although, we are today reconfirming our most recently issued guidance for the expected revenues and margin range in Q4, for our Engineering Services line of business and providing the results of the Company's review of certain legacy matters, with the estimated impact thereof on our 2020 financial results, we are not in a position to, and will not be commenting in any way on our Q4 and full year 2020 financial results in today's call. Q4 results will be available in the coming weeks and as usual, we will certainly issue a media advisory confirming the date on which our Q4 and full year 2020 results will be released.

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

Ian Edwards:

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

The purpose of this call is to update you on some important developments as the Company continues to execute on its strategic direction. We have taken a series of actions, that are focused on two objectives: one, reducing the Company's risk profile as it relates to our legacy LSTK business; and, two, accelerating SNC-Lavalin's transition to a leading professional services and project management company.

First and foremost, we are pleased to announce that we have reached an agreement to divest the Oil & Gas business. It's a strategic decision that significantly reduces delivery and warranty obligations attached to Oil & Gas LSTK projects, and allows us to more fully focus on growing the Engineering Services business.



SNC • LAVALIN

Secondly, we have completed the review of the remaining LSTK litigation matters, as announced in Q3. The scope of the review was expanded to include all significant litigation matters and all commercial claims receivables in order to provide for a comprehensive assessment of all outstanding risks.

As an update to our three Canadian LSTK Infrastructure projects, they continue to progress well. However, productivity continues to be impacted by COVID-19, and we have reassessed costs.

Finally, we're reconfirming our previously provided financial outlook for our Engineering Services business for Q4, which continues to perform well.

Moving to Slide 4, and the sale of the Oil & Gas business. As you know, we've been very focused on restructuring the Resources business, which has been a key plank, in our strategic direction. We began by closing Valerus last May, and in July we announced the sale of our South African unit and our European fertilizer business. We developed a detailed and ambitious plan to transition our remaining Resources business to a pure services offering and bring it to profitability. Nonetheless, we kept our options open and the benefits of this transaction are really clear. We are able to quickly and cleanly reduce our business risk by exiting Oil & Gas LSTK projects, significantly reducing delivery and warranty obligations on all outstanding contracts, divesting a loss-making business and removing the execution risk associated with further restructuring, and enhancing the overall sustainability objectives of the Company .

Moving to Slide 5. Under the terms of the sale, Kentech Holdings will take on the current backlog of approximately \$745 million, representing 100% of the active Oil & Gas EPC and Services contracts, and 7,100 employees. This represents approximately 90% of the current Resources revenue. The transaction, which is expected to close mid-year, is expected to record a net gain.

Turning to Slide 6. In light of the divestiture, we have reassessed the remaining Resources business, which is mainly comprised of services projects in the Mining and Metals sector. We are taking a charge of \$95 million, to be taken in Q4 of 2020, of which approximately 30% is non-cash. The charge provides



SNC • LAVALIN

for the one remaining LSTK mining project and three completed projects yet to be commercially closed out.

Turning to Slide 7, and the second key update. The Company committed to undertake a review of all outstanding LSTK litigation matters following the unfavourable arbitration ruling in Q3 related to a legacy Resources project. We expanded the review to include all significant litigation matters, as well as all claims receivable on legacy and ongoing projects. This was a rigorous and exhaustive process that included:

- The latest commercial discussions with customers, updated cost forecasts and new developments in litigation matters.
- An extensive internal review was led by me, with the senior leadership team members, operations, project oversight and legal teams
- An external review by expert outside counsel in Canada, the U.S. and the U.K.
- And was overseen by a special Risk Review Committee composed of independent Directors, including the Chairman.

Turning to Slide 8. The review, combined with the latest commercial and legal developments, identified 20 potentially significant matters with greater risk profiles. Of the 20, seven cases were deemed appropriate to require additional provisions. The expanded review identified a further six commercial claim receivables that were deemed appropriate to require reductions. As a result, we will be reorganizing the following in the Q4 financial statement: \$140 million of provisions related to legacy litigation matters and \$155 million of reductions related to commercial claims receivable. The majority of these adjustments are non-cash. Despite how we are accounting for these matters, we plan to continue to vigorously pursue the claims that we believe are owed to us and defend our position with regards to the litigation matters. It's important to underscore that we see this exhaustive provisioning, based on new and updated information, as the result of an 18-month effort to de-risk the business, one that is necessary to moving forward and focusing on the future and growth within Engineering Services.



