

# **Arcadis NV Q1 2020 Trading Update Call**

Friday, 24<sup>th</sup> April 2020

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**Operator:** Hello and welcome to the Arcadis NV Q1 2020 Trading Update call. My name is Rosie and I'll be your coordinator for today's event. Please note this conference is being recorded and for the duration your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance, please press star zero and you'll be connected to an operator.

I will now hand you over to Jurgen Pullens, Director of Investor Relations, to begin today's conference. Thank you.

**Jurgen Pullens:** Good morning everyone. My name is Jurgen Pullens and I'd like to welcome you to this Arcadis analyst conference call and audio webcast. We are here to discuss the company's results for the first quarter, which were released this morning. With me is Peter Oosterveer, CEO and we will start with a short presentation and then we will open for a Q&A.

You all received the presentation this morning but it is also available through the investor section of the Arcadis website, for which the address is [arcadis.com/investors](http://arcadis.com/investors). Just a few words about – just a few words about procedures before we start. We will begin with formal remarks. We call your attention to the fact that, in today's session, we may reiterate forward-looking statements which were made in the press release. We'd like to call your attention to the risks related to these statements, which are more fully described in the press release and on the company's website.

So, with these formalities out of the way, I'd like to hand over to Peter Oosterveer.

**Peter Oosterveer:** Okay, thanks very much Jurgen and good morning everyone and welcome to our Q1 trading update, which we might as well relabel to a COVID-19 update because that is obviously going to be a recurring theme throughout the conversation today.

Let me offer some high-level comments and on the first slide, it's actually a slide which has, at the top, 'Health and safety first, majority of our services continue.' It's already fairly unique for an opening slide to really only touch on one topic, per se and that is, of course, COVID-19, which, as we now know, has created a very serious issue for society at large.

We became aware, as a company, of COVID-19 because of the initial impact it had on us in Asia, which was in the early part of this year and as we started to see that this could potentially become a global issue, we decided to create a global COVID-19 taskforce, which was in early March, so now almost seven weeks ago, a taskforce led by someone out of my team, reporting to me on behalf of the taskforce and the taskforce included people from different functions and also, of course, included people from the various regions in which we operate.

Needless to say that our initial focus was on our people and the people we work with, so that includes clients, families, to ensure that we kept them safe and healthy. The focus quickly shifted, in the context of keeping them safe and healthy, to moving people to work from home, to the extent possible and with about 27,000 people as our total population, we moved about 90%, or close to 24,000 people, to working from home in a matter of a week and a half and I think that is absolutely a Herculean effort. I don't actually think that – or I had expected that we could do it that quickly but the organisation as a whole – and particularly our IT organisation

– responded extremely well and we moved that large percentage to people working from home. And that also includes the people who are part of our global excellence centre and our global shared service centre, the centres in India and the Philippines. And I don't, probably, have to tell you that it is actually quite unusual for people in these locations to work from home but also they are now working almost exclusively from home.

The 10% which are not working from home are people who, because of the nature of their work, can't work from home, so those are people who actually do field work, people who are on construction sites and the likes. But you can safely say that the type of work Arcadis performs does lend itself quite well for working from home, at least for a particular period of time, at the scale we're doing it as we speak. We also quickly thereafter introduced a number of proactive steps to contain cost and to address the issues we started to see in the markets. Those include measures such as stop any discretionary spending, stop any uncommitted capital expenditure, eliminate any advisory services, put a hiring stop in place, reduce the number of contingent workers we have and support and support, so those steps were all initiated in the first part of March.

From a market perspective and what we see our clients do in response to the crisis, first, they also, to the extent possible, are moving to a work-from-home scenario, which puts everyone, you could say, on an equal footing because everyone does experience that. Whereas it does provide opportunities, it does provide challenges as well and particularly for those who have a home environment which includes, for instance, a young family, whereby children are unable to go to school, or the care of an ageing parent, as an example and then, of course, people are trying to juggle many things at the same time.

If we look at our clients, in addition to the issues they deal with in working from home, on a global basis, we can say that the work we perform for public clients is unaffected and in fact we actually see public clients, where possible, accelerate projects they were already planning to anyway but now using the opportunity to advance these projects to the extent possible. So, by and large, the work that we perform for our public clients is actually unaffected.

For our private clients, we see a bit more reservation in terms of advancing new work but in the total scheme, we have seen in the first quarter that we actually had a healthy book to bill, exceeding one, which is obviously positive and as you have seen from our press release, our net revenue was also, actually, still fairly healthy.

So, in terms of the first quarter, the impact was not significant, other than impact in Asia, which is largely where we had all the impact, which is obviously logical because that's where the virus started to make its impact.

That created, for us, some challenges in Asia because of the nature of the work we perform. In Asia, unlike many other places, the type of work we perform – or at least in China, I should say – is not necessarily the most easy work to allow work from home and with the Chinese government pretty much shutting down offices and job sites, the work we performed in China and to a lesser extent, in Hong Kong, was significantly impacted and you've seen, in our press release, what the financial impact was in Asia.

With all of that being said, I would say that our organisation has responded extremely well, extremely agile. Again, to move a large contingent of people to work from home in a relatively short timeframe is just an example of the agility which we have demonstrated.

Subsequent to all of this, we, as you have seen, took a number of additional actions. We did stop our share buyback programme. We eliminated the dividend payout over 2019 which was on the agenda for our AGM on 6<sup>th</sup> May and we also eliminated the 2020 bonuses for the executive leadership team and also we introduced a 10% salary reduction for six months for the executive leadership team, as well as for our supervisory board.

So, quite a bit of activity, obviously. All of that and all of what I so far explained, is in the context of COVID-19. I want to mention one more thing which hit us, also, last week. It has nothing to do with COVID-19 but unfortunately, last week, we were confronted with the sudden passing of Joachim Ebert, who is our CEO in North America. Joachim fell ill in the latter part of last year. He was battling cancer. He was actually expected to return to work and then, unfortunately, passed away, as a surprise to all of us.

Since he was ill for quite some time, we had already appointed an interim CEO, as of 1<sup>st</sup> January this year. The interim CEO is Alex Rothchild and we are now announcing – or have announced that Alex will be the permanent successor to Joachim Ebert but definitely a very sad moment for the Arcadis family for many reasons but also because Joachim was instrumental in turning the business in North America around.

If you could move to the next slide, please, which is the slide which has the eight workstreams we established, I've already talked to some of them. This is the plan we put in place when we created the global COVID-19 taskforce in early March: eight different workstreams which have different owners and contribution from people across the globe with, again, the focus, initially, on the safety and health of our employees, of our clients, followed by an even more deeper client intimacy than we would typically already demonstrate to ensure that we stay very closely connected with our clients, that we're able to support them where they do need additional support and that we're able to guide them through this crisis as well.

And then, of course, the next important component of our response has been to ensure the continuity of the organisation, which is largely part of the financial impact box, which includes a number of the actions we have taken which I shared with you a few minutes ago.

And then lastly, as difficult as managing through this crisis is, we also recognise that there will be time after the crisis and the box you see on the bottom-right-hand side, the recover and reimagine box, is the box which we use to actually capture and learn from the experiences we currently gather, which includes the more extensive working from home, which includes using the IT system more broadly than we have done in the past but also is aimed to identify things we believe we can accelerate in this crisis, things we already had planned and you have to think about digitising particular services. So we're using this crisis, also, to the extent possible, to our advantage, to advance certain things which already had on our sleeve anyway.

So, with that, as a quick reflection of what our focus is in these eight workstreams – and I can safely say that this COVID-19 global taskforce operates extremely efficiently, creates the coordinated response we need, applies a degree of consistency and also allows us to freely learn and share experiences across the globe – I am turning it over to Jurgen.

**Jurgen Pullens:** Thanks Peter and I will comment on the Q1 numbers.

When you look to the net revenues, you have – you see an organic growth of 3% and I will – in the next slide, I will come back on the net revenues. The EBITDA was in line with last year.

You see, also, from the slide, two EBITDAs. Of course, as you are aware of, we have to report under IFRS 16, so the first EBITDA is €76 million but the EBITDA that is used for the calculation of the bank covenants is still the €56 million, comparable with last year, so we report both EBITDAs.

The operating EBITA margin was 7.2% compared to 7.6% last year. This was also impacted by the operating EBITA impact of approximately €5 million in Asia due to COVID-19, so we can say, if we did not have that impact, the margin was better than last year and closer to 8%.

When you look to the net working capital, you see the increase from 74.4% to 90.2%. The increase was mainly due to the invoicing efficiencies in the US and partly due to COVID-19 in Asia and also in CallisonRTKL because the business of CallisonRTKL is also 20% in Asia.

Of course, when we talk about the invoicing inefficiencies, I would like to remind you that we implemented the Oracle implementation in North America in the third quarter of 2019, so in the first quarter of 2019 there was no Oracle impact. The delta is more or less in line with, say, the delta of last year and we're working hard to solve this, say, mid-year and that – we will do that by implementing, let's say, some adjustments to the existing Oracle system.

The free cash flow is higher than, say, last year; it's €84 million but it is also impacted and it includes a large engineering renewal of approximately €24 million. The net debt is €424 million, slightly higher than last year, of course impacted by the cash outflow but also by the payment of the acquisition of Over Morgen we did, say, at the end of last year and say, part of the share buyback programme we started, say, early this year but that programme is also stopped.

The backlog is in line with last year and even when we look to the organic growth, it is 2% higher. We have seen also a good order intake, which was actually the – when you look to the book-to-bill ratio, was 1.06, so higher than net revenues. Good order intake in most regions and we even see that in China, some improvements as they were returning to more normalised business.

What is also important to mention is that we don't see material cancellations of projects.

When we look a little bit more deeper into the developments in the regions – and that's on the next slide – we see a good organic growth in the Americas, a 7% growth in North America, driven by all businesses but especially in water and in infrastructure. Also, this week, we were able to announce a nice contract in the water business in America and it was to improve the flood protection and sustainability of communities along the coast of Texas, so, I think, again, a nice win and we are still winning projects these times.

Also, South America, we have seen a 12% growth and that was mainly driven by our environmental business in Brazil.

In Europe, we have seen in the first quarter – and of course the impact of COVID-19 was not so visible in Europe in this quarter but we have seen a strong growth in Germany and solid performance in the Netherlands and Belgium. In the UK, also 4% growth, mainly driven by infrastructure but also by water and environment but we have seen – and that was also important for us also – that large infrastructure projects, like the HS2 in the UK, still continue and we see that, in general – that most of the projects we do are continuing.

