



## **SNC-Lavalin First Quarter 2021 Earnings Conference Call Transcript**

**Date:** Friday, May 14th, 2021

**Time:** 1:30 PM ET

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

**Jeff Bell**  
Executive Vice-President and Chief Financial Officer

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

**Operator:**

Welcome to SNC-Lavalin's First Quarter 2021 Conference Call.

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

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

**Denis Jasmin:**

Good afternoon, everyone, and thank you for joining the call.

Our Q1 earnings announcement was released this morning, and we have posted a corresponding slide presentation on the Investors section of our website. The recording of today's call and its transcript will also be available on our website within 24 hours.

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

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

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



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

First, turning to Slide 4, we're off to a good start in the year, with solid performance across all three segments of Engineering Services. Engineering Services generated revenues of \$1.5 billion and a segment Adjusted EBIT margin of 8.8%. Revenues are essentially on par with Q1 2020, while margins have rebounded to their traditional levels. The backlog also remains robust, with \$1.7 billion in new bookings in the quarter. On SNCL Projects, we continue to make good progress reducing the LSTK backlog, bringing the total outstanding backlog down to \$1.6 billion. Overall, it was a really solid quarter.

Turning to Slide 5, and the Q1 results for EDPM. EDPM had a strong quarter, generating \$81 million in segment Adjusted EBIT. Margins increased year-over-year to 8.6%. The strong performance was due to a combination of factors, which includes strong revenue growth in the U.K. in project management, transport and defence, successful efforts to right-size the business and reduce costs in the Middle East, and recovery in certain markets impacted by COVID in Q1 2020.

The backlog also continued to grow at a really impressive pace. In Q1, EDPM added \$1 billion in new wins, an increase of just over 10%. This is in addition to the nearly 9% growth in Q4 2020, and puts the EDPM backlog at a three-year high of just under \$3 billion. New wins include rail, road, water projects in the core geographies of U.K., Canada and the U.S. This includes an Engineering Services for the U.S. State of Georgia Department of Transport and the long-term renewal of a Master Services



Agreement with Intel for projects and program management. Looking ahead, the pipeline remains strong at \$27 billion, and we remain optimistic across our core markets, as governments look to invest infrastructure to support the twin goals of economic recovery and carbon net zero targets.

Turning to Slide 6, and the Nuclear segment. Nuclear revenues were broadly in line with last year, with the EBIT in line with expectations, albeit lower year-on-year, due to a lower contribution from our Canadian refurbishment works. We continue to see good demand for reactor engineering and for field service work, waste management, as well as for our proprietary tools and technologies, including robotics and digital twins.

Having completed our work on the first reactor at Darlington, we've now ramped up and are progressing well on the second unit, and we're moving into 2021 with several really significant opportunities and growth catalysts on the horizon. These include continued demand for reactor support and decommissioning, intensified tendering by the U.S. Department of Energy for environmental management work across a number of nuclear sites, and continued momentum in the U.K. with the Hinkley Power Station and the proposed new nuclear Sizewell C Project.

Moving to Slide 7, and Infrastructure Services. This segment had a solid quarter and a segment Adjusted EBIT margin ratio of 5.8%, an increase, compared to Q1 2020, resulting from improved profitability and increased activity in OEM and health services. Infrastructure Services won a number of new mandates in the quarter, including a first-of-its-kind contract to retrofit a 100-year-old dam in Pennsylvania with three hydroelectric power stations to generate renewable energy. It also won an additional five-year renewal of a logistics and project management program in Canada. At just over \$7 billion, backlog remains strong, underscoring both the long-term and essential nature of Infrastructure Services.

Looking ahead, we see a number of opportunities in Canada and the U.S. in rail and transit and social infrastructure. Major projects will be a key focus, as we pursue new, collaborative, liability-capped



contracting models, like the East West Rail Project in the U.K., that we were awarded in February. We also see a strong pipeline of opportunities for Linxon in transportation and offshore wind.