SNC • LAVALIN

Turning to Slide 9, and the update on our three remaining Canadian LSTK infrastructure projects. These projects are the REM in Montreal, Trillium in Ottawa, and Eglinton Crosstown in Toronto. All three of these projects continue to progress well. However, due to the ongoing productivity impacts from COVID, the timing and scope of cost reimbursements remain uncertain. We continue to reassess these costs and, as a result, we will take a \$90 million charge in Q4 2020. On all these projects, we are in negotiations, and even litigation, to recover these costs, but we are applying prudence and not recognizing any revenue on these projects until we have greater clarity on the outcomes.

Turning to Slide 10. We continue to make good progress on each project, with the REM now 40% complete, and major milestones achieved, such as the test track is done and the first vehicles delivered, and we're working closely with the client to address challenges. On Trillium, we have completed the engineering design and are moving into the busiest period of construction, with a target of being 80% complete by the end of '21. Eglinton is the most advanced at 80% complete, and we're really active in pursuing a reimbursement of claims .

Moving to Slide 11, and the outlook of our Engineering Services business. As you can see, our Engineering Services business, which represents the future of SNC-Lavalin, continues to perform well. Since introducing our strategic direction, revenues have remained consistent and segment Adjusted EBIT margins are robust, demonstrating the resilience of this business, even through the uncertainty of COVID. Our Q4 outlook remains on track.

So, concluding, on Slides 12 and 13. In July '19, we announced a new strategic direction that have three core components: exiting LSTK contracting work; reorganizing the Company into two separate lines of business; and transforming the Resources segment. The objective all along was to de-risk this business and generate consistent earnings and cash flow. We have made significant progress in this regard, including the divestiture of the Oil & Gas business and the continuous efforts to reduce the scope of legacy risk, as announced today. These efforts provide a clear line of sight on the remaining risk and our risk mitigation plans, which we know is important for shareholders, and allows us to really focus on surfacing the inherent value in SNC-Lavalin.



SNC • LAVALIN

With that, thank you, and I'll turn it back to Denis.

Denis Jasmin:

Thank you, Ian.

Before we open the line for questions, 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. Let me remind you that we will not be commenting on our Q4 and full year 2020 financial results in today's call.

Operator, we're now ready for the Q&A period. Could you please open the lines for the questions?
Thank you.

Operator:

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

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

Sabahat Khan:

Thanks, and good morning. On your comments earlier around the sale of the Oil & Gas business, with all sort of warranties and past—call it liabilities, or just any association with those projects, I'm just thinking, from an investor's perspective, does this mean that of all kind of completed projects, the buyer is now sort of responsible for what happens there and we should not expect to hear anymore on past projects? I just want to understand how we think about it going forward.

Ian Edwards



SNC • LAVALIN

Yes. With the exception of the mining business, as we outlined, then the deal is as you would expect for a deal of this complexity, with reps and warranties and indemnities, but, in essence, the risks are transferred—all material risks are transferred and the benefits of the business are transferred to the purchaser.

Sabahat Khan:

Okay. Then, I guess, the review of the LSTK projects, just to follow up there, do any of these litigation matters still remain with you, do they go with the buyer, or are the amounts that you provisioned sort of part of that transaction? I just want to understand how we should think about that component.

Ian Edwards:

The legacy litigation risk review and the claims receivable review that we're referring to here, and the provisions and the reductions in those, are outside of this transaction, so the non-specific Oil & Gas. Everything within the Oil & Gas business that was legacy goes with the transaction. Everything outside of that, which includes those 20 matters with potential risk, the seven matters needing provisions and the six claims receivables, and the adjustment for the claims receivables, are all outside of that transaction.

Sabahat Khan:

All right, perfect, and then just last one for me. On these Canadian LSTK projects, as we've seen in the media, there's some, I guess, litigation with the government, so is the thought process that you take this \$90 million charge now and then try to settle it with the respective third parties or counterparties going forward and there's potential for upside? How are you thinking about this?

Ian Edwards:

Yes, precisely, and, yes, thanks. I mean, you're right. Certainly, it's public, so we can say. On Eglinton, it's in litigation. There's a ruling, actually, expected this spring on that particular job. The Trillium contract is very similar, because it's in Ontario, Infrastructure Ontario contract, so we would expect Trillium to follow the same pattern. We're in pretty good negotiations here in Montreal with CDPQ.