In the Middle East, there was a 5% decline. Margins were also there still a little bit lower, as mentioned in the press release but of course, we see there also the uncertainty, towards the end of the quarter, in the market due to COVID-19 but also to the very low oil prices.

Asia: clearly the biggest impact from COVID-19 in net revenues but we have seen that, let's say, the business is – all offices are open and the business is returning to a more normalised situation.

Then, last but not least, Australia: an exceptionally strong growth of 32%. We are working there on large infrastructure projects, like Melbourne and Sydney and all these projects continue.

CallisonRTKL: we have seen an organic decrease also partly related to COVID-19. As you are aware of that, approximately 20% of the business of CallisonRTKL is also in China but also we have seen that the retail practice is – has also some difficulties and so, all in all, we have seen an organic decline of 8%. On the other hand, we see that currently, the healthcare practice of CallisonRTKL is picking up and has quite some work, as you understand.

So, if we go to the next slide and put it a bit in perspective, you see that the net revenues and the organic growth has a pretty, I would say, development, so 3% organic growth. Operating EBITA margin from 7.6% you saw the improvement throughout the quarters but unfortunately, now, the 7.2% but it includes also the €5 million, or the 0.8% impact we have from COVID-19 in Q1.

The days sales outstanding and net working capital: it's higher than it was a year ago but, as mentioned before, it is impacted also by the inefficiencies in the billing, which we are currently solving and that is the major impact we see on the working capital and we discussed that also with the full-year results.

Net debt – net debt is €424 million. Now, clearly you see that normally the net debt is higher, at – in Q1 than at year end. That is a seasonal pattern we see also in other years. Maybe also a few words about liquidity, in these days also important. I can confirm that, with the year end, we had a headroom of €320 million and that is basically related to the unused credit facility we have and that is still in place, so we are – that headroom is still in use. And on top of that, we have also €200 million cash in the regions. So, from a liquidity point of view but also from a balance sheet point of view, we can say that we still have a solid position.

So, by having that – said that, I'd like to return to Peter for some closing remarks.

**Peter Oosterveer:** Yes, thanks Jurgen. We received some early comments this morning which expressed some surprise about the fact that we were still able to win new work and that we haven't seen any material cancellations of projects. And I believe that that is caused by the fact that the vital needs of societies, fundamentally, remain unchanged. And I would go even further by saying that, going forward, once we get out of this crisis, the whole definition of resiliency will probably be expanded to also include a component which increases the resiliency of society against viruses, as we now experience with COVID-19.

So the fundamental needs of what the world – or the fundamental needs of the world remain unchanged and that's why I believe that our backlog, so far, has not been impacted and we've been able to actually create a healthy book to bill, as Jurgen commented, in the first quarter.

I can't say enough about the agility, the flexibility, the resiliency of our people to work through this crisis. That's one of the reasons why we have seen little to no interruption in the work we have done. We have not received any complaints from clients that they have noticed an interruption, so that's definitely a testament to the agility and the adaptiveness of our people.

Our focus, of course, continues to be on business continuity and supporting our clients. This crisis, as severe as it is for society, also offers opportunities and as Jurgen also mentioned, we are actually trying to address some of the opportunities which are the result of this crisis.

Jurgen already spoke about our financial position and good liquidity. That all being said, I don't think there's anyone in the world who can accurately assess what the impact of COVID-19 will be for the rest of the year. That is largely depending on, first of all, the measures governments have taken and will continue to take, the discipline society will apply in dealing with these measures and the speed of the recovery which we will see, obviously, in different parts of the world. But I dare to say that the speed will probably be – differ significantly by region in the world and then I don't even want to speak about the risk of a potential second wave, which is also still not completely unlikely.

So, with all these uncertainties, we think that it is important to signal that we believe that it is unlikely that we will meet all our strategic targets for 2020, which is disappointing but a reflection of the reality and also a reflection of the uncertainty we see in our environment and I think we all see that uncertainty.

That being said, we are still pressing ahead, full charge, with addressing opportunities this crisis is providing, with opportunities to accelerate certain things we already wanted to do and use the crisis to our advantage. And we're also committed to present our new strategy – the update to our strategy – to you on 19<sup>th</sup> November, later this year. And with that being said, I turn it back to Rosie to guide you through the logistics and allow you to ask questions.

## Questions and Answers

**Operator:** Thank you. So, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star two. You will be advised when to ask your question.

So, our first question comes from the line of Henk Veerman from Kempen & Co. Please go ahead.

**Henk Veerman (Kempen & Co):** Hi, morning everyone, thank you for taking my questions. My first question is on your backlog in relation to your growth expectations into Q2 and Q3. Yeah, when I look at the Asia, the organic decline was 15% but the backlog in Asia is – was historically a lot, sort of, less strong and the order intake was sort of weaker than the sales. And if I look at the backlog as a group, it is actually much stronger than in Asia. So, can we assume that the Q2 and Q3 performance, in terms of organic sales, is a lot stronger than sort of the Asia business in Q1 suggests? That's my first question.

**Jurgen Pullens:** Yeah, I think it's – I think it would be a little dangerous to extrapolate the Asian backlog to the total for a number of reasons. One is that the Asian backlog is a bit of an unusual backlog because it typically spans multiple years because of the nature of the projects, so a lot of the projects we do in Asia – and particularly in China, which of course had the brunt

of the impact in Q1 – is typically multi-year projects on buildings where we perform cost management and project management type of services.