Turning to Slide 8, and the Capital segment. This segment continued to be impacted by the lockdown in Ontario, which has resulted in reduced traffic volume on the Highway 407 ETR. As a result, there was no dividend payment in the quarter. Our other concessions continue to perform well. Looking ahead, we see an interest in pipeline of new public/private partnership opportunities, where we can leverage our engineering and OEM capabilities. These include several PPPs in Canada and the U.K. in the sewage and water treatment and hospital space.

Moving to Slide 9, and Infrastructure EPC projects. We continue to make good progress reducing the LSTK construction backlog by over \$200 million in the quarter. The LSTK backlog, which is comprised of the three remaining Canadian LRT projects, was \$1.5 billion at the end of March. This segment recorded a negative Adjusted EBIT for the quarter of \$11 million.

Turning to Slide 10, and the Resources segment. We continue to target completion of the sale of our oil and gas business in Q2. Our M&M Services business is performing well. We are seeing growth in revenue and profitability, which is really being driven by increased demand for the materials used in clean energy storage, including electric vehicles.

Moving to Slide 11. As you may have seen earlier today, we released our ESG targets and commitments, including a commitment to reaching carbon net zero by 2030. We've developed a detailed plan to achieve this ambitious target which brings a low carbon lens to everything we do, from our travel policy and electric vehicle leasing to reduced energy consumption within our real estate footprint. To reach our goal, we have set annual targets that will be verified by third parties and published to the Carbon Disclosure Project.

Overall, we have identified 12 ESG priority areas, including protecting and enhancing human rights, corporate integrity, and diversity and inclusion. With regards to ED&I specifically, we've set clear



targets to increase the representation of women at all levels of the Company. As you can tell from our commitments, we see ESG as an integral part of the Company's future growth and sustainability.

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

**Jeff Bell:**

Thank you, Ian, and good afternoon, everyone.

Turning to Slide 13, total revenues for the quarter amounted to \$1.8 billion, which is slightly lower than the corresponding quarter in 2020. SNCL Engineering Services revenue was lower by 1.3% and at the low end of our outlook range for the quarter, as the COVID-19 pandemic did not significantly impact Q1 2020. Segment Adjusted EBIT for the quarter was \$143 million, which included a segment Adjusted EBIT of \$133 million for SNCL Engineering Services, \$19 million for Capital, and negative \$8 million for SNCL projects. This latter negative EBIT was mainly due to the Infrastructure EPC Project segment, which had a reduction in gross margin, as the first quarter of 2021 included costs in closing out certain projects nearing completion and the impacts of COVID-19, partially offset by a reduction in overhead expenses.

Corporate SG&A expenses totaled \$16 million in Q1 2021, compared to \$37 million in the first quarter of 2020. This quarter included a revision to certain estimates and cost accruals that reduced the expense in the quarter, while Q1 2020 included a \$10 million additional provision adjustment for the pyrrhotite litigation.

The adjusted net income from PS&PM in Q1 2021 amounted to \$83 million, or \$0.48 per diluted share, representing a 37% increase, compared with Q1 2020. Both periods benefited from a lower than normal effective quarterly tax rate. Q1 2021's low tax rate was primarily driven by the reversal of certain provisions for tax liabilities, which had an impact of \$0.07 per share.



Backlog ended the quarter at \$13.2 billion, compared to \$13.9 billion at the same time last year. The decrease was primarily due to the continued runoff of the SNCL Projects backlog related to LSTK projects, which decreased by \$824 million. SNCL Engineering Services backlog, on the other hand, increased by 1% during the same period, with an increase of 10% year-over-year in EDPM to \$2.9 billion. In Nuclear, backlog decreased by 17% over the last 12 months, mainly due to the progress on the Company's major long-term refurbishment contracts in Canada. The business continued to be awarded extensions to ongoing contracts in Canada, and other long-term contracts in the U.S. and U.K. regions. As for Infrastructure Services, the backlog remains solid at \$7 billion, in line with the end of March 2020, mainly due to strong contract wins over the 12-month period.