SNC • LAVALIN

What we feel is that, until we see resolution of these claims with our clients, we feel for us it's important to recognize the costs. We don't want to build another—we're de-risking the business. Everything we're doing here is to de-risk business. We don't want to put more risk into the business by having more claims receivable. So, we're recognizing the costs, and we absolutely will pursue very, very hard the recovery, we believe we're entitled to the recovery, and that will be an upside when it's received.

Sabahat Kahn:

Great, thanks very much.

Ian Edwards:

Thanks for the questions. Thank you.

Operator:

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

Mark Neville:

Hey, good morning, guys.

Ian Edwards:

Good morning.

Jeff Bell:

Good morning.

Mark Neville:

Good morning. Maybe just first, on the Oil & Gas, as this transaction is expected to close sort of mid-year, is there a risk that, sort of over Q4 through the first half of 2021, there's incremental losses or cash outflows, or did you try to sort of capture this in everything you did today?

Jeff Bell:



SNC • LAVALIN

Yes, it's Jeff. I think, as I think we've given in terms of guidance before, we had moved the business to be on the Services side largely breakeven in the first half of this year and, therefore, we'd expect that to be true of the business while we continue to hold it, and that's both sort of breakeven on a profit perspective and largely from a cash flow perspective, as well. We have one LSTK business on the mining side in the retained part of Resources we're carrying on. But, again, we feel like we have captured the costs and everything related to that, so I think we would see it that way.

The other thing I'd say is it'll be, from a disclosure perspective, this will be an asset held for sale and we will see, at least the Oil & Gas business, shown as discontinued operations going forward, until the business closes, so you'll have pretty good visibility on that, as well.

Mark Neville:

Okay. Just to be clear, in the meantime, before it closes, there are these LSTK projects in Oil & Gas that you're continuing with; correct?

Jeff Bell:

We'll, we're pretty much—they're pretty much wound down. There's a few that are finishing up here in the first part of the year, but there's not a significant backlog left with those. The benefit, of course, of the transaction is that the warranty periods, the delivery of that, it goes with the buyer.

Mark Neville:

Right, right, that makes sense. Jeff, if my math is correct, I think if I added it all up, it's about \$240 million of cash costs, all of this. Can you sort of give us an idea sort of roughly what flows through in Q4? I guess, first, is my number correct, and what flows through Q4 and sort of the cadence of flow sort of over the next coming quarters and years?

Jeff Bell:

Yes, I would say my number is slightly lower than that, but you're absolutely in the right ballpark, kind of a little bit over, between \$240 million, but that amount is actually going to be realized over a number of years. The components of that cash, of course, some of it is related in the \$90 million to the delivery of



SNC • LAVALIN

the Infrastructure LSTK projects. The piece that's around additional provisions related to legal matters, of course, legal matters can take a number of years to sort out, and we have those sorts of trajectories in a number of those seven litigation matters that Ian talked about. The way I'd think about it is a little over \$200 million, probably fairly evenly split over three to four years, is kind of the lifespan. So, \$50 million to \$75 million a year is probably not a bad way to think about it.

Mark Neville:

Okay, I appreciate all the colour today and all the clarity with the press release. I'll get back in queue. Thanks again.

Jeff Bell:

Sure.

Ian Edwards:

Thank you.

Operator:

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

Yuri Lynk:

Hey, good morning, guys.

Ian Edwards:

Yes, good morning.

Jeff Bell:

Good morning.

Yuri Lynk:



SNC • LAVALIN

Good morning, Ian, Jeff. I just wanted to follow up on Mark's question on the—let's call it \$240 million. With respect to the portion that pertains to the legal matters, how confident are you in the number that you were able to arrive at, and is it—yes, I guess that's it. We're just trying to wonder how—trying to figure out how certain that number is and what you did to make sure that we don't have worse than anticipated surprises, because I'm sure there was still some estimating to be done, and stuff like that?

