

Arcadis NV Q2 and Half-Year 2020 Results

Tuesday, 28th July 2020

Arcadis NV Q2 and Half-Year 2020 Results Call

Operator: Hello and welcome to the Arcadis NV Q2 and Half-Year 2020 Results Call. My name is Courtney and I'll be your coordinator for today's event. Please note that this conference is being recorded and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question.

If you require assistance at any time, please press star zero and you will be connected to an operator. And I will now hand you over to your host, Jurgen Pullens, Director of Investor Relations, to begin today's conference. Thank you.

Jurgen Pullens: Yeah, thank you and good morning everyone to the Arcadis conference call for the Q2 results and the half-year results. I'm here together with Peter Oosterveer, our CEO and he will present the figures.

As always, I would like to remind you to the disclaimer, as fully described in the presentation and in the press release regarding forward-looking statements.

Now, with these formalities out of the way, I'd like to hand over to Peter to start with the presentation. Peter?

Peter Oosterveer: Yes, thanks Jurgen and good morning, also, on my behalf. Thanks for joining us this morning. Probably the best way to start the conversation here is with the word 'resilient' or 'resiliency', the ability to recover quickly from difficulties, or change and I suspect that that word will actually come back a few times. And I'm actually pleased and proud to explain how resilient we, as an organisation, have been and I have to start with the resilience of our people. Our people have demonstrated, through this quarter, under extreme difficult, unprecedented circumstances to be able to respond very well to these different circumstances. Resiliency also was seen from our clients in trying to weather these unprecedented conditions as well as they could and I think also resiliency in terms of our business and the diversity of our portfolio. And these factors together, I think, have contributed to the delivery of solid performance in Q2, which I'm obviously pleased about.

We've also seen that the measures we introduced towards the end of the first quarter, which we of course advanced and added to in the second quarter have also been an important contributor to our performance and also an important contributor to significantly improving our cash collection.

Our EBITDA, at €49 million, close to what we were this time around last year, I think is quite solid, in spite of a revenue – a modest revenue decline of –3%.

The operating margin for the second quarter was actually better than the second quarter of last year, which, again, considering the circumstances, is something to be proud of. And maybe the most significant measure and improvement is our free cash flow of €165 million this quarter, which brings the year-to-date free cash flow at €81 million versus €8 million of last year. And I suspect that we will talk more about the contributing factors which helped us to create that free cash flow, obviously the significant reduction of working capital and the improved efficiency of invoicing in the US have been a significant contributor to that significant improvement.

I think, all in all, we have demonstrated, as an organisation, that we have an ability to adapt to challenges, to changing circumstances and we're now about four months into a totally new way of working, something which is about to create something of a new, temporary normal, because I don't think that the normal we see today will be the normal we will see eventually but I really think that we have demonstrated our ability to respond to the challenges as well as anyone could expect.

I'm also pleased, as you have seen through a separate press release this morning, to announce the nomination of our new CFO, Virginie Duperat, someone with a very strong, proven, finance track record, someone with international experience, something we definitely wanted to see and certainly also someone with proven project experience, which is something else we really felt was important in the profile.

So this nomination will be put forward to the extraordinary general meeting, which is scheduled to be held in the middle of September and with, hopefully, an endorsement by our shareholders, we expect that Virginie will join us shortly thereafter.

So, moving on to the second slide, it's a slide which should be familiar to you. This is a slide we did present at you at the end of Q1. That slide reflects the actions we took in Q1 through eight different workstreams which we felt were appropriate to manage the COVID-19 crisis. And I can now say, with another quarter benefiting from these workstreams, that these eight blocks, these foundational blocks, have served us extremely well and we still use these blocks today to get through the remainder of the crisis caused by COVID-19.

In particular, the safety and the stability we have been able to provide to our people, which in turn allows them to continue to serve our clients, has been important. That includes, actually, that all our people in the global excellence centres in the Philippines, Romania and India are also still working from home, which is something quite extraordinary, because that is a principle which was not necessarily very common in places such as the Philippines, India and Romania but they are also still largely working from home.

So these blocks have served us very well; we will continue to use these blocks as the foundation for continued performance going forward. And whereas, at the beginning of the second quarter, we had about 90% of the people still working from home, that is largely still the case.

We do recommend our people to work from home where possible. For those where it is not possible, for instance people who work at job sites, of course there are different circumstances but our recommendation to people is to only come to an office when there is an absolute need to come to an office and our people are definitely following that advice.