Turning now to Slide 14, our days sales outstanding reached 61 days at the end of the quarter for EDPM, a 12-days' improvement, as compared to Q1 2020. This improvement is mainly the result of our continued focus on cash collection and early government payment programs related to COVID-19. For full year 2021, the strong operating cash flow attributes of SNCL Engineering Services are expected to be partially offset by a return to a more normalized DSO level later in the year.

At the end of March 2021, the Company had \$703 million of cash. The recourse debt decreased by \$175 million, compared with December 2020, as we repaid in full the Series 3 debentures, which reached maturity during the quarter. The Company's net recourse debt to EBITDA ratio on the revolver credit facility, calculated in accordance with the terms of the Company's credit agreement, was 1.8 times, well below the required covenant level of 3.75 times.

Moving on to Slide 15, net cash generated from operating activities was \$6 million in Q1 2021, compared to \$23 million in the same period last year. SNCL Engineering Services continued to generate strong cash flow from operations, with \$118 million in the quarter, due to strong EBIT conversion and a low DSO in the EDPM segment, while Capital generated \$21 million. After cash taxes, interest and corporate items, you can see that we generated \$97 million of operating cash flow in the quarter, which was offset by \$124 million cash usage from SNCL Projects.



Note that the cash profile of SNCL Projects can be very lumpy during a year, depending on the progress and specific milestones achieved for each project, compared to the more consistent quarterly cash flow profile in Engineering Services, and we don't consider SNCL Projects cash flow usage in Q1 representative of the remaining quarters in the year. For 2021, we continue to expect the Company's operating cash flow to be largely breakeven, as a result of a return to a more normal DSO profile in Engineering Services by the end of the year and a usage of cash in SNCL Projects.

Finally, turning to Slide 16, the Company is maintaining its SNCL Engineering Services revenue growth and segment Adjusted EBIT to revenue ratio outlook. We also continue to target the same long-term EBIT margin percentage for each segment.

This concludes my presentation. I'll hand it back to you, Ian.

**Ian Edwards:**

Thanks, Jeff.

Turning to Slide 18, I'd like to conclude my remarks with a few key takeaways. We're really encouraged by the strong start to the year. We continue to make important progress on our two main priorities, which is to de-risk the business and accelerate growth in Engineering Services. We're seeing a strong pipeline and new business opportunities across all our core markets, as governments invest in new infrastructure and green initiatives. We're doing our part, both as a company and as a partner to governments and private clients, through our Engineering Net Zero offering, which provides a broad range of sustainable solutions in energy, transport and infrastructure. We see this as an integral part to our future growth. We look forward to sharing more about those growth opportunities at our Investor Day in September.

Thank you. I'll now open the call to 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 afternoon.

**Ian Edwards:**

Hi, Jacob.

**Jacob Bout:**

A question on your Engineering Services, the low-single-digit revenue growth guidance. Given that revenue was down just 1% in Q1, and I would point out it appears that you've outperformed your peers on an organic revenue growth perspective, are you building in a level of conservatism; and I guess, secondly, how back-end loaded is this guidance for the year?

**Ian Edwards:**

Well, I don't think we're building in an extra level of conservatism. Clearly, we are being prudent, because we still see that, although we've had a very strong book-to-bill in Q4 and Q1, we're still in the pandemic. We're also seeing very, very strong indications of kind of future commitment and we really expect those to kind of hit the revenues probably more in '22 than '21. We've look at it, obviously, I mean, we've thought about this and we've looked at the pipeline, and we felt keeping the guidance outlook the same was prudent at this time, but, obviously, we'll keep looking at that as we progress through the year.

**Jacob Bout:**



Then, I guess my second question here, just about the rapid rise in material costs, is this changing client behaviour at all?

**Ian Edwards:**

Yes, that's a good question. I mean, I think the answer is no. The activity that we see in our core markets, in our kind of core end markets, as well as geographies, commitment is still there. I think the supply chain and the flow of materials and demand could be short term, once we get back to normal post-COVID. But, absolutely no, we're not seeing any kind of downturn from that.

**Jacob Bout:**

That's my two, thank you.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Yuri Lynk:**

Good quarter, guys. Ian, I'm wondering how you're feeling with regards to looking to pivot more to growth, and when you think SNC would be ready to do that, especially as it pertains to potential acquisitions, like a lot of your peers are involved in.

**Ian Edwards:**

Thanks, Yuri. We're still very aware we have two priorities here. We still have the LSTK backlog to work our way through, which we're highly focused to do that successfully. However, we've spent a lot of time in the last few months looking at our strategic plan and building on the decisions that we've already made. You've seen the decisions we've made around our core geographies, around the focus around our end markets—geographies being U.S., Canada and the U.K., our end markets being transport,



infrastructure, social infrastructure and nuclear—and we're really focused on how do we grow those, what are the growth drivers, where do we put the energy both organically and inorganically, what does our capital allocation look like over a longer period of time, and we're going to share all of that in the Investor Day in September. The exercise is somewhat ongoing still, but we'll be pretty fixed on it and give you quite a bit more detail then.

**Yuri Lynk:**

Okay, and my second question is for Jeff. I guess, if I had to nitpick on the quarter, it looks like much lower than expected SG&A certainly didn't hurt the EBITDA. Can you explain in a little more detail what drove that, and then is there anything that you can do to make that line item a little more predictable going forward, because it's—you have to admit, it's kind of all over the place quarter-to-quarter?

**Jeff Bell:**

Yes. I think my first observation would be there were a few items in there. Now, to be fair, it's particularly with our investment in digital transformation, which we're holding as a central cost, so we can keep an eye on that and deploy most appropriately. That does give us a run rate per quarter of probably in the \$25 million range. It doesn't take much in one given quarter, a few million one way or the other, just in terms of timing, or, in the case of the first quarter this year, as we looked at some of our—or looked further at some of the provisions that we had, there were some true-ups to that, which in the quarter were a credit. It's essentially one-off. It's not something we would expect to repeat as part of that clean-up. But, yes, you're right, it was about \$7 million or \$8 million, therefore, lower than what we think the kind of normal run rate would be for this year, anyways.

**Yuri Lynk:**

I'll turn it over. Thanks.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Chris Murray:**

Thanks, guys. Just a couple quick ones here. First of all, just with the close of the oil and gas sale, anything that we should be expecting that will change? I know you indicated that we'll probably see some one-time gains in Q2 just to clean that all up, but any other colour or update you can provide would be great?

**Ian Edwards:**

Well, certainly, on the timing, we're focused on trying to get this done in Q2, highly motivated by it, and we're highly motivated to get it done. These things, some are getting consents and approvals, depends on some third parties, so it wouldn't be beyond the bounds of possibility that it slips into Q3, but no red flags. Just on the financials and the mechanics of the deal itself, Jeff, do you want to just talk to that?

**Jeff Bell:**

Yes, I would say nothing material has changed at all. We still expect significant non-cash revaluation of the currency translation account, in particular, but the rest of kind of net assets, in our view of the business, it's largely the same as it was a few months ago.

**Chris Murray:**

Okay, that's helpful, thank you. Then, I don't know who wants to take this one, but one of the questions I've been getting asked a lot is, as you've been transitioning away from being constructors of assets and being more designers of assets, is the thought process around the Capital group? I know you've got some good assets there, and we've talked about the 407 in the past just being a good use of capital, but just the question is about creating additional assets, and I guess the non-407 Capital business, how do you think about that fitting into the Company on a go-forward basis.

**Ian Edwards:**



Yes, that is a really good question, Chris, and hopefully I can help. Certainly, we see ourselves as partners of customers to deliver an asset. That means, to me, designing the asset. It means consulting and advising on what assets should look like. It means, obviously, in the construction of an asset and it means operating an asset, as well. So, all of those capabilities, as you know, historically, have been very strong in SNC-Lavalin, and we're not about to stop doing those things. We don't do lump-sum construction anymore, but we do all the other things to help our customers realize their kind of aspirations to deliver efficient assets.

Interestingly, the kind of PPP market is changing a little bit, what we're seeing in the middle portion of the construction element. In some countries, they're more collaborative contracts even, and if we see that, then, for sure, we're going to leverage our capital capability and invest in assets, so that we can obtain the design project management oversight and operation work from it.