Ian Edwards:

Let me try and picture how we're thinking about all of this, because this is a journey that started fairly rigorously 18 months ago. This is the end of a journey, is the way that I would see it. I think we've said before that the risks in the business really stem from LSTK, whether that's LSTK from a number of years ago, or within Gas Resources LSTK, when we did some mining EPC jobs, and that collection of risks, the way we think about it is picture it in a funnel of risks, if you like, and those are live jobs, those are litigations, those are completed jobs, those are accounts receivables, and we stopped the tap, we stopped putting risk into this funnel 18 months ago by not doing any more LSTK. We've been working our way through this risk. Now, obviously, selling the Oil & Gas business takes a big chunk away and we're down to what I would call a manageable level of issues that are in the bottom of this funnel now.

This review that we've undertaken, which is an incredibly extensive review that we've undertaken over the last several weeks, with external help, with internal teams, with Board oversight, on a much smaller number of issues than we've faced in the past, particularly divesting the Oil & Gas business, we've got to the bottom of it. Our intention here is to be absolutely confident of the provisioning that we've made against all of these risks, so that we can smoothly go forward and focus on the growth of the Engineering Services business. I think we've proved over the last 18 months the Engineering Services business is a really, really good, consistent, highly performing business, but it's been overshadowed. We recognize it's been overshadowed by issues, Q2, we had an issue, Q3, we had an issue. We want to get beyond that now, and we want to demonstrate and surface the value out of the Engineering Services business.



SNC • LAVALIN

To your specific question, how should you think about the risk review, it's very, very rigorous on a much smaller number of issues than we've ever seen before in the business, and we're confident in the provisioning and the positions that we're taking here.

Yuri Lynk:

Okay, that's fair. Just on the sale of the Oil & Gas business, I was under the understanding that you were keeping it, so is this a change from what was communicated previously, and if so, just maybe the back story there? Thanks.

Ian Edwards:

Yes, it is a change.. We spent a lot of time in the last 18 months restructuring this business. It was an LSTK business with some Services business in it and we've turned this around into a Services business, that the profitability of it is clear. Now, having done that, and having announced that we got to that place in Q2, actually, some interested parties came along that were interested in purchasing. We looked at, obviously, all the benefits and we looked at the options of either keeping or divesting, and we think, for SNC-Lavalin and where we want to take the Company in the future, our efforts are better focused on growing our successful and other Engineering Services business, rather than continuing to make efforts to make this business profitable, and it's home will be with a company, Kentech, that is wholly focused on oil and gas and nothing else. So, it's probably a good option for both. It's probably a win/win, and a win/win for the employees and customers, as well. But, absolutely, this is a new decision and it's what we believe is the right decision for our future.

Yuri Lynk:

Okay, that's helpful. I'll turn it over there. Thank you.

Ian Edwards:

Thank you.

Operator:

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



Michael Tupholme:

Thank you. Good morning.

Ian Edwards:

Good morning.

Michael Tupholme:

My first question is related to the review of the legacy LSTK litigation matters. As part of this process, were you able to formally resolve and put behind you any outstanding claims, or is this more of an exercise in adjusting some of the assumptions you were making and the accounting around that?

Ian Edwards:

It's both, frankly. In the last 18 months, everything that we've been doing is to try to solve these with the best possible outcome for SNC, but particularly since Q3, and particularly getting into this review, and getting under the skin to understand at a detailed level the risk, there are a number of issues and litigations that we have actually settled. There are a number left, that I listed, and how we concluded with finding 20 matters with potential risk, seven needing provisions, and then six claims that we had on our books that we've taken a reduction to. But, absolutely, it was a process of both, and a very, very detailed processed at that, too.

Jeff Bell:

Yes, it's Jeff. I think I'd sort of add to that. You're absolutely right. A lot of new information in Q4, judicial matters being arbitrated or settled, fundamental costs reforecast, closing out commercial decisions or discussions with customers, so all of these provisions that we've taken have had new and updated activity and information in the last quarter, and, obviously, some of those, as matters settle out, and as Ian has been saying, we've been very focused on trying to drive these to resolution, to try and put the risk behind us. As those matters settle out or we get rulings on them, that informs other projects and positions we have, as well. So, yes, a lot of new information around all of that, that we had in Q4.



SNC • LAVALIN

Michael Tupholme:

Okay, that's helpful. Then, just as a follow-on to that, I appreciate all the detail you included in the slide deck, including indicating 20 projects, or 20 matters identified and how that broke down, but is there any way to put this into context so—I don't know if it's in the context of this 20 relative to what the overall number was or if it's in the context of the dollar amounts you gave us. I certainly understand this is a far-reaching review, but I'm just trying to understand if there were a bunch of projects that, in your estimation, did not require changes, or does this 20 represent sort of the vast, vast majority of really what's out there?