Moving on to the next slide, speaking about resiliency again, we issued, a couple of weeks ago, a white paper which I would really recommend you to take a look at, if you have a chance. It does reflect our latest thinking about resiliency and how resiliency is going to be more intimately linked with sustainability to allow societies to both be resilient against crises, as the one we currently experience, while at the same time, also keep an eye on and take the necessary measures to make societies more sustainable.

It's probably another reason why I would recommend you take a look at this white paper, if you have a chance, because it actually has some really interesting and telling stories from our

own employees in different parts of the world and it reflects how they have been able to cope with this crisis over the last four months.

So, with that as my introduction and comments, I'm turning to over to Jurgen for a deeper look at the financials.

Jurgen Pullens: Yeah, thanks Peter. Maybe before we start, you see also a nice slide about the HS2 project in the UK. I think this is a very real example of a large infrastructural project. It connects the largest eight cities in the UK, from London to the Midlands and to the North. But this is also a project – it's a long-term project and it's going to be open between 2029 and 2033, so it is really something – and a project that demonstrates the work that we do for our clients but also that reflects that we can continue to do this work.

When we look to the results, overall, the results are, I think, pretty solid. It demonstrates also the measures we took already, say, in Q1 but also the additional measures to improve the cash flow at the end of the first quarter. The operating EBITDA margin is broadly in line with last year. Of course, we see a strong free cash flow of €81 million in the first half and €165 million in the second quarter and we'll – later we'll come back to that.

Also, when you look to the net debt. It's €360 million, which is clearly lower than last year, also significantly lower than Q1. At that time it was €423 million and it includes also a payment to ALEN of €58 million that was for the bank loans, for which we provided a guarantee.

All in all, this led to a leverage ratio of 1.3, which is, I think, a very sound leverage ratio.

When we look a little bit more in depth to the quarterly results, then we see solid results, despite a modest 3% revenue decline. We have seen some regions, like Australia, North America, with revenue growth but also some regions, like CallisonRTKL, Asia and some European countries where we have seen, in the quarter, compared to last year, some revenue decline.

But all in all, we are pleased with the results and also and of course especially, with the net working capital reduction. It was 19.2% in the first quarter and it is now back to 17.7% and that is closer to the strategic target of 17% and we expect also that there is room for further improvement in the net working capital.

Days sales outstanding: it's 87 days. It was 95 days at the end of Q1. Compared to last year, it was 82 days and also here the strategic target was 85 days and we believe also that there is further room for improvement in the days sales outstanding in the second half of the year.

When we look a little bit further in the P&L and when you look to the net finance expenses, for instance, those are lower than last year and that is due to lower interest rates, which are slightly lower than a year before. What you also see is that the expected credit loss on shareholder loans is at +€17 million. The reason for that is that we had to repay an amount of approximately €75 million, for which we provided a guarantee but there was a strong devaluation of the Brazilian real and that has led to a €17 million gain in the second quarter.

All in all, this led to this – leads to a 11% earning per share increase compared to the first half in 2019.

As we look to the cash flow statement, we really see that the measures we took, the additional measures we took at Q1 are really paying off. For a large part, that is related to the increased invoicing efficiency in the US. We also implemented the Oracle functionality in May and June but also we had, next to that, additional measures to improve the invoicing in the US.

But, having said that, we still believe there is – there is more room for improvement in, say, the coming quarters.

When you look to the EBITDA, you first see the EBITDA according to IFRS 16. Then we adjusted the lease expenses and then you arrive at the adjusted EBITDA, which is also used for the calculation of the leverage ratio. Looking to the change in net working capital, later on I come back to it a bit more in detail but you see a plus of €16 million and last year it was a cash – or an increase in working capital of €45 million.

Changes in other working capital: it's almost neutral but as you – as you are aware of, we had, in the first quarter, an engineering software licence, also described in the press release, of – an outflow of €24 million and this quarter we have also a VAT and wage tax deferral which has allowed under, say, government schemes in the US and in the UK. Ultimately we have to repay that back, of course. That will be ultimately in Q1 next year but that is part of the other working capital.

But, taking everything into account, that leads to a cash flow from operating activities of €97 million. You see also the capital expenditures, which are lower than last year and that leads to a free cash flow for the first half of €81 million.

A bit more in detail when we look to the balance sheet and also to the positions of working capital and trade receivables. You clