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**SNC-Lavalin**

**First Quarter 2022 Results**

**Conference Call Transcript**

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**Time:** 8:30 AM ET

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

**Ian Edwards**  
President and Chief Executive Officer

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



**Operator:**

Thank you for standing by, this is the conference operator.

Good morning and welcome to SNC Lavalin's First Quarter 2022 Results Conference Call.

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

To join the question queue, you may press star then 1 on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star then 0.

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

**Denis Jasmin:**

Thank you, Ariel.

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

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

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

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

I would like to draw your attention to Slide 2. Comments made on today's call may contain forward-looking information. This information by its nature is subject to risks and uncertainties, and as such, actual results may differ materially from the views expressed today. For further information on these



risks and uncertainties, please consult the Company's relevant filings on SEDAR. These documents are also available on our website.

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

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

**Ian Edwards:**

Thank you, Denis, and good morning, everyone.

Before we begin, I'd just like to take a minute to recognize the tireless efforts of our 31,000 employees worldwide and delivering everyday for our customers. Every one of them continues to take pride in being part of the SNC-Lavalin community, and I can't thank them enough for their dedication and positive impact.

So I'd like to begin today on Slide 4. During the first quarter, we saw continued growth in top line performance as total revenues increased 3.8% year-over-year to \$1.9 billion driven by our SNCL services business, where revenues were up 6.8% over the first quarter last year to \$1.7 billion. Excluding the impacts of foreign currency, we achieved a robust organic growth of 8.4%. SNCL Services segment Adjusted EBIT of \$127 million represented a 7.6% margin. Over the first three months, our LSTK backlog decreased by \$210 million to just under a billion dollars, and we remain on path to substantially closing out these projects over the next several quarters.

Following our first quarter results, we are reaffirming our 2022 outlook, including SNCL Services revenue growth of between 4% and 6% versus 2021 with a segment Adjusted EBIT to segment revenue ratio of 8% to 10%, and overall company positive net cash from operating activities.

Our solid start to 2022 reinforces our optimism in regaining the sustainable progress on our journey to align the Company on key growth trends, such as government-funded infrastructure programs, digital



innovation, climate change to Net Zero, all of which leverage our unique end-to-end solutions from design through to decommissioning.

Turning to Slide 5, our engineering services business capitalized on momentum from the fourth quarter 2021, delivering strong results for the first quarter of 2022. Leveraging the depth and breadth of our services, the capabilities of our team, and the long-standing relationships with our client base, we continue to take strides in achieving above market growth.

Revenues were up 10% on an organic revenue basis over Q1 last year to just over \$1.1 billion driven by strong growth in the U.S., Canada, and the U.K. Segment Adjusted EBIT was flat year-over-year, as the continued strong performance in the U.K. was offset by increased business development costs to win new projects and expenses related to executing on our Pivoting to Growth Strategy.

The quarter witnessed key wins across the U.S. and Europe, such as a recent contract extension for our work on the expansion of Southwest Florida's International Airport in Fort Myers. Our near-term growth trajectory is on track against our plan. We continue to execute on our land-and-expand strategy in the U.S., particularly Colorado and New York. As a result, backlog increased 7% compared to the prior year to \$3.9 billion and gives us confidence in delivering our revenue targets for the full year.

On Slide 6, as a key element of our strategy, I'd like to highlight some of the recent wins that demonstrate our journey to delivering engineering Net Zero. First, I want to reemphasize our goal of achieving Net Zero Carbon emissions by 2030. A critical component of our purpose. To that end, in March, we committed to the Science-Based targets Initiative, joining over 2,000 companies globally to set emission reduction targets in line with the Paris Agreement. Beyond our own efforts, we can enable a step change in this arena by assisting our clients with a broad range of Net Zero solutions.

In the U.K., we're working with and supporting the national grid in decarbonisation of the energy system, which is required for the U.K. Net Zero targets. We're providing design and project management services across the entire construction cycle to assist National Grid in delivering a transmission network capable of supporting the transition to Net Zero. This project is a prime example of our ability to utilize the broad capabilities of SNC-Lavalin's network to deliver multiple solutions for the client in their decarbonisation efforts.



In Dubai, SNC-Lavalin has successfully been selected by FIVE Holdings to investigate how the design of the award winning FIVE Jumeirah village, Dubai, can be redefined to deliver Net Zero Carbon.

Lastly, at home here in Canada, our successful track record of delivering trusted solutions for the major component of Bruce Power's CANDU reactor redesign has led to additional requests for our services across additional reactor units. Our work on this project will allow Bruce Power to continue to generate residential power, but at 30% of the cost and extend the life of the units by another 30 years.

Advance in Net Zero projects around the world for our clients and making continued strides in our path to achieving Net Zero Carbon emission is critical to our purpose.

I'd like to move to Slide 7 and the results of our Nuclear business. We recently announced the appointment of Joe St. Julian as the new President of our Nuclear business, succeeding Sandy Taylor. Joe brings an exceptional background in Strategic and Commercial management in the Nuclear sector, and I really look forward to working with Joe to deliver our plans for the business. I'd also like to take this opportunity to thank Sandy for his leadership over the last years, and in particular, the role of bringing together all of our full lifecycle capabilities in the Nuclear sector.

During the first quarter, Nuclear revenues had 2% organic growth compared to the first quarter 2021, increasing to \$232 million as we continue to witness strong demand for our reactor support services in particular. Segment Adjusted EBIT was \$34 million with segment Adjusted EBIT margin increasing 90 basis points to 14.8%.

During the quarter, we made significant progress across a number of projects including Darlington and Bruce Power. Our pipeline for CANDU reactor upgrades remains robust and our portfolio is well positioned to capitalize on New Build projects, should they materialize. At the same time, our proprietary technology-related Nuclear products are increasingly in demand by customers globally.

Overall, our Nuclear segment provides a predictable and stable base of work that is highly profitable for SNC-Lavalin. Our position in the marketplace drives our right-to-win and captures our high-quality, substantive, near-term prospects that will deliver long term value creation and supporting our Pivoting to Growth Strategy.



Moving to Slide 8 and our O&M segment, which generated \$137 million in revenue during the first quarter, slightly below first quarter 2021 performance. Segment Adjusted EBIT of \$12 million was in line with last year's 8.6% margin. We continue to see stable financial performance and strong operational metrics across the O&M portfolio, with robust projects in the pipeline over the next 12 months. We remain focused on increasing the pipeline with strategic partnerships across the industry while leveraging the expertise of our Capital group to maximize bidding opportunities.

On Slide 9, our Linxon business generated robust top line growth during the quarter, increasing revenues to \$151 million, represented on organic growth of 21.3% compared to the first quarter of 2021. Year-over-year growth was mainly due to an increased level of activities in the U.S. and the Middle East. Much of this demand is driven by the Net Carbon Zero agenda, as the growth in renewable power generation and the increasing electrification of transport and infrastructure is driving additional demand for Linxon's offerings.

We recorded a segment Adjusted EBIT loss of \$5 million in the quarter, mainly resulting from project delays and higher costs on one European project installation, partially offset by higher contributions from projects in the U.S. and the Middle East. This European project will be commissioned in the second quarter this year, and we expect the business to return to its forecasted EBIT margins of 4% to 6% for the remainder of the year.

Our backlog ended the first quarter at \$920 million, slightly below the first quarter 2021 backlog, but we remain really confident that our solid pipeline of prospects will continue to allow us to deliver on our growth targets. We have a strong standing in the marketplace and see robust growth opportunities across our key markets, underpinned by decarbonisation trends and grid infrastructure investments.

Turning to Slide 10 and Capital. First quarter revenues declined to \$16 million, mainly due to the successful disposal of InPower BC in February. We remain committed to the recycling of capital investments when opportunities arise. No dividend was received from Highway 407 ETR in Q1 2021 and 2022; amidst the easing of COVID-19 restrictions by the province of Ontario, traffic pattern trends on the 407 improved 37% versus the first quarter of 2021. Looking forward, we remain active on the business development front, and we continue to make progress on our new strategy and close alignment with our O&M business.



Moving to Slide 11, I'd like to provide more colour on the pace of the wind down of our LSTK projects, before turning it over to Jeff to discuss our financial performance in the quarter. Year to date, we continued to take strides towards completion of our three remaining LSTK projects. Our backlog decreased more than 40% compared to the first quarter of 2021, and now stands at \$957 million. This represents a decline of 18% compared to the end of December 2021.

Last quarter, we outlined some of the unprecedented factors that we have been managing through as we work to complete these projects. These included supply chain disruption, elevated inflation in building and construction indices, and COVID-19 absenteeism on our sites. These remained impactful from a productivity and a cost management standpoint. That being said, we remain confident in our potential future financial risk projection, and our forecasted timeline of the completion of these projects. Throughout this process, we will continue to have discussions with our customers regarding certain recoveries, which we believe we're entitled to and will pursue vigorously.

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

**Jeff Bell:**

Thank you, Ian. Good morning, everyone.

Turning to Slide 13, total revenues for the quarter increased by 4% to \$1.9 billion compared to Q1 2021. SNCL Services revenue totalled \$1.7 billion, representing an organic revenue growth of 8.4%, driven by growth in Engineering Services and Linxon, while LSTK projects revenue continued to decrease, as expected, and totalled \$214 million.

Total segment Adjusted EBIT for the quarter was \$109 million, which was comprised of \$127 million for SNCL Services, \$12 million for Capital, and negative \$31 million for LSTK Projects. The negative EBIT for the LSTK Projects resulted from recognizing \$20 million in the quarter of the \$300 million potential future financial risks disclosed at our Q4 2021 results and from the segment overhead costs needed to support the projects.

SNCL Services Adjusted EBIT margin was 7.6%. Slightly lower than our full year outlook range, which, as Ian has explained, was mainly due to a small loss in Linxon and higher bidding and business development expenses and engineering services. Corporate SG&A expenses from PS&PM for the



quarter was \$25 million, in line with our expectations. Note that Q1 2021 included a revision to certain estimates and cost accruals that reduced the expenses last year. We continue to expect that our corporate SG&A expenses for PS&PM would be about \$100 million for Full Year 2022. Capital had \$7 million of corporate SG&A, in line with last year and our expectations.

The IFRS net income from continuing operations was \$25 million for the quarter, which is composed of \$17 million from PS&PM and \$8 million from Capital. The adjusted net income from PS&PM was \$39 million, or \$0.22 per diluted share compared to \$0.48 per diluted share in Q1 2021. The decrease was mainly due to the lower segment Adjusted EBIT, as just explained, and a more normalized level of corporate SG&A expenses.

Backlog ended the quarter at \$12.2 billion dollars compared to \$13.2 billion at the end of Q1 2021, primarily due to the continued run off of the LSTK construction contracts backlog. SNCL Services backlog totalled \$11.2 billion at the end of the quarter, which included a 6.7% increase in the Engineering Services segment backlog compared to the first quarter last year. This segment was awarded \$1.2 billion of work in the quarter, representing a 1.08 book-to-bill ratio. The Nuclear, O&M, and Linxon backlogs remain solid at \$802 million, \$5.6 billion, and \$920 million, respectively.

If we now turn to Slide 14, at the end of March 2022, the Company had \$506 million in cash, and the net limited recourse and recourse debt to Adjusted EBITDA ratio was 2.3 times, slightly above our 2024 target range of 1.5 times to 2 times, but continuing a trend of strengthening the balance sheet over time, one of our core financial priorities. Our Day Sales Outstanding for Engineering Services was 61 days at the end of the quarter, largely similar to what we saw throughout 2021.

We now move on to Slide 15 and Free Cash Flow, net cash used for operating activities was \$134 million in the first quarter. SNCL Services continued to generate positive cash flow from operations with \$59 million for the quarter, while capital generated \$15 million. After cash taxes, interest, and corporate items, you can see that we generated \$31 million of operating cash flows. As expected, LSTK Projects had an operating cash flow usage, which totalled \$165 million in Q1, mainly from the payment of a portion of the LSTK provisions recognized in Q4 and the working capital requirements for the projects.

We continue to expect that the Company's operating cash flow should be in the range of \$0 to \$100 million for the Full Year 2022. We expect that operating cash outflows related to LSTK projects should





decrease over the coming quarters and be more than offset by the operating cash inflows from SNCL services and capital.

Finally, turning to Slide 16, the Company is reaffirming all Full Year 2022 outlook items and continues to expect that EBIT and EBITDA to revenue ratios and net cash generated from operating activities to be weighted to the second half of the year.

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

**Ian Edwards:**

Thanks, Jeff.

Turning to Slide 18, I'd like to conclude my remarks with a few key takeaways. We are really proud of the work that our SNC-Lavalin colleagues are doing to continue to make strides in executing our strategic transition and future growth. Our core business is executing well and delivering strong financial performance. We have a solid backlog and a strong pipeline of new business opportunities, positioning us well across all our core markets, fueled by governments investing in new infrastructure and sustainability initiatives. We remain focused on executing our Pivoting to Growth Strategy and optimizing our delivery of sustained revenue and free cash flow generation.

I want to reemphasize two primary focuses to drive value creation this year: accelerating growth in engineering Net Zero through the rich capabilities we have and developed to provide sustainable end-to-end solutions to our customers, and executing the de-risking of the business through further progress in rolling off the LSTK backlog. We were successful in both during the first quarter.

Finally, we remain laser focused on our ESG initiatives in achieving our targets. Our commitment to the Science Based Targets Initiative further cements our belief that we can achieve Carbon Net Zero emissions by 2030. Additionally, we have and will continue to invest in our people to create a culture focused on the diversity, the development, health, and the well-being of our employees, all of whom are integral in achieving our Pivoting to Growth Strategy.

Thank you. We'll now open the call for questions.



**Operator:**

Thank you. We will now begin the question-and-answer session. Our first question comes from Jacob Bout of CIBC. Please go ahead.

**Jacob Bout:**

Good morning.

**Jeff Bell:**

Morning.

**Ian Edwards:**

Good morning.

**Jacob Bout:**

My first question is on SNCL Services margins. EBITDA margin came in at 7.6%. I think it was a little bit lower than—a little lighter than what we were looking for. The written commentary called out the elevated bidding and business development expenses, so I guess a few questions on this. Do you expect those bidding expenses to continue into the second quarter and the rest of the year? How did Omicron-related absences impact the first quarter? And then maybe just comment on any wage inflation or cost inflation impacting margins.

**Ian Edwards:**

Yes. Okay. Thanks for the question. I will get to the specific points there, but before I do that, we are seeing a really, really strong demand for our services in core geographies that we've positioned ourselves in, and the end markets within the entirety of SNCL Services. So, the go-forward part of this business, we believe we've positioned it really well, and we've spent a lot of time positioning in markets where we think we can be successful and grow. Obviously, enacting our Pivoting to Growth Strategy that we tabled in September we're feeling good about, because, as you can see from the revenue year-over-year organic growth, you can see that the fruits of that are beginning to take.

Now, there are two components which have contributed to what you rightly say is a slightly lower EBIT margin than normal range that we've been able to stay within over the last few years in this particular



part of the business, the go-forward part of the business, and one is the higher bid cost which I'll come back to and the other is the loss that we indicated in Linxon.

With respect to the engineering part of the business and the services part of the business, we are not seeing an impact from Omicron absenteeism, and we're not seeing an impact from the race-for-talent, if you like, and the inflation that that brings, because generally speaking, people are working remotely, whether they're sick or whether they're healthy. All the way through the pandemic that has, in the services part of the business, given us sustainable productivity.

But the wage and the inflation that we're seeing, because the services part of the business is on a short cycle, generally speaking, we always experienced that being passed on through the rebidding and the rewinning of work. Remember, a lot of this work is reimbursable, so as the wages increase, then the reimbursement comes.

What we have seen is an enormous amount of opportunities and pipeline that we've experienced across all three core geographies: the U.K., the U.S., and in Canada. We will see that normalizing, and we'll see the margins, particularly second half of this year, becoming really, really strong within the range. We are not worried that this is a trend at all. In fact, we've reissued, as you heard from Jeff and myself, that we're confident of being in the range for the year.

**Jacob Bout:**

Do you recoup any of these bidding expenses as you win some of these projects, or...

**Ian Edwards:**

Well, it really depends. For some of the bigger projects that we're seeing across Canada, yes. Not all of them. But, yes. In the services part of the business, where we're obviously, land-and-expand strategy in the U.S., we're investing more in BD, so that we can actually carry out that land-and-expand strategy. So, there's no single answer to that. But, like I say, it's a particularly busy time, and we don't see that that will sort of sustain itself through the year, and we should return to normal levels.

**Jacob Bout:**

Thank you for answering my questions.

**Operator:**

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

**Yuri Lynk:**

Hi. Good morning.

**Ian Edwards:**

Good morning.

**Jeff Bell:**

Morning.

**Yuri Lynk:**

Morning. Ian, I wonder if you could put a little more colour on the LSTK charges. I have to admit, I'm a bit surprised that so close after taking a pretty large write down in the fourth quarter and presenting that \$300 million as kind of an if we need to take it type of scenario, and then a month later, we're taking another \$20 million. So, what went wrong there? And do you think that you've got it all captured in the quarter in terms of cost you forecast?

**Ian Edwards:**

Yes. Thanks for the question. It's a fair question. The first thing I would say, just to be clear, the quarter, considering it is a winter quarter where we've put \$210 million of revenue in the ground, so to speak, on these lump sum jobs, progress has generally been good and supportive of the statements that we made in Q4, which were basically two of the projects in Ontario, we would see them reaching physical completion by the end of 2022, with only the one remaining project in Quebec, and that remains the case. So, we are confident of that.

The loss itself has two components to it. One is the overhead cost to run the business. If you remember, we did actually say in Q4 we're probably going to get a run rate of that overhead cost of about \$10 million a quarter, so that's one component that you will see quarter-on-quarters for the rest of this year until we kind of burn off the majority of the backlog.



The other \$20 million, you're right, we see it as \$20 million of the risk that we identified in Q4 as being realized. So, we indicated that, worst case scenario, if things didn't go quite as we presented in our assumptions, we would see some risk evidence itself, but it will never exceed \$300 million. That remains the case, and we have experienced some of the risks beyond the assumptions we made. If you recall back to Q4, there was one slide that we put in the deck there in Q4 which clearly set down under absenteeism, productivity, supply chain disruption, and inflation what the assumptions around the Q4 loss were. What we've seen in Q1 is continued absenteeism, for example, through the BA.2 variant that was over and above that we expected when we presented the Q4. So, we've reforecast that.

I think you've also got to remember that we're constantly reforecasting the endpoint so that we're not just putting losses in here that we see in the quarter, we're putting losses that we will update to complete these jobs. So, I understand the question. I think the key point here is we are confident that we're going to finish these jobs, the two Ontario jobs primarily, physically by the end of the year, and then to commissioning in the following year.

The last thing I would say is that we still believe that much of the COVID-related and post-COVID inflation and supply chain issues are recoverable through the contracts, and we will vigorously pursue those recoveries in the medium term.

**Yuri Lynk:**

Okay. Just a follow-up on the Engineering Services business as a whole. Rough math to get to the midpoint of your margin guidance for 2022, you're going to need to exceed the midpoint for the next three quarters. Just given the weak start in Q1, which you have explained pretty well, what gets us swinging the other way? Should we be expecting more back half weighted and perhaps further weakness in the second quarter? Just trying to get expectations aligned here for Q2.

**Jeff Bell:**

Yes. It's Jeff. Why don't I take that one?

We will absolutely see improvement as we go through the year, not dissimilar to what we've seen in previous years. I think we'd expect to see incremental improvement as we go quarter by quarter. As



you heard Ian say, the second half typically is stronger for us than the first half. So, we'll continue to be, and expect to be, well into our 8% to 10% range by the end of the year.

**Yuri Lynk:**

Okay, I'll turn it over. Thanks.

**Jeff Bell:**

Thank you.

**Ian Edwards:**

Thanks.

**Operator:**

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

**Mark Neville:**

Hi. Good morning, guys.

**Jeff Bell:**

Morning.

**Ian Edwards:**

Good morning.

**Mark Neville:**

Morning. Maybe just a follow-up on Yuri's question on the losses. The \$20 million, I understand a lot of work goes into that, but is that sort of a blanket number to cover all of those three buckets, inflation, absenteeism, and supply chain? Is it sort of across the three projects, or is it sort of focused on one in particular?

**Ian Edwards:**

No, that's a good question, and it's quite specific in the way that we look at reforecasting of each of the projects. Specifically, the majority of that is in relation to one of the Ontario projects. Even more specifically, it's in relation to absenteeism. On that particular job, you might be interested to hear that



62% of the people on the job, whether that's labour or supply chain labour, subcontract labour or our own staff, 62% since the first of January have taken some time off. Now, obviously, those days vary from days to weeks, but that's two thirds of everybody on the job has either contracted COVID, or been in contact with somebody with COVID, and found it necessary to stay at home. Obviously, we need people physically on the job.

I think on that project also, specifically, again, we've got a supply chain issue with some glazing housing to the above ground stations. That's a China supplied item. We've experienced some delay to that. Then the problem with that is it's consequential kind of knock-on delays, because we obviously can't fit out the station, we can't finish it, we can't do the mechanical and electrical work. So, those are kind of two examples, which are very specific, and we obviously do very detailed reforecasts on all the projects on a constant basis and review them on a monthly basis.

I think the last thing I'd say, perhaps to just put this out there, the supply and demand dynamics of labour and equipment and materials, particularly with energy costs rising and wages rising, on the lump sum projects is leading to a situation where our subcontractors, who most of the work is done through, are requiring that we need to support them to get these jobs finished. That's a dynamic situation that we'll just monitor through. But all of these aspects do not change our view that we communicated in Q4, and particularly around the worst-case scenario around risk does not change that view.

**Mark Neville:**

Okay. Maybe just two follow-ups on that, Ian. On the absenteeism, has it gotten sequentially better through the quarter and into April as in May, I guess as...

**Ian Edwards:**

Yes, yes, yes. Good follow-up. I think so. I think as we get into the summer months, I think that particular issue will improve. Obviously, the productivity that goes with it, which is really the key. I can't say we've specifically seen it yet, but my sense is that it will. Yes.

**Mark Neville:**

Okay. On the inflation, obviously difficult to answer, but you still are—are you mark-to-market now in your opinion and in terms of what you've put in your budget for inflation and where it's trending?



**Jeff Bell:**

It's Jeff.

We obviously, have assumptions within our budgets, and to Ian's point, because we reforecast the jobs each quarter, of course, we're, as a part of that, looking at where our latest forecasts are for subcontractor costs, for materials, etc. So, we do in a sense mark that as we go along. I think what you—I think what Ian was highlighting was that we're continuing to see both an elevated level of inflation, but also, in some instances, whether it's in the subcontract or labour force, significant labour, inflation, or just ability to get a hold of the trades that we need, or in the case of things like, as he said, glazing that's coming from far away. I think we've all seen the lockdowns and the impacts in China. That's absolutely impacting some of our ability to get the glazing or some of the remaining materials in the time that we want.

**Ian Edwards:**

I think probably one last comment. Just one last comment as well that I'll just leave as a thought. There's a table in the back of the information to the presentation deck which shows the evolution of the backlog burn off, the backlog execution, through this year, and then into the '23 and '24 for the final remaining projects in Quebec; \$200 million in the first quarter is a good set of progress on actually working our way through these jobs. Perhaps just draw your attention to that slide.

Yes, no, I see that. All right. I'll pass it over. Thanks for the time. Good luck.

**Jeff Bell:**

Thank you.

**Ian Edwards:**

Thank you.

**Denis Jasmin:**

Thanks.

**Operator:**

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



**Devin Dodge:**

Thanks. I wanted to start with a question on the Linxon business. Ian, you gave some colour on the EBIT loss in Q1 and that it relates to a single project in Europe. I'm just trying to understand what makes that one project different. What gives you confidence that this is not going to spread to maybe other projects across the portfolio there?

**Ian Edwards:**

Yes. Yes. Good. Yes. Thanks for that question. Let me start by just talking about Linxon for a minute, if I can, and then come back to the specific question.

Linxon is a joint venture initially with ABB, and now through the Hitachi acquisition of that part of ABB. It's an S&C, Hitachi. The deal is that they provide the equipment and we install it. But it's a fully integrated joint venture company. We've organically grown this company to \$600 million of revenues. So, it's been a successful journey in the company. I'm acutely aware that the first time we've actually externally reported this company is this quarter and we've had a problem on a project.

The growth, we're very excited about, and the market, we're very, very excited about, because electrical distribution, as countries go to cleaner energy and the need to increase the amount of electrical energy to meet the demands of Net Zero. The markets really strong. I mean, we've seen 21% growth quarter-over-quarter from last year year-over-year.

Generally, the projects that we execute in this business, they range about \$35 million projects, and at any one time, in the business, we would have about 60 of those jobs on the go: starting, full execution, completion. Through the portfolio effect of having many small jobs, we've had consistency in the margins.

Now, this particular project is one of the largest we've done, and we have fallen into some delays with some cost overruns. But it's very isolated to this project, and the project is being commissioned next year.

We feel good about the remainder part of this year and the growth for the future of the Linxon business. That's why we've kind of restated that we'll be back in the range, Q2, Q3, Q4.

**Jeff Bell:**

Commission in Q2.

**Ian Edwards:**

Yes. What did I say?

**Jeff Bell:**

You said next year.

**Ian Edwards:**

I'm sorry. Commission in Q2. Sorry. Commission in Q2 for that one project.

**Devin Dodge:**

Okay. Okay. That was good colour. I appreciate that. My next question, I was going to ask you about nuclear, and specifically, some U.S. Federal work. The last couple of years, there was a lot of contracts out for reedbed. I think there were some optimism within SNC that you could gain a greater share of this work.

I think we've seen some contracts get awarded by the DOE, but I don't believe SNC has been in any of these winning consortiums yet. Just can you talk about the opportunities still in procurement and whether you still expect SNC to grow its presence in this market?

**Ian Edwards:**

Yes. First of all, really pleased to have Joe as the new president. Obviously, Joe's a U.S. citizen. He's from the Nuclear sector, worked for one of our peer companies and brings a wealth of knowledge, both from the U.S., but also from the Nuclear sector as a whole.

Now, I'll answer the question specifically, but generally we're very excited about the nuclear business, particularly with the current sort of energy thoughts that different governments are taking around the world. We are under a security agreement as a supplier to the Department of Energy in the U.S., and we currently have some fairly significant business in large contracts and also in small services type work.

You're right to say there was a couple of jobs last year that were out for bid, we bid them, and we didn't win them. There are also more of those long-term large decommissioning or waste management type projects, which we're bidding. We would expect to win our fair share of that market, because we're already operating in that field. We have a reasonable market share now. Obviously, we want to grow that market share, so it's a very important and an exciting part of the business.

**Devin Dodge:**

Okay. Thanks. I'll turn it over.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Michael Tupholme:**

Thank you. First question is regarding the elevated bidding and business development expenses, and the impact that that had on margins. So, I know you've reiterated your full year margin expectations for SNCL services, but were these elevated bidding costs—were they contemplated in the original guidance? Do you expect them to carry on into future quarters? I think you sort of addressed that earlier, but I wasn't quite clear if they're going to be there in Q2 and beyond.

Does this change your perception of where you land on a full year basis within the margin range? I realize, again, you've reiterated the range, but just wondering if this in any way kind of alters where you expect to land relative to where you thought you'd be at the start of the year.

**Ian Edwards:**

Well, obviously, the short answer to the beginning is no, we don't expect that this changes our view of the full year. In actual fact, the first half of this year was always slightly softer than the second half of the year. We knew that when we went into the year, and we knew that when we budgeted.



What we have seen in Q4 last year and Q1 this year is a significant amount of pipeline opportunities. The actual dollar value, when you think about the overall revenue and the dollar value to be above the range or slightly under the range, is actually quite small. So, we're not talking about large dollar value investments here. But obviously we need to control that cost and we need to balance that with the benefit of the growth. So, absolutely do not see this as an issue to the year, and absolutely don't see it as a trend.

I don't know, Jeff, if you would add anything to that, or not.

**Jeff Bell:**

No, I think that's absolutely right. We incorporated and envisioned this when we gave our guidance back at the beginning of March, and we would expect that to certainly normalize over the next couple of quarters.

**Michael Tupholme:**

Okay, that's helpful. Thank you. On the LSTK side, all the discussion's been around the three major infrastructure projects. But if we go back to last year, the Resources segment, which was a standalone segment, at least on the restated basis, that was folded into the infrastructure LSTK projects segment. Now, I know that the one Resources project that was an LSTK project, that was supposed to be wrapping up fairly soon. But did that, in any way, contribute to the losses in the quarter? And what is the status of that project?

**Ian Edwards:**

Not really is the answer. The project is in commissioning. We are working through the commissioning and the handover to the client. So, we would expect to be out of that job at the end of Q2, early Q3. So, yes, you're right, it isn't quite over yet, and it still is an LSTK job, but no significant impact in that number this quarter.

**Michael Tupholme:**

Okay. 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, gentlemen.

**Ian Edwards:**

Good morning.

**Jeff Bell:**

Morning.

**Maxim Sytchev:**

Ian, maybe just wanted to go back to Linxon, and you say it's kind of \$600 million revenue run rate business. At a pretty, generally speaking, low margin, I understand the revenue part of the question, but can you maybe talk about the ROIC for this business and, ultimately, free cash generation? Because I assume with CapEx, working capital, and stuff like that, it feels like a lot of effort for not a huge amount of return. But just curious to see in terms of sort of long-term plans for this business, and whether you have to scale it, or whether maybe not owning this would be a better outcome for shareholders. Yes. Thanks.

**Ian Edwards:**

Let us both answer that question. Jeff, if you can pick up the cash flow generation part of the question.

It's a good combination of Hitachi product and our capability, and it's a strong market. I mean, 20% growth in year-over-year revenue, and we have only just entered the North American market. Historically, we've been centred on Europe and the Middle East. We see a complementary value proposition to the general Net Zero engineering services business, and we see a business here that we can grow, albeit that the margins at 4% to 6% range or less, obviously, than engineering services. But we see it as a good complement to the overall business going forward.

Jeff, do you want to just talk specifically?

**Jeff Bell:**

Yes, I think, Max, it's important to look at the costs on the project. About 65% or 70% of the costs are effectively the substation equipment and the associated electricals that go around that. The vast majority of that is actually Hitachi's equipment, which we sourced from our joint venture partner, and therefore kind of the pricing and the availability of that is locked in. In a sense, the margin that's really being earned is on the remaining construction management and the implementation.

The EBIT margins on the whole business don't really reflect the risk in terms of—because the risky element, in a sense, is just the implementation, and these are, generally, fairly cookie cutter type installations of electrical substations.

I think from a cash flow perspective and an ROIC perspective it actually also is an attractive business. A number of these projects we get upfront advanced payments on, therefore from a cash flow perspective—well, in some quarters we're working off those advanced payments, and you saw some of that in the first quarter. From an ROIC perspective, it's actually quite an attractive business that way, in addition to strategically what Ian was outlining there.

**Maxim Sytchev:**

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

**Ian Edwards:**

All right. Thank you.

**Operator:**

Our next question comes from Dimitry Khmelnitsky of Veritas. Please go ahead.

**Dimitry Khmelnitsky:**

Hi, and thanks so much for taking my question. I was just wondering about the nuclear backlog, which was indirectly discussed already. But I wonder when do you see a turnaround in backlog growth so that it returns to gross?

**Ian Edwards:**

That's a very good question and a fair question, also. We see both a lot of near-term opportunity and we see a lot of longer-term opportunity. Maybe I'll answer the question in that respect. First of all, the kind of rhetoric around the nuclear industry, particularly with the energy challenges that different countries are having right now is very topical. For us, owning a full-service nuclear services offering and business, it's really exciting. I mean, I think the future of this business is considerably exciting.

If we look at near-term opportunities, we have a services part of the business that is kind of like book and burn, technology offerings, consultancy work, and engineering nuclear work to clients and existing reactors, and existing waste management challenges across the world. That's kind of a fairly book and burn, reasonably stable, flat business. We've talked about the waste management business in the U.S., where we're seeing some large opportunities that we would intend to win our fair share.

We're also seeing, as you saw with Bruce, life extension opportunities, particularly with Bruce and OPG, but potentially in other countries where energy transition is really important and extending the life of current nuclear reactors is really potentially quite a near-term opportunity that that we could maximize on. Then, of course, there's the strong new build program in the U.K., where we currently are working on the first which is Hinkley, but expect to move to the second, which it's going through its approvals right now, which is at Sizewell. That will bring very significant increased revenues.

The last thing I'd say about near term is we're seeing some feasibility work now on new builds, Romania, for example, and feasibility work on SMRs, small modular reactors, which is, again, is bringing near term work in. So, I think we will see the growth that we've communicated. I think the market is strong enough to support that, and we have to win our fair share.

Looking at the longer-term prospect for this business, it's pretty exciting, as nuclear is considered as a true green energy alternative. With the U.K., for example, announcing a very significant nuclear build program, we would look to be maximizing on that in the medium term. And again, governments, particularly in Canada, the U.S., the U.K., looking at modular reactors as an alternative, small modular reactors as an alternative, that again is quite an exciting prospect for us. So, this is an important part of our future.

**Dimitry Khmelnitsky:**



Okay. Understood. Hinkley and Sizewell, are they already in the backlog? I'm talking about not the backlog necessarily, the \$800 million or so that is presented in the MD&A, but rather the bigger one, extended one that was presented on the investor day.

**Ian Edwards:**

Yes.

**Dimitry Khmelnitsky:**

So, that's there.

**Ian Edwards:**

Hinkley is. Hinkley is in the backlog, but Sizewell is not.

**Dimitry Khmelnitsky:**

Got it. Okay. Awesome. Do you have any visibility on dividends from 407?

**Jeff Bell:**

Dimitry, it's Jeff.