Ian Edwards:

When we went into this exercise, what we said in Q3 is that we would look at legacy LSTK litigation matters, and the reality is that we decided let's look at everything, let's look at all the litigations, it doesn't matter which business it's in, and let's look at all of our claims receivables and all legal matters. Now, obviously, with a business like ours, 45,000 employees and entities and businesses everywhere, there's a lot of immaterial legacy issues—litigation, sorry, whether those are with small entities or people. Those have all been taken out, so to speak, and reviewed.

What we can say is that, of the review of everything, there are 20 that kind of had some material content that could lead to an outcome of material loss, so we looked at those in a much, much greater level of detail, getting independent review over them and making adjustments where necessary, or increased provisions where necessary, and that leads to the \$140 million.

Now, of the claims receivables, the number is much smaller, we've not got that many projects left now with claims receivables on them, but there were six that we felt we needed to reduce our outlook on what success we could get from those claims receivables. Frankly, a couple of those were settled and a couple of them are reasonably material and a couple are not so material.

So, I think what you should take away from all of that is, is it's captured everything and it's a pretty, you know, extensive, rigorous exercise.



SNC • LAVALIN

Michael Tupholme:

Okay, that's good colour, thank you. Then, just lastly, in terms of the three Canadian LSTK Infrastructure projects, the charge you're taking, what does that assume? Does that assume that the ongoing productivity headwinds persist throughout the entire life of these projects, or are you simply sort of refining your assumptions around some aspect? I'm just trying to understand sort of how ...

Ian Edwards:

No, no, I understand, I understand the question, and a good question. Right now, we're into pretty severe lockdowns in Ontario and Montreal, and the impact of these lockdowns has continued, obviously, hygiene, social distancing, that we've talked before, but the lockdowns are restricting the amount of personnel we can get to the projects, and we're also seeing that we're losing productivity now through contact tracing and having to isolate certain groups of our labour on the sites, basically.

The way we've looked at this is to say, look, this lockdown, it's definitely going to go into the spring, so let's assume it's going to get into the spring, and let's assume that spring and into summer is going to be similar to last year, in terms of, you know, things get better, lockdowns come off a bit, but, really, beyond the summer, we're assuming that things get back to normal, or largely back to normal. We're not kind of making the assumption, for example, that we're going to have the situation that we've got now back in autumn and the whole thing's going to repeat itself. So, that's how we've reflected that. It's a forecast of that.

Michael Tupholme:

Okay, that's ...

Jeff Bell:

I think the only thing I'd add to that, Ian, is—and, therefore, because we forecast on sort of full-life project, this is not a run rate number kind of quarter-by-quarter. It represents our reassessment based not only sort of Q4, but, as Ian said, the assumptions out, including what we see related to COVID impacts in the next six months.



SNC • LAVALIN

Ed Edwards:

And I would stress, on top of that, as well—thanks, Jeff—that we are not taking the revenue that we believe we're entitled to again. Our approach here is one of prudence, because we don't want to add more risk into the business, we're trying to de-risk the business. So, we've taken this charge on the basis that, actually, we should get recovery for this, we should get recovery for all it, from the three clients, and we are pursuing that hard, as we said, through even the litigation on Eglinton.

Michael Tupholme:

Thank you.

Operator:

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

Benoit Poirier:

Yes, good morning, gentlemen. Jeff, could you maybe discuss about the impact on your financial leverage and the cushion you will have versus your bank covenant, given all those charges?

Jeff Bell:

Yes, as Denis said, I don't want to get into sort of Q4 results, or anything. What I would say is that our banking covenants have clauses that specifically exclude transactions, like the Oil & Gas business, where we're disposing of a business, or one-off non-recurring items, like you see with the LSTK litigation review, the claims receivables, the kind of one-off charges related to all those sort of legacy items. What I would say is that the amounts that you see today, which, of course, are largely non-cash, but to the extent they affect EBITDA, it's really around the Infra LSTK elements. As we said in Q3, we were well within our covenant ratios and we'll continue and we intend to operate that way.

Benoit Poirier:

Okay. Now, could you maybe provide some colour on what will be the next priorities, kind of the free cash flow capabilities going forward, and whether there's any other divestiture to consider, that you might consider down the road?

