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**Close coverage of ATRL (formerly SNC) with shares trading roughly in-line with our fair value estimate**

- For context, ATRL (formerly SNC) returned ~94.5% (compared with a ~9% increase in the S&P 500 and a ~5% decline in the Russell 2000) since our initial recommendation in November 2022.
- That said, with shares trading roughly in-line with our fair value estimate (see Exhibit #3 on page 3), we prefer to maintain a disciplined approach and close coverage/withdraw our recommendation, as of today’s close.
- We will continue to monitor the shares for an opportunity to re-recommend if valuation shifts or incremental catalysts begin to materialize.
- As an aside, investors should take note that SNC-Lavalin Group is rebranding as AtkinsRéalis, hence the new ticker, although its moniker will not legally be changed until the until the measure is approved by shareholders at the company’s 2024 Annual Meeting. The move reflects the company’s significant restructuring over the last several years, namely its exiting of unprofitable business lines and increased focus on its core SNCL Services business.
- The new AtkinsRéalis, headquartered in Montreal, reflects its well-known legacy brand, Atkins, as well as the French verb, Réalis, which colloquially means “to make happen”.

**UPDATE**

**SNC-Lavalin Group Inc.**

**TSE: ATRL**

Publication Date:  
September 29, 2023

Price: C\$45.31/share

Market capitalization: ~C\$8B

SNCL Services: C\$50/share

Capital: C\$10/share

Corporate, LSTK Projects, Net Debt &  
Other: (C\$17.50)/ share

**SOTP: \$43 per share\***

\*SOTP may not add due to rounding; all figures in CAD unless otherwise noted

*(See the report dated 11/14/2022 and updates from 3/3/202, 5/9/2023 and 8/3/2023 for more info.)*

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.



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## Exhibit #1 SNC-Lavalin: Initial and Current 2023E Financial Guidance

(\$ in millions, except per share figures)

	<u>2022A</u>	<u>2023E Guidance</u>		
		<u>Initial</u>	<u>Previous</u>	<u>Current</u>
<b><u>SNCL Services:</u></b>				
SNCL Services organic growth	6.80%	5% - 7%	5% - 7%	12% - 15%
SNCL Services segment adj. EBIT margin	8.70%	8% - 10%	8% - 10%	8% - 10%
Segment adj. EBITDA margin - Engineering Services	14.60%	14% - 16%	14% - 16%	14% - 16%
<b><u>Consolidated:</u></b>				
Corporate SG&A	\$127 million	\$130 million	\$130 million	\$130 million
From PS&PM	\$99 million	~\$100 million	~\$100 million	~\$100 million
From Capital	\$28 million	~\$30 million	~\$30 million	~\$30 million
Amortization of intangible assets	\$84 million	~\$90 million	~\$90 million	~\$90 million
Net cash generated from operating activities	(\$246) millions	(-) 1H/ (+) 2H	(-) 1H/ (+) 2H	(-) 1H/ (+) 2H
Capital spending	\$110 million	\$80 - \$100 million	\$80 - \$100 million	\$80 - \$100 million

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

## Exhibit #2 SNC-Lavalin: Long-term Financial Targets (2022-2024E)

(\$ in millions, except per share figures)

	<u>2022E-2024E Targets</u>
<b><u>SNCL Services:</u></b>	
Annual organic revenue growth	4% - 6%
Segment adj. EBIT margin	8% - 10%
Engineering Services	8% - 10%
Nuclear	13% - 15%
Linxon	4% - 6%
O&M	5% - 7%
Segment adj. EBITDA margin - Engineering Services	14% - 16%
<b><u>Consolidated:</u></b>	
Free cash flow (FCF) conversion (by end of 2024)	80% - 90%
Net leverage ratio, ex. non-recourse debt (by end of 2024)	1.5x - 2.0x

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

**Exhibit #3 SNC-Lavalin: Sum-of-the-Parts Fair Value Estimate**

(\$ in millions, except per share figures)

	<u>SNCL</u>			<u>Enterprise</u>	<u>Net Debt,</u> <u>LSTK</u>	
	<u>Services</u>	<u>Capital</u>	<u>Corporate</u>	<u>Value</u>	<u>Losses &amp;</u> <u>Other</u>	<u>Market Cap</u>
2023E Revenue	\$7,479.0	\$125.0	-			
<b>2024E Revenue</b>	<b>\$7,819.6</b>	<b>\$125.0</b>	-			
<b>2024E EBITDA</b>	<b>\$940.1</b>	<b>\$103.0</b>	<b>(\$130.0)</b>		<b>(\$1,854.4)</b>	
Applied multiple	<u>9.4x</u>	<u>16.8x</u>	<u>9.4x</u>		<u>1.0x</u>	
<b>Enterprise value</b>	<b>\$8,841.0</b>	<b>\$1,728.6</b>	<b>(\$1,222.6)</b>	<b>\$9,347.1</b>	<b>(\$1,854.4)</b>	<b>\$7,492.7</b>
Diluted shares	<u>175.6</u>	<u>175.6</u>	<u>175.6</u>		<u>175.6</u>	<u>175.6</u>
<b>Per share basis</b>	<b>\$50.36</b>	<b>\$9.85</b>	<b>(\$6.96)</b>		<b>(\$10.56)</b>	<b>\$42.68</b>
Bull	\$55.72	\$15.18	(\$7.70)		(\$10.56)	\$52.63
Base	\$50.36	\$9.85	(\$6.96)		(\$10.56)	\$42.68
Bear	\$45.01	\$3.72	(\$6.22)		(\$10.56)	\$31.94

Source: Company reports, Bloomberg, and Institutional Research Group estimates.