The second thing I would say is why it is risky to extrapolate the dynamic in Asia to then potentially apply to the total is that the nature of the work, again which is largely cost management and project management in Asia, doesn't lend itself, unlike virtually all of the other things we do across the globe, for working from home. So when the Chinese government fundamentally shut down the country, or large parts of the country, it also meant that the work we do was shut down and it didn't allow for working from home, certainly not to the extent we now see in other parts of the world, where we are virtually as effective and as productive in working from home as we were in working from the office. So I understand the temptation to apply the dynamics in Asia to the rest but I think that would potentially be flawed.

**Henk Veerman:** Okay, that's very clear. The second question is on the unbilled receivables, the net unbilled receivables, which, year over year, is an increase of €108 million. How much would you say, of that €108 million, still relates to the Oracle Cloud implementation delays and how much is related to the COVID-19 situation in Asia? And the question related to that is: when we enter a – sort of enter Q2 and Q3, can we expect rises in unbilled receivables across the other regions because of COVID-19 or not?

**Jurgen Pullens:** Henk, yeah, I will – I will start to answer the question. Indeed, you see the increase of €108 million. The majority of that is linked to North America, that is – we discussed it earlier. That is the delay in invoicing, as you can call it, or inefficiencies. At the same time, we have to take into account that, if you look to the gross revenues increase in North America compared to Q1 last year, then we see an increase of €40 million but you can say that roughly €50 million, €50–60 million is related to North America.

On the other hand, we see that the unbilled receivables in, as well, Asia and also CallisonRTKL, in combination, was also somewhat higher than before. So you have to take into account, of course, when you look to North America that it is higher because the gross revenues is higher but still, if you look to the improvement in this quarter, that is rather limited in the US.

Of course, we were – say we're able to stay in line with the gross revenues when it was about our billing but we were not able there to accelerate the billing and so that we were able to reduce the networking progress and that depends very much also on the additional efforts we have to do and we will do with, say, the Oracle solution and that will be effectuated in the second quarter and then we expect that we solve the issue in North America.

But maybe, Peter, you will add something.

**Peter Oosterveer:** I think that that's a fair representation. So the – to break it down a little further and provide a little bit more insight, so the issue with the Oracle system in North America has to do with a piece of the functionality which we are updating as we speak. The expectation is that we will deploy that in the last week and if all goes well, then that functionality will obviously be available for part of the billing. It is a specific, rather detailed, part of the billing functionality for contracts which require an extraordinary amount of detail. And if that functionality is deployed by the end of May, then that should give us the confidence and the ability to catch up in the second and the third quarter.



**Henk Veerman:** Okay and then, like, on the question, what felt very clear to me is then, in Q2 and Q3, will we also see a rise in unbilled receivables across the other regions because of COVID-19, because that's exactly what happened in Asia in Q1?

**Jurgen Pullens:** Not necessarily. I think the – what we see already in April, a catch-up in Asia but we have also seen that, to some extent, the offices were really closed in Asia. I think that when we – when you look to the ability that we have here in Europe and the other parts of the world, in the US, that it's not necessarily the case that we see an increase in the unbilled receivables.

What can happen, of course – but that is a little bit uncertain and we are on top of that – is what is the behaviour of our clients? I – we do see that – especially for public clients, we don't see any impact of their payment terms and hopefully we don't see that as well on the private clients sector.

Of course that is still a bit uncertain, like it is uncertain to predict exactly the – you know, the impact of COVID-19 in total but we don't expect a further increase in the – I would say in the unbilled receivables, also, in other regions.

The major delta is still the delta in the US and that is, of course, if you compare apples with apples. We introduced the Oracle solution in Q3 last year and now we compare Q1 with Q1.

**Henk Veerman:** Okay, that's clear. Thank you guys.

**Operator:** The next question comes from the line of Luuk van Beek from Degroof Petercam. Please go ahead.

**Luuk van Beek (Degroof Petercam):** Yes, thank you. My first question is on the productivity at home. You've now experienced six weeks, about, working at home. Can you say if the employees are just as productive as they are in the office? And also, I can imagine there is a difference between completing a project on which they are already working and starting of a new project, where there is probably more collaboration required. So do you expect there to be a difference between those types of activities?

**Peter Oosterveer:** Yeah, I think Luuk, you're experiencing what everyone is experiencing, including myself, that, you know, you can be efficient but I don't think our business will ever be an entirely work-from-home business. And that, of course, is not what we aim for anyway. We do expect that, as more flexibility, within what I think will, for the foreseeable future, still be a 1.5 or two-metre economy, that some flexibility will be offered.

What we're seeing in the first six weeks is that, I think, by and large most people deal with in strides but I can't deny the fact that the situation differs greatly depending on whether you have the perfect environment at home or whether you, for instance, have the environment I described briefly with a young family, children who can't go to school or needing to take care of ageing parents.

But at this point in time, we also see that whereas it is challenging for a lot of people to keep all the balls in the air and particularly in the circumstances I just described, that the work day is actually extending into a longer period than it typically does. And what I mean with that is we do see that people need to juggle a lot of things. We see, for instance, if we have a videoconference that, all of a sudden, you see a family member going through the view, which, you know, a couple of months ago would be unacceptable; it is now being accepted and we see

people also trying to still keep all the balls in the air while extending the work day beyond the normal work hours. So that means that a lot of people are still working, you know, after, say, 18.00, which is typically when a lot of people would shut down.

Your point about starting a project: yes, I think there is a need to, ideally, be together – together, still within the confines of the limitations and you know, if we had to start a whole bunch of new projects at the same time, then it would be somewhat challenging but that's obviously not the way it works.

And what we also have done, in places where it is still allowed – although we are not encouraging people to, in large numbers, go to the office, we actually, in the Netherlands, still have our offices open. Only a few percent of the people use that opportunity but if there is a need, in those places where offices are open and that includes the Netherlands, to get together, again within the confines of the limitations, then that opportunity is there.

So, in the first six weeks, which is the period that I'm using because that's the period most countries have been in a restricted work environment, we have not seen an impact on the productivity.

**Luuk van Beek:** Yes, that's clear. And my second question is on your tender pipeline because you stressed that the public clients are just continuing, more or less, as normal but obviously roughly half of your revenues come from commercial clients and many of them, like you, have decided not to hire external companies to do part of their work, or to start new projects. So how do these – so it's not visible in your backlog yet but do you see fewer demands from customers for new projects that they normally would start up later this year?

**Peter Oosterveer:** Yeah, I think the tendering process – because that's what you are – what you're talking about – it's the work we're still pursuing – follows the same dynamic as the dynamic we described in that we see public clients still trying to advance projects and tender them and private clients being more reserved, in that regard.

But that, of course, is also very much depending on where in the whole cycle a country is. You know, in Asia, or in China more specifically, we actually see, you know, a pretty healthy pipeline of opportunities and not just for the public clients. We actually see healthy opportunities for private clients as well.

So, at the end of the day, the successor and the ability to capture both work for private and public clients, at the rate we know from the past, is very much depending on how quickly the economy in a particular country can go back to a degree of normalcy.

**Luuk van Beek:** Okay, thank you. Those are my questions for now.

**Operator:** The next question comes from the line of Martijn den Drijver from ABN AMRO. Please go ahead.

**Martijn den Drijver (ABN AMRO):** Yes, good morning gentlemen. I still want to come back to the question about whether Asia is a decent proxy. You mentioned that in Europe the teams are much more used to working remote, that's positive. Public clients are actually stepping up. In certain cases there are the number of the projects. Private clients, some hesitance but still good order intake. And if you look at Asia, over 85% of the clients there were private, whereas in Europe, that's much less. So I can't really follow why you would be so cautious, given these three elements. That would be question one.

Then the second question is more related to the cash-outs. Are there any other material cash-outs, like this engineering software application, in the coming quarters? That's question number two.

And the third question is: you've had now, in the last three quarters, roughly €70 million in non-operating costs, mainly relating to restructuring. Should we take into account some material savings from those restructurings in the coming quarters?

And the final question is on ALEN: is there anything worth mentioning in terms of that particular project/situation? Thank you.

**Peter Oosterveer:** Yeah, let me take the first and the last one and then I'll ask Jurgen to take the second and the third one. So, what I was trying to do, Martijn, in response to Henk's question on the backlog and particularly the Asian dynamic, was to explain that there are differences between Asia and other parts of the world in terms of longevity of the work in the backlog, as well as the ability to work from home. And you addressed – and then lastly, the mix of private versus public.

So I was trying to make the point that what we've seen in Asia is not necessarily the perfect example to assume that the same would happen in other places, because of the nature of the work and the longevity of the projects.

So the projects are larger, or actually run a longer period of time, I should say. Most countries don't have multi-year projects, except for some of the countries which are involved in the large infrastructure projects, such as Australia but by and large, in those other countries, the backlog stands about a nine to ten-month timeframe. And that was the first comment I was trying to make.

The second one is that the shutdown in China in particular, initiated by the government, was very abrupt and the nature of the work, actually, didn't allow people to work from home. And secondly, the infrastructure people have at home in Asia is not necessarily as rich as the infrastructure is in the Western world, where most people have internet at home and can work, with a decent internet capability, from home.

So that is what I was trying to say and also trying to caution you for using the dynamic in Asia as a proxy for the same type of behaviour and dynamic in other parts, where, simply, backlog behaviour is different and the ability to work from home is different.

I will check in later if that answered the question but let me take ALEN first. Your question is: is there anything noteworthy to mention? And the brief answer is no, if there was then we would have probably also highlighted it in the press release. We are still on the path which we outlined some time ago. It's that we are not investing in ALEN anymore and that we are still in discussions and are going down the path with our partner to allow us an orderly wind-down.

And when I say there's no news, these conversations have advanced but not to the point that we can tell you anything new.

**Martijn den Drijver:** Okay, thank you.

**Peter Oosterveer:** Before I turn it over to Jurgen, is the answer to the first question a better one than you had –

**Martijn den Drijver:** Well I do – it's a kind of a repeat because having better internet in Europe is – speaks in favour of results. Having a more gradual deployment of soft lockdowns is in favour of results, so not entirely but maybe we'll do that offline.

**Peter Oosterveer:** No, I think it is – it's – you're certainly correct. All I'm trying to say is that if you've seen something in Asia as a result of the three-month period which was impacted by COVID, don't assume that you'll see the same impact in other places. That's all I'm trying to say.

**Martijn den Drijver:** Okay.

**Jurgen Pullens:** Yeah, Martijn, the other two questions were linked to do you expect a similar, say, payment in the second quarter or the third quarter? No, we don't expect a similar large expenditure for, say, software or similar things. Actually, what we also mentioned was that we – all uncommitted capital expenditure is suspended, so we basically – we expect also that the capital expenditure will be much lower than it was last year.