**Ian Edwards:**

Our priority is absolutely in the growth of the Engineering Services business, so to get this fully transitioned to be a leading professional services and project management company. I think we've always said that continuing prudence and strength in the balance sheet is our first priority, but clearly now, as we get into our growth plan over a longer period of time, then our capital allocation plan will drop off there. We're not in a position to get into the details of that today, but, absolutely, that's a priority, and that's something that we'll be communicating at the right time.

Benoit Poirier:

Okay, thanks for the time.

Ian Edwards:

Thank you.

Operator:

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

Chris Murray:

Thank you. Good morning, folks. Jeff, maybe the first question for you. Just on the transaction, just a couple quick questions. I'm assuming that there's no debt or other material balance sheet items that go with the carve-out. Is that fair to assume?

Jeff Bell:

Yes, that's correct. Mostly, what transfers or goes with it is working capital-type items, you know, receivables, work in progress, trade payables, etc., some debt-like items related to that, but from an operating perspective, working capital perspective.

Chris Murray:



SNC • LAVALIN

Okay, no, fine, I just wanted to clarify it. Then, my other question is just talking—thinking about the residual business in the Services, you've done a good job of giving us an idea at least around the LSTK run-off, but what's going to be left with the Mining Services business? Just looking at Slide 6 for a sec, you're talking around \$55 million in backlog. Is it fair to think that—and we've talked a little bit about this in Q3—that that business should look like the rest of your Engineering Services business on a go-forward basis? I think you discussed maybe rolling that out into your Engineering Services business as we go into '21, but just any thoughts around that, around your ability to grow that business, and, as well, the margin profile?

Ian Edwards:

Yes, I mean, you know, mining was a very, very significant part of SNC-Lavalin's business historically, you may remember that, and the business currently, it's a relatively small business that's left. However, it's centered around specific clients, and the long-term relationships that we've got with specific clients, and you should absolutely think of it as being part of the Engineering Services business and operate at a similar level to the Engineering Services business. Because, we've got one remaining LSTK that will exit about the middle of this year and we won't be doing any more of those, and it'll be all about services and giving professional services to our mining clients. So, yes, that's exactly how you should think of it, yes.

Chris Murray:

The \$55 million in backlog that you had at Q3, is it fair to think that's kind of like 10 or 11 months of backlog?

Ian Edwards:

No, it's less than that. I would say it's about six months of backlog. We are winning work. I would say the Services part of this should get up to about a \$100 million revenue business.

Jeff Bell:

Yes, it's Jeff. Probably, kind of \$100 million, \$150 million over the last 12 months or so. It is a business that, effectively, wins work and liquidates work in a year, so the backlog isn't always indicative of how



SNC • LAVALIN

that business goes forward that way. But, as Ian said, it's not a huge part of the Group, but it is one that is profitable and, as Ian says, one that has a long history with SNC on the Services side.

Chris Murray:

All right, that's helpful. Thank you, folks.

Ian Edwards:

Thank you.

Jeff Bell:

Yes, you're welcome.

Operator:

Our next question comes from Mona Nazir of Laurentian. Please go ahead.

Mona Nazir:

Good morning, and thank you for taking my questions. My first one was more just for clarification. I'm just wondering if you could break out the \$90 million charge related to the Lump-Sum Turnkey Infrastructure projects. Does one project have a significantly higher weighting than the others?

Jeff Bell:

Yes, it's Jeff here. We haven't broken that out. In reality, it's spread across the different projects. As Ian said, they're all affected to greater or lesser degrees with respect to COVID. The only other thing I'd say is on a project, for instance, like Trillium, now that we've—and Ian talked about that in the presentation—now that we've got farther along in terms of our percentage of completion, we've largely finished the engineering for that project and, as a result, we also get better visibility into the construction costs and the trajectory of that. But, it's effectively mixed across the different projects.

Mona Nazir:



SNC • LAVALIN

Okay, that's helpful, and just for my understanding, as a follow-up, is there another bucket, or it's just materially those three projects?

Jeff Bell:

No, it's those three projects.

Mona Nazir:

Okay. I understand that you're looking to clear the deck with a press release this morning and reducing the overall risk profile. After the provisions in claims in Q4 and the related charges on the Infra side, I'm just wondering if I could get your thoughts on your most significant concern for the business going forward.