We don't. Like 407 Management, and certainly in their latest statement, they've indicated that they're continuing to be of the view that over time as government of Ontario restrictions ease, they expect to see continued improvement on in-traffic flows on the 407. I think our view is that the dividends coming from the 407 will be linked to that improvement. We did see, I think as Ian said in his script, year-on-year 35% to 40% improvement in traffic flows between the first quarter of this year and the first quarter last year. But I think it's something we'll have to see quarter by quarter. I think that will eventually drive the level of dividends from 407, but we don't have any better visibility on that right now.

**Dimitry Khmelnitsky:**

Got it. Okay. Thanks so much for taking my questions.

**Jeff Bell:**

Thanks, Dimitry.



**Ian Edwards:**

Thank you.

**Operator:**

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

**Frederic Bastien:**

Good morning. In your slide deck, you highlight a recovery in the aviation market with key wins in Europe and U.S.A. Can you spend a bit more time discussing these awards? More broadly, how you are positioning the Company for future success in that particular sector?

**Ian Edwards:**

Yes. Aviation comes in the engineering services part of the business, primarily. Our track record has been in providing design consultancy solutions, but also in innovating around, for example, biometrics, example, tracking of people flows through airports. So, we have a value proposition that we've worked up where the origin of that really came from the Atkins acquisition in the U.K., and we've been spreading that organically around Canada and the U.S.

As you say, we're seeing some reinvestment as we're coming out of the pandemic, where the aviation industry has obviously been through an enormous amount of pressure and stress, as people have stopped traveling. But we're expecting business travel and travel to re-emerge back to close—or not probably at pre- pandemic, but getting back close to pre-pandemic levels, and we will see reinvestment into airports because of that, and our built environment offering will be applied to that.

I think, also, the whole Net Zero value proposition for airports that are obviously very, very significant large spaces that consume a lot of energy, we see that our Decarbonomics platform, where we analyze buildings and take the carbon footprint of a building down, is also an interesting proposition for our aviation customers.

I think we're going to see investment back into the sector, and we're positioning for that.

**Frederic Bastien:**



Okay. Thanks, Ian.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Sabahat Khan:**

Great. Thanks, and good morning. I just wanted to follow up on a comment you made earlier.

**Ian Edwards:**

Good morning.

**Sabahat Khan:**

Good morning. Thanks. Just on the comment you made earlier around the cost on some of these LSTK projects are going up, and a lot of the subcontractors are actually performing the work. It's hard to understand the contractual agreement that you have with the subcontractors. At the end of the day, is SNC responsible for, call it, the fixed bid element? How much of the risk are the subcontractors taking on? Or are they more on a cost-plus basis?

**Ian Edwards:**

Yes. That's a good question. The reality is the client's responsible. So, all of these additional costs, in our consideration and our belief, are reimbursable from our clients, because the pandemic was not envisaged, and the post-pandemic supply chain issues and inflation could be reimbursed by the customer and reimbursed by the client.

Where we find ourselves, of course, is obligated to complete these jobs. While we are pursuing our own reimbursement from our customers, we have to support our own supply chain, which are much smaller companies and much smaller entities. We have to support them in bringing these projects to a close. So, we're somewhat stuck in the middle of the two dynamics there. That's why one of the components of the four components that lead to increased cost is this. It doesn't help that demand is



very strong for labour and for subcontractors, because obviously that fuels the inflation part of it. But, yes, that's the situation, and I think that's a good question.

**Sabahat Khan:**

Okay. Great. Just as we look forward to the rest of the year, I guess we call it the labour concerns now. But I guess as you look towards your demand pipeline and getting people in seats, units on the engineering services side, where do you think you are in terms of the labour ramp up? Do you have enough people in seats? Are you still out there looking? Could that be a constraint for the rest of the year to top line?

**Ian Edwards:**

There is absolutely a race for talent. The impact of that race for talent is manageable in our business in the engineering services part of business, so the whole go-forward part of our business, we see the impact currently as manageable, but it's a risk that we continually look to observe and innovate in solutions. I'll perhaps give some examples. I mean, we believe that the creation of a work environment that is both flexible but gives our teams and our employees what they need for their personal development, for their life flexibility, whilst giving us the productivity, is really important.

There's a few things that are important to people. The purpose that we've defined for the Company and that we will engineer a better future for the planet and its people, that's really important to people, and particularly our younger staff. The ED&I component of the business is really important that we create a culture which is inclusive, which people feel proud to work in is a differentiator. Now, I wouldn't say that we are innovating wildly beyond our peers. But we put a lot of effort into this to stay equal or further ahead than our peers in the creation of this work environment. So far, the talent race is manageable, but it's something that I think all of us, and I think most businesses, are experiencing the same thing. We've got to consistently monitor.

**Sabahat Khan:**

Great. Thanks 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 Jasmin for any closing remarks.

**Denis Jasmin:**

Thank you very much, everyone, for joining us today. If you have any further questions, please don't hesitate to contact me. Thank you very much, and have a good day, everyone.

**Operator:**

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