Here, in Canada, for example, we're now partnering with construction companies, so that we can be the designer and the operator, and we can hold part of the concession as an investor, and, obviously, leverage again all the capability that we've built over many years, and actually being pretty good at financially engineering these things and delivering the whole project.

So, we've thought about that quite a bit since we exited LSTK, so it's a good question.

**Chris Murray:**

Okay, thanks, that's helpful.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Benoit Poirier:**

Yes, thank you very much, and a good quarter. Just on the Nuclear side, there's been a lot of discussion around nuclear energy in the context of the green transition. Could you talk about the pipeline of opportunities in front of you across key geographies?

**Ian Edwards:**

Yes, thanks, Benoit, I can. I think the first thing I'd say is that our strategy on nuclear, it doesn't see new nuclear as kind of the focal point of the strategy. If that happens, that's a plus, and perhaps I'll come back to that. Because, where we play, obviously, is in support to the CANDU reactors around the world, that's an important part of the business, extending the life of reactors, such as Darlington and Bruce, but also in decommissioning and waste cleanup.

Actually, where we see the biggest kind of short-term growth, short-term three years, is in, actually, the waste and environmental management, environmental cleanup of nuclear waste, particularly in the U.S. The Department of Energy is really pumping a lot of funds into that, with some very, very big programs, to clean that up. But, we're also seeing that, in particular, in the U.K., where decommissioning of the aging fleet, and waste cleanup at their Sellafield plant in the north of England is pretty big, also. So, the real growth plan that we've got, the biggest driver, I would say, is in, actually, waste remediation and cleanup.

Now, if—and I think it's an if. As you said, the question mark's out there. If nuclear becomes an acceptable form of clean energy in the global forum, then we will be absolutely there to sell our services, and potentially even sell the CANDU technology, but I think that's a little off yet.

**Benoit Poirier:**

Okay, perfect. Specifically, on LSTK Projects, could you talk, in particular, if there's any key elements to monitor. especially as you ramp down the resource backlog?

**Ian Edwards:**



No, I think the three jobs we've got, Eglinton, Trillium and REM, the jobs are going well, but they're still being impacted by COVID. We were assessing that we're going to be out of COVID round about the summer, if you remember, in the updates from previous quarters. We're still optimistic about that. We're hoping that the vaccines in Canada will bring us back to normality and we can get people to the projects and reduce social distancing and reduce the kind of number of outbreaks on the projects, where we have to isolate part of the project. But, certainly, what we're seeing so far in Q2, obviously, the impact is ongoing. But, apart from that, we continue to negotiate with our customers to try and resolve the whole settlement around COVID. No real update there. It's going to take some time. No red flag, but these things take time to kind of pursue.

**Benoit Poirier:**

Okay, thank you very much for the time.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Michael Tupholme:**

Thanks. Maybe just picking up on that last question and answer regarding LSTK and how you had planned for resumption of activity more closely aligned with that you would have historically seen, as it relates to COVID, to what extent do you think you will then need take additional provisions if this does get extended?

**Ian Edwards:**

Well, obviously, there's a few unknowns and a few things to play out here. I mean, first of all, we've kind of got to see what happens this summer in terms of productivity. We assessed that going into the



summer, so no issue right now, but we need to see what happens in the summer. I would say that from a productivity perspective.

Then, there's the recovery of loss from our customers. As you know, we've taken a very prudent view to that recovery. We're absolutely confident we're entitled to recover that loss. We know it takes time. I mean, this is quite complex. The proof of loss is on ourselves, the burden of proof is on us, so we've got to kind of make sure that we pursue that and demonstrate the loss. We don't expect it to kind of take weeks, it more of a months' exercise, but if we start seeing some resolution there, then that could be a positive.

So, there's a few moving parts there, but no concerns right now.

**Michael Tupholme:**

Okay, that's helpful, thank you. The second question is regarding the backlog in the EDPM segment. Obviously, very strong backlog growth year-over-year, up 10%. Can you talk about the composition of that backlog, and has the duration of that backlog extended? Because that's, obviously, very strong year-over-year growth, and thinking about the fact that you're guiding to sort of low-single-digits top line growth in EDPM for the year, as well as the other parts of SNCL Engineering Services, I'm just wondering how we should think about the backlog and the composition.

**Ian Edwards:**

For sure, we're seeing the U.K. as a strong market, with some wins, some good wins, and we're seeing the U.S. as a strong market, and some good wins in the U.S. I think, if you remember, we kind of adjusted our view of what we would be able to win in the Middle East, going back to Q1 last year. Actually, the Middle East is doing quite well now, also. But, I think the majority of what you're seeing there as very strong backlog at this time will be the U.K. and the U.S. The U.S. business is up, without the Biden investment. I mean, it's up just year-over-year in terms of volume in our specific end market. We're pretty focused on transport infrastructure in the U.S. and we see that as being quite strong. Those are the key areas.





**Michael Tupholme:**

Right, okay, perfect, and maybe just to clarify, to your answer there, Ian, the work you've been adding, does that stretch over a longer period of time, in terms of sort of months of backlog, relative to maybe what you've historically seen? Are these larger projects that will occur over longer periods of time?

**Ian Edwards:**

Not really. The mix of business—you know, our EDPM business is a pretty even mix between consultancy, design and kind of project management, and most of those have durations of less than a year, and we're seeing something similar to that. I mean, not specifically, no.

**Michael Tupholme:**

Okay, that's all. Thank you.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Sabahat Khan:**

Thanks, and good afternoon. You made a comment earlier around you were thinking about how to grow in the future, kind of quarters and years, in some of your core markets, not just the geographies, more the end markets you're in. What are your thoughts, I guess, on potentially considering some new end markets, the ones where you may not have a presence through M&As, focused really on kind of focusing on things that you already have a good presence in, and is this something you're thinking as part of your strategic plan or just longer term?

**Ian Edwards:**



Well, I mean, I can give you a flavour of how we think about it, rather than perhaps a lot of detail, but we'll come to more detail in September. We've spent a lot of time simplifying our business and de-risking it from low profitable business lines, and loss-making business lines, frankly, and that's been a high part of our focus over the last 18 months to two years. Where we find ourselves, primarily, is our three core geographies, U.K., Canada, the U.S., highly focused on nuclear, social infrastructure, transport infrastructure, and government clients. We think the decisions we've made to get down to those are the right decisions, because that's where we see growth from the market size, but also growth from SNC-Lavalin's market share. If you take the U.S., our market share is quite small and we've developed a pretty detailed plan on how we're going to build our market share there. If we even think about Canada, this period that we've been through to not take on LSTK work, it's reduced our other services side, so we've got runways to go back there.

So, I think, for our focus, I think we've got the right focus. Do we need more capacity through inorganic growth? Yes, and we're absolutely looking at that. But, it's more of what we've already got, I would say, at this time, rather than looking at alternative markets and capabilities.

**Sabahat Khan:**

Great, thanks, and then just a second question. A lot of your peers have been talking about the outlook for growing demand and the need to ramp up hirings. I just want to understand the efforts you're making on that front and your plans to grow your workforce as demand picks up.

**Ian Edwards:**

Yes, really good question, because in the strategic planning that we're doing, the talent plan and the capacity plan is very, very important to the growth plan and to the strategy growth. So, we think about in three ways.

We think about it in terms of growing the talent, what talent do we need, how do we attract more talent, and, obviously, we've done a lot of work on the culture, we've done a lot of work on our purpose, and



we've done a lot of work to improve the employee experience within the business, and that's paid off for us both in not losing employees, but also being able to attract employees.

But, we also think about it in terms of building capacity through the move to digital tools and automated design, and increasing our capacity from digital transformation. So, that's been an interesting journey over the last few years, as well.

Then, lastly, we have been quite successful in building a very, very capable global technology centre out of India, which supports our businesses globally, from a design and a 3D and a modeling perspective.

So, we think the answer is not just more people. We think that it's actually digital tools, offshoring and doing things more efficiently, as well as more people.