Ian Edwards:

I think—well, I don't think it's a concern, I think it's more excitement. I really now believe that we can focus on our Engineering Services business, all of which are really solid businesses that are performing very well, and the end markets for those businesses, in ADPM, Infra Services and Nuclear, are very, very strong markets, and have remained strong even through COVID. I think this move, for me, enables a moment in time where we have got down to this manageable level of risk, the legacy risks, that have been provided for in this review, and the sale of Oil & Gas, and we've got a whole focus on growth of Engineering Services. So, more excitement than concern, I'd say, from my perspective.

Mona Nazir:

Okay, that's helpful, and just a follow-up on prior line of questioning in regard to the Oil & Gas divestiture. I'm just wondering, was there a formal bidding process that you put out there?

Jeff Bell:

Yes, it's Jeff. We had more than one—as Ian said, more than one expression of interest. As is normal in these cases, we took that process forward and eventually ended up in exclusive discussions with Kentech, the ultimate party that we signed the agreement with.



SNC • LAVALIN

Mona Nazir:

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

Ian Edwards:

Thank you.

Operator:

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

Maxim Sytchev:

Hi, good morning.

Ian Edwards:

Good morning.

Maxim Sytchev:

I just wanted to clarify a couple of things. In terms of the 20 claims that you identified, do you mind, maybe, bucketing them in terms of verticals, if it's possible?

Ian Edwards:

I don't think we want to get into that sort of level of detail. I mean, the reason to kind of go beyond a general statement was to just give some level of quantification as to the amount of issues that we're now left with after 18 months of battling through the issues and resolving issues. Obviously, these are litigations and they're with clients and they're all ongoing litigations, so I think it would be difficult to go to another level of detail.

Maxim Sytchev:

Okay, that's fair.

Jeff Bell:



SNC • LAVALIN

The only thing I'd add to that—and, Ian, you referenced this earlier—is that it really is across our legacy history of Lump-Sum EPC contracts that way, so it obviously includes oil and gas, mining, power, you know, infrastructure. So, I'd say it's kind of broadly across our history that way.

Maxim Sytchev:

All right, okay. Then, in terms of how should we think about spreading these things out, I mean, like, what's the tail risk of these things? Is it two, three, four years? How should we think about that?

Jeff Bell:

Well, I think, obviously, from a legacy litigation perspective, we believe, with all the work we've done, and, frankly, the ones that settled out in Q4, how that helped read across to other litigation matters we have, with the reviews that we did, all the new information that we had in Q4, we feel that we're highly confident in the positions that we've taken. The nature of litigation, though, is that it can sort of go on for a few years. As I said, it could be two, three, four years before they're all sort of finally either resolved or settled out, but I think we feel like we have a high degree of confidence in what we've taken and the review that we've done, and that's, frankly, been based on real information and settlements and perspectives we have specifically here in Q4.

I think the rest of it is on the other non-litigation elements. We're in active negotiations and discussions with all our clients on those. Some could resolve earlier, some could resolve later, but those are non-cash, obviously.

Maxim Sytchev:

Right, and, actually, that was my follow-up question, in terms of what makes these claims—because, you stated 75% non-cash, but, hypothetically, if something sort of goes against you, that becomes cash, so how should we think about this?

Jeff Bell:

No, the way you should think about these is that they are, effectively, recovery of costs that we've already spent, that we are looking to recover from our customers. So, in a sense, while there's an



SNC • LAVALIN

opportunity cost to it, there's no incremental cash flowing out of the business by adjusting those claims receivable down. It's just the opportunity cost of our being not being able to recover that and not having the highest degree of confidence to do that.

Maxim Sytchev:

Okay, that's actually very helpful clarification. So, theoretically—I mean, I know that you don't want to be talking about guidance, and things like that, but, theoretically, the non-cash working capital sort of visibility should start to improve now that you have flushed out all that stuff, and, obviously, with Oil & Gas gone. Do you mind, maybe, providing any commentary there?

Jeff Bell:

Yes, no, I think you're absolutely right, and, indeed, that's one of the planks or elements of this, as Ian said. The Engineering Services business, which is the heart of what we're taking forward, where we think we have great capabilities, some really unique competitive advantage situations in some of the businesses, is also a business that is, as one of the slides showed, quite consistent and stable in its financial delivery, and that includes profit all the way over to cash flow. Therefore, this will over time, I think allow us to demonstrate a much more stable set of cash flows and, as you say, working capital movement going forward.