Then, about restructuring, you have seen that, of course, we expect to – we expected to see the savings and they will be in as well. If you look to the full – say, the impact of the COVID-19 in the first quarter, yeah, if you count it back then you saw, already, an improvement in the first quarter. But having said that, I think that there might be also – of course, it will impact the billability, the efficiency. It's also not a straight line that we can say, 'Yeah, on the one hand, of course, you see the savings back but on the other hand you have, also, say, more inefficiencies,' so that is – that's what we can say about it right now.

**Martijn den Drijver:** Just one follow-up on the CAPEX: is there a number that you would like to provide in terms of the CAPEX for 2020?

**Jurgen Pullens:** No, last year it was about €50 million, approximately. We don't want to say that but with – what the exact amount is but it will be – so last year it was €46 million; it will be, clearly, lower but whether it will be €30 million, or €40 million, that's – it will be clearly lower than last year, so – as long as we suspend the commitments.

**Martijn den Drijver:** Okay, thank you.

**Operator:** The next question comes from the line of Hans Pluijgers from Kepler Cheuvreux. Please go ahead.

**Hans Pluijgers (Kepler Cheuvreux):** Yes, good morning gentlemen. First, coming back on the backlog, I understand what you say in respect to public and private but, of course, outside, let's say, the backlog, of course, a big part of your business is also smaller contracts. So, let's say – and of course there, there has been, let's say, a continuous renewal of that kind of contract. So do you see, let's say, a clear change in, let's say – in the total overview of the projects, that a lot – especially the smaller projects – are coming in less quickly than we have seen before in the lockdown. So could you give me some feeling on that, the difference between the larger and the smaller contracts?

Then, coming back on the restructuring cost, you took, already, let's say, some charges in Q1. You said it's for restructuring. I assume that mainly relates to Asia, or can we maybe give some flavour to that? But more importantly, now we are, let's say, six weeks in lockdown, are you, let's say, looking at more restructuring that we could, let's say, envisage for Q2 and Q3? Could you maybe give some idea on that?

And then, for governance support, of course there are all kinds of schemes. Could you give, maybe, some idea of what kinds of schemes you are currently making use of, or any? I can imagine that for some, let's say, wage support, that's not the case but if you could give us, maybe, some feeling on what you are currently using and what are you looking for to maybe make use of.

And lastly, on liquidity, of course, you have also part repayments this year and beginning of next year, amongst others, on the USTP[?]. Is – all the discussion going on with banks and USTP holders on repayments, could you give, maybe, some feeling on that?

**Jurgen Pullens:** Okay. I'll start off, Hans, with handling a few of those. First of all, the characteristics of the backlog – at least that's how I summarised what you were asking for – and I think the specific question is do you see the characteristics change, or have changed? And I think the answer is no and I think you meant specifically characteristics as in large projects versus small projects. I don't think that has changed.

I'll make one more comment. You know, backlog is one thing but what you want is for backlog to move because taking things in backlog – and think about a project which you get awarded but then the client says, 'Well, I can't afford, actually, to now start it, keep it in backlog but I'll let you know when I start it,' that is not of a great use to us. So we're actually also – in addition to backlog, also are looking at to what extent the projects are moving through the backlog in the typical way and we have not seen any change at this point in time that would give us concern that, yes, we're taking stuff in backlog but it just sits there and it doesn't turn into revenue.

I will take the government support question as well. You know, our first aim is to, to the extent possible, not use government support. And in some places, because of what you need to do or to see before you qualify for government support makes that, of course, very unappealing. Like in the Netherlands we are not qualifying, neither are we seeking – hoping to qualify, for government support because it would mean that we would have to see a significant drop in our revenue and we haven't seen that yet.

That doesn't mean that we're not using government support at all but it is at a really small scale and whether you would call it government support is actually even to be debated. But in the US you have an opportunity to put people on so-called furlough, which is to still keep them as employees but not pay them for a particular period of time, as you see work coming down.

We have started to do that at a very small scale and we have done the same, at an even smaller scale, in the UK and that is, as far as I know, all the places where we have, if you to describe it as government support, government support. But for Arcadis as a whole, I would say the government support we have received is very negligible and it is our intent and desire to not have to apply for government support.

**Peter Oosterveer:** I will address the question, Hans, for liquidity. As mentioned earlier but to say again, when you – when we look to our unused headroom of committed credit facilities at the end of the quarter – and it's still the case – that was €320 million. On top of that, we have also approximately €200 million of net operating cash in our regions, so quite a, I would say, good liquidity position.

Of course there are a few things which we have to repay, as you can read it also in our annual report but we have to repay a Schuldschein in two parts in this year, in 2020. The first part is – will be repaid in May and the second part will be repaid in October, so we believe we have enough headroom to pay the €70 million in May. What we also have – and this may be linked to the question of ALEN and as you – for sure, you are aware of that – that we have also guaranteed the – approximately the €75 million bank debt in ALEN and we provided that guarantee and most likely we will have to – we will repay that by the end of June and then you talk about a number of approximately €75 million.

Of course, when you look to normal – let's say the seasonal pattern – you'll see that the cash outflow is the highest in Q1 and then you see, gradually, that already the cash flow in the second quarter is normally, absolutely, not that high. It is closer to zero, or even slightly positive. So we believe that, at this point in time, we have enough liquidity also to repay the Schuldschein and to repay the debt of ALEN, which is a combination, say, €145 million.