**Sabahat Khan:**

Perfect, and if I could just sneak in one. I guess this is a follow-up to your comment. I think in your ESG announcement this morning, you indicated that rationalizing buildings and facilities is part of kind of the strategy there. Is that a review you're doing right now, that we should expect an update on, or how far along are you there?

**Ian Edwards:**

Of the real estate, is it?

**Sabahat Khan:**

Yes, the real estate, yes.

**Ian Edwards:**

Yes, yes, for sure. I mean, we started before COVID. We were moving to a more flexible work arrangement and higher density in our offices before COVID. In fact, two of our biggest offices in the



U.K. had already transitioned to that more flexibility, more density. Like all companies, COVID has accelerated remote working, and we are going to continue to increase density in our offices and look to work in offices that have got a greener footprint to reduce our running costs and the overall carbon footprint of the business.

**Sabahat Khan:**

Thank you.

**Operator:**

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

**Devin Dodge:**

Great, thanks. Just a couple of cash flow questions, maybe for Jeff. First, I believe there was a favourable resolution to a claim in the legacy oil and gas division during Q1. I'm just trying to understand, does SNC get to retain that benefit, or will that payment get transferred to the buyer as part of the working capital adjustments when the transaction closes?

**Jeff Bell:**

That benefit stays with us, as kind of the owner, the current owner of the business, so it was good to see that. We did have a—that was partially offset by some continued true-ups in the remaining legacy oil and gas business. But, yes, you're right, we did have a positive settlement to that project and that benefit stays with us.

**Devin Dodge:**

Okay, good to hear, and another one. Last quarter, you talked about, roughly, like a \$150 million cash flow item from DSOs and EDPM normalizing, and the payment of deferred taxes, and I think you mentioned in Q1, we saw DSOs move even lower from where they were in Q4. Just how should we think about that cash flow headwind now versus when you guys reported Q4?

**Jeff Bell:**

I think we would continue to see it largely similar to how we saw it in Q4. You're right, it ended up in a good position at Q1, I would say even slightly better than our expectations, and a lot of that continues to be the strong focus on cash flow and cash flow management that we've been driving into the business, but we will see, whether it's that reversal, which is more in the remaining nine months of the year, and the natural expectation of seeing some of that DSO unwind back into—we do think it would end up back in the low 70s, roughly. Therefore, we think that headwind is still largely the same as it was, you know, that we talked about at the end of the year. Obviously, we'll need to see how the quarter is continuing to go forward and how governments react, but I think that would be our view currently.

**Devin Dodge:**

Okay, thanks. I'll turn it over.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Mark Neville:**

Hi, good afternoon, guys.

**Ian Edwards:**

Hi, Mark.

**Mark Neville:**

Nice to see all the hard work paying off. Just a few follow-up, actually. On the sale of your oil and gas business, I guess I'm less concerned about the timeline, but I'm just curious, is there any significant hurdles or risks or milestones we need to be aware of before this gets done?

**Jeff Bell:**

It's Jeff here, maybe I'll add a bit of colour to that. I think our view on that is no. As Ian was alluding to earlier, in terms of what we said back in February 9, as well, there are clearly a number of hurdles, you know, regulatory-wise and filing-wise, in particular, not to mention the actual operational work that we do to carve the business out, but I think our view would be all of that remains on track, and while it's a lot of work, we haven't seen any particular red flag or issue that we hadn't anticipated before, so I think it's mostly about the amount of time, and we continue to target the end of Q2. But, as Ian said, part of that, in terms of those regulatory filings, aren't completely within our gift. So, to the extent, because of COVID or otherwise, it takes a little longer, that could slip, but we and the buyer are highly focused on trying to do this during the quarter.

**Mark Neville:**

Okay. In terms of the cash flow, and I appreciate the lumpiness within Projects, but is there a period in time where these cease being uses of cash, or is it going to be quarter-to-quarter, you know, kind of this lumpiness?