In the short term, as you heard me say in Q2 and Q3, there's been noise around some of the COVID payment terms, and all the rest of it, that governments will have in place, but as that works out, I think we'll see much better visibility into cash flow generation and the conversion of that to free cash flow.

Maxim Sytchev:

Okay, that's very helpful. That's it. Thank you so much.

Jeff Bell:

Thank you.

Ian Edwards:



SNC • LAVALIN

Thanks.

Operator:

Our next question is a follow-up from Mark Neville of Scotiabank. Please go ahead.

Mark Neville:

Hey, guys. Sorry, just a few follow-ups. Just to follow-up on Max's question on the tail risk and talking about the \$140 million of provisions, is this something that you're going to have to review every quarter and that we're talking about every quarter, or is this sort of now sort of on as-needed basis or as things come up we'll talk about them? Is that sort of how to think about it?

Ian Edwards:

Well, yes, obviously, we will provide and execute a high level of oversight to executing a conclusion of all of those litigations where we've made those provisions. Like I kept saying, they're a reasonably small number that have a potential for material kind of loss now, and this review, we absolutely think has given us a risk profile which is down the middle, which has got opportunity and risk in it, so we wouldn't expect going forward anything adverse. But, yes, the oversight will continue and, obviously, we will continue to rigorously defend and pursue all of these litigations, as we said.

Jeff Bell:

But I think, as you said, Mark, I would only expect we'd be talking about these on an as-needed basis. Clearly, what we've done today is to try and de-risk the business in a way that it would be very rare, if ever, that we would have to talk to that.

Mark Neville:

Great, and maybe to follow up on Michael's question on the \$90 million provision you're taking for the LRT projects, just so I make sure I understand. I guess you're assuming through the first half of 2021, these efficiencies continue and then once we get sort of beyond that, is it your assumption they operate at a profit or breakeven, or I guess just trying to understand sort of what this looks like sort of post-pandemic?

**Jeff Bell:**

Yes, I think, as Ian said, we would expect to see largely a return to more normalized operations on the projects in the back half of the year. We don't have a crystal ball, so we'll have to assess that when we get there, but I don't think our sort of perspective on the projects, as we've stated previously, would change, that we do expect them to be certainly cash flow breakeven or neutral over their lifetime. I think the way we've set ourselves up is we're recognizing the costs, we don't feel like we have sufficient visibility on the quantity and timing of the recovery of those additional COVID costs, we absolutely believe we're entitled to those, but until we get clarity on that, we won't recognize all of that, and so we've tried to sort of set ourselves up that way, which we really think is, in one sense, it's hard to get a worst case than recognizing all the costs, but not yet being able to recognize the revenue we think we're entitled to.

Mark Neville:

Okay. Finally, just on the Mining & Metallurgy, did you quantify how much backlog or how much work is left on the LSTK projects, and then the service component that will continue going forward, just for housekeeping, will that be folded into Engineering Services or will it sort of run as its own sort of reportable segment or business segment?

Ian Edwards:

We'll update the backlog in Q4. We posted the backlog in Q3. It's going to be complete the middle of this year. The job will get closed out, probably, into the early part of Q3. That's how we should think about that. Yes, for sure, the remaining business will be wrapped into the Engineering Services business.

Mark Neville:

All right, thanks a lot, guys, appreciate it.

Operator:

Our next question is a follow-up from Sabahat Khan of RBC Capital Markets. Please go ahead.



Sabahat, your line is live.

Sabahat Khan:

Oh, sorry about that, I was just on mute. Yes, just a quick one on the mining colour that you just provided. Just so we're understanding this, there's just one last project in your provisioning for it, and it's Q3 that you expect it'll be completed. Is there anything else on kind of the LSTK mining side there, or pretty much everything else is Engineering Services, like you just mentioned?

Ian Edwards:

Well, yes, I mean, what we've said is that, and what we've provided for, is actually three completed legacy projects that we've still got some work to commercially close them out, and one live LSTK, which is complete the middle of this year, and the provision is to cover any kind of outcome from that book of litigation issues and completed projects.

Sabahat Khan:

Great, thanks very much.

Ian Edwards:

Thank you.

Operator:

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