Now, of course, it is still our intention to go to the Schuldschein market for renewal when the timing is right but at this point in time, our liquidity is solid.

Hans, maybe since you had a question on restructuring and asked if we could provide some insight in potential restructuring in Q2 and Q3 but this obviously comes down to the whole uncertainty of the situation going forward. I wish that I had a more predictable crystal ball than the one I currently have and be more affirmative on, you know, what we're seeing.

That being said, obviously we are looking at the situation all the time. We assess options[?] all the time, which includes opportunities for government support. And maybe to qualify my earlier statement, when I said we're not looking for government support, it is not a number-one driver. If we do qualify for government support, then of course we will not hesitate but our first aim is to run our business without the need to apply for government support. But again, if there is, you know, an opportunity or the situation is deteriorating and you have to, then we will, obviously, apply for government support.

Q2, Q3 restructuring: we have a number of additional steps we can take which we have identified for ourselves. We're not sitting here at the end of all our opportunities and all our possibilities. Restructuring is not the next one we would pull but if the situation in the world, or the situation in a particular region, would greatly deteriorate, then restructuring could be part of what we ultimately would have to do.

**Hans Pluijgers:** Okay, thank you.

**Operator:** The next question comes from the line of Kieran Mulder from Arcadis[?]. Please go ahead.

**Kieran Mulver (Arcadis)[?]:** Yeah, good morning everyone. First of all, I would like to make a remark: I would bring home my condolences to the family and the organisation for the passing away of Joachim. We have met him in November 2018 and I think, for me, it's one of the guys who was very instrumental to break the negative spiral in the US, so I think we will think about him.

Then my questions, first of all: can you indicate, on this 50% decline in the Far East of revenues, what the impact was on the EBITA, to get an idea about the leverage effect you suffered from the COVID there.

My second question is about the scenarios. You have built some scenarios in the beginning of March. Can you update us on what your view is on the scenarios, given, yeah, let me say, the rollout of COVID and the lockdowns and what you have seen thus far?

And my last question is about the hiring freeze. You have said we are doing a hiring freeze. Does that also account for an appointment of a CFO, or are we going to get some news from a new CFO in the coming months? Those were my questions.

**Peter Oosterveer:** Let me start from the back, Kieran and then I'll also handle the scenarios and Jurgen will handle the 50% of decline – impact on the EBITDA – question. The hiring freeze actually means that any new hire needs to be approved by me and a new CFO would have to be approved by me but not just by me, obviously by the supervisory board and actually by the AGM as well.

The process to hire a new CFO is obviously an exception to the hiring freeze. The process has advanced to the point where conversations have started but I will say that the timing and the speed of the hiring process is also impacted by the limitations we currently all feel but no, we have not stopped the search for a new CFO. We still expect that, in the not-too-distant-future, we will come forward with the selected new CFO, so the CFO doesn't fall under the hiring freeze.

Then, the question on the scenarios: so, initially, I think we have said that probably on a different occasion, initially we are looking at three scenarios, initially being the early part of March, of which we dropped the most optimistic one because we don't think that that is necessarily a realistic scenario anymore, so we're now looking at two, whereby the first scenario is an ongoing impact from COVID in Q2, Q3, with a recovery in Q4 and the other scenario would be an extended impacted throughout the whole of this year, with an improvement in Q4.

Now, we're not trying to force-fit all regions into these scenarios, simply because regions see, you know, different recovery at a different path and a different timing as well.

As an example – we have used the example already a couple of times – Asia is already in the recovery mode, so it would be foolish to assume that Q2, Q3 in Asia would be worse than Q1 because most of the impact, at least as we see it now, with the recovery starting to come to the fruition, that we would expect an impact in Q2 and Q3 in Asia. But other places, where a lockdown will be extended, or could potentially be extended, would still fall under either one of the two scenarios.

So the scenario which is an impact in Q2, Q3, we describe as the most likely one but all of this still comes with the same uncertainty which we have used already a couple of times, simply because no one – I have, at least, have not found anyone who can give me any certainty on when a lockdown will be ended in what place and how the business would go to a degree of normalcy again.

So, yes, we use the scenarios. At the same time, though, the uncertainty which I think we all feel is still very applicable to these scenarios.

**Jurgen Pullens:** Yeah and then with regard to the question about the results, the impact was approximately €5 million. That was also impacted by the fact that the Chinese New Year was extended by seven days, which was quite sudden, so it was not able to work. And then secondly, also, the type of work in Asia is a little bit different than in other parts of the world. So, when constructions sites are closed, we cannot always do the work. And I think when –

what Peter also elaborated on, if you look to the work in Europe and also in the UK and in the US, then we can do work more from home, so it is not necessarily that you can translate the impact in the Asian business to the rest of Arcadis.

And this was not only Asia because, of course, when we talk about the Asian business, it is also part of the Callison RTKL business in Asia, which is approximately 20%.

**Kieran Mulver:** But that is included in this €5 million?

**Jurgen Pullens:** Yeah, it is included in the €5 million, yes. It is a combination of Asia and then a little bit in Callison RTKL as well.

**Kieran Mulver:** Okay, thank you.

**Operator:** The next question is a follow-up from Henk Veerman from Kempen & Co. Please go ahead.

**Henk Veerman:** Hi, hi again, two follow-ups, if I may? The first one: just to get some more clarification, you say that you have not seen material project cancellations. Can you give us just a feeling, a sense, of sort in April, how the discussions have been with clients with – regarding these projects, especially in the private sector. Yeah, I think – I think the point of measuring being the end of Q1 does not necessarily say a lot, obviously, about project cancellations because, especially the – Europe and the US deteriorated quite significantly from that point onwards.

**Peter Oosterveer:** Yeah, I think that's a fair statement. You know, in our comments – or let me say, first of all – or let me first acknowledge that we are providing Q1 results, so our commentary, of course, is largely associated with the Q1 results. We have expressed reservation about being specific about the future because of the degree of uncertainty. But I will go a little further than that. We are now three weeks, or maybe a few days more, into April. Have we seen a significant change in April compared to where we formally end the reporting period? The answer is no.

**Henk Veerman:** Okay, well that's clear. And maybe one last follow-up on Australia: 32% organic growth; was that also a one-off or is that something that we can extrapolate into the next quarters? Or was it just a favourable comparison base or what happened there?

**Jurgen Pullens:** Yeah, I think it was also – also a bit a favourable comparison base, that saying we had a relatively weak start in 2019 and [inaudible] well –

**Peter Oosterveer:** Yeah.

**Jurgen Pullens:** – so we had a relatively weak start. And later on we won quite some large projects, in Sydney and in Melbourne and you do see, so, that still continue. So that is also a little bit a favourable comparison, that's right.

**Henk Veerman:** Thank you.

**Operator:** Okay, so we now have a question from the line of Maarten Verbeek from the IDEA!. Please go ahead.

**Maarten Verbeek (the IDEA!):** Good morning, it's Maarten Verbeek of the IDEA!. Concerning Oracle implementation in the US, firstly, you mentioned that it will be the last –



adjustments will be implemented end of May and you also stated that everything will be solved by mid-year. Does that imply that the €50 million net gap in the working capital will be solved in one month, or how should I read this?

**Peter Oosterveer:** Yeah, so, Maarten, the additional functionality I talked about is a piece of functionality which is required for the costless, fixed-fee billing. This gets a little detailed but I will refrain from providing more detail but it's part of the contracts we have fall in that category, so we expect to deploy that revised functionality by the end of May. That will be after, obviously, testing, as well and from that point onwards we should be able to use the Oracle system for the billing of the contracts which fall in that category. I think we have said that we would expect it to catch up in the third quarter –

**Jurgen Pullens:** Yeah, the next quarters.

**Peter Oosterveer:** – so not just in the second quarter. That would indeed me, if we had said the second quarter, that in a month you would see actually not only the functionality work but you would see the invoices going out and you would see the cash in the door and that's probably not fair to expect, so it will run into the third quarter.

**Jurgen Pullens:** Okay, so, end of Q3, it should be normalised. Does this also mean that you will have additional cost – operating cost?

**Peter Oosterveer:** For the Oracle system, you mean?

**Jurgen Pullens:** Yeah, for billing.

**Peter Oosterveer:** No.

**Jurgen Pullens:** And will this also delay the rollout of the Oracle system throughout Arcadis and other places?

**Peter Oosterveer:** And actually what we have done is – and that has gone unnoticed and it has gone unnoticed because it went, actually, quite well: in January we went live with the Oracle system – the cloud solution that is in Australia. That actually has gone really well, no issues whatsoever, so everyone is quite pleased with that functionality. And we had already delayed, because of the issues we encountered initially in North America, the implementation in Continental Europe, which is the only remaining region left. We had already delayed that. At this point in time we're not expecting any further delay but that delay was already getting us into 2021 anyway.

**Maarten Verbeek:** Okay, thank you very much.

**Operator:** We have reached the end of the Q&A session now, so I will hand the call back to Peter for any concluding remarks.

**Peter Oosterveer:** Yeah, thank you Rosie and first of all, thanks everyone for your interest and your questions, I think that's made the conversation into a very meaningful conversation, allowed us to provide some additional colour. You know, needless to say that we're finding ourselves in absolutely unprecedented times, with things I don't think anyone has seen in their lifetime. And certainly I can speak for myself: I don't think that I've ever seen anything like this, which comes with the – and we've quoted it a couple of times – the degree of uncertainty no one really likes.

Let me assure you that we are keeping all the fingers we have available on the pulse to ensure that we address the uncertainties as quickly as we can, remove the uncertainties as quickly as we can and I can therefore only be extremely proud of the way the Arcadis organisation has responded to this crisis. And to do the things we have done in a relatively short timeframe, to move from an organisation which was almost exclusively working from offices to now, an organisation which is almost exclusively working from home, I think, is a testament to the flexibility and the agility of the organisation.

We are trying to help our clients wherever we can. I still believe and actually have almost become even more convinced that our focus – and our focus being on resiliency and sustainability in the broadest possible sense – is the right focus and in fact, I think the focus will even be stronger going forward, by the time the dust has settled, we're out of this crisis and we look at things society will need to try and avoid that we ever get into a situation like this ever again.

So, with that, let me thank you for your interest again and I'm sure that we will have further dialogue in the not-to-distant future.

**Operator:** Thank you everyone for joining today's conference. You may now disconnect your lines. Hosts, please stay on the line and await further instruction, thank you.

[END OF TRANSCRIPT]