**Jeff Bell:**

Yes, I think it will continue a bit lumpy here, probably through—certainly through 2021. Now, obviously, the more we reduce the backlog, as more effectively the remaining work narrows and gets lower and lower, then, naturally, in a sense, the lumpiness or the variability quarter-by-quarter is likely to narrow, as well. I think Q1 was, in our view, at probably the extreme end of what we would normally see in terms of lumpiness, and I think going forward, while it may remain lumpy, I think we wouldn't consider Q1 to be typical of the variability to that extent. I think Q1 was a bit unique.

**Mark Neville:**

Okay, and maybe just on the real estate comments, or the question. I appreciate sort of the flexible work arrangement, but it just wasn't clear to me. Do you think there's going to be an opportunity to shrink your footprint in a material way, or no?

**Ian Edwards:**

Yes. I mean, we have a plan. We have a definitive plan of moving our offices to a higher density. Our model office for density is actually our London office in Victoria. It's a really good office. There's flexible working, it's hot-desking or save-a-seat kind of approach, and it works really well. The employees love it, because it's a lot more collaborative. It's a lot denser and, therefore, it's less expensive than the offices we've got around the world.

Now, like I said, we've been at this for a couple of years, so it preceded COVID, and we've been executing on that plan. As leases have come up and as we've looked to renew leases, and as we've looked to kind of replace offices, we look to go to this model, where there's a lot higher density. To some extent, COVID has accelerated that.

It obviously will have some impact on SG&A, but, in the whole scheme of things, it's not like grossly significant? I wouldn't put it that way, Jeff, would you?

**Jeff Bell:**

No, I would agree with that. We have seen savings, we continue to see savings in 2021, and we would expect to see savings going forward, in terms of the multiyear plan we have around our office footprint. It's a good source of future cost savings, but, as Ian said, it's not earthshattering in its size.

**Ian Edwards:**

But, I mean, the real benefit is the employee experience. We've got such positive feedback from our employees. We're all going to have to compete for talent, so these things are really important.

**Mark Neville:**

Great. All right, thanks for that, and congrats again.

**Ian Edwards:**



Thank you.

**Jeff Bell:**

Yes, thanks.

**Operator:**

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

**Maxim Sytchev:**

Hi, good afternoon, gentlemen.

**Ian Edwards:**

Hi, Maxim.

**Jeff Bell:**

Good afternoon.

**Maxim Sytchev:**

Just a couple of very quick cleanups for me, if I may. I don't know if in the past we discussed this topic, but like, obviously, the peers present their revenue on a gross and net basis, and I'm just wondering if, at some point, you guys have thought about sort of harmonizing with that presentation, so that investors can actually see the implied kind of clean EBITDA margin for the business, or—yes, maybe any thoughts on that front, if possible.

**Jeff Bell:**

Yes, it's Jeff, I'll take that, Max. It is something we are aware of and it is something that we are looking at. We think the EBIT to gross revenue metric we have is a good one, not the least of which is we effectively take risk and profit risk on the gross cost of the project, not just the net cost, in a sense, but, however, we are looking at a net revenue to EBITDA number, as well, and, again, would potentially





come back later in the day, around the Investor Day, might be the right time, as we start to think about multiyear financial metrics and targets, how that might play into it.

**Maxim Sytchev:**

All right. Because, yes, that would be obviously helpful, because everybody's talking about like 15%, 16%, so different ballpark.

**Jeff Bell:**

Yes.

**Maxim Sytchev:**

One quick question on the free cash flow slide on Page 15. The leases, are they in the consolidated free cash flow, or we'll have to adjust for those?

**Jeff Bell:**

Well, you have to—in a sense, the kind of interest component is in the operating cash flow. Effectively, the principal element is not. It's a financing cash flow, and that's where we'd hold it.

**Maxim Sytchev:**

Right, yes, okay. It's not adjusted, therefore, for (inaudible 50:13).

**Jeff Bell:**

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

**Ian Edwards:**

Thank you.

**Operator:**



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

**Denis Jasmin:**

Thank you very much, everyone, for joining us today. If you have anymore questions, please don't hesitate to contact me. I wish you a good afternoon and a very nice weekend, and stay safe, all. Thank you very much. Bye-bye.

**Operator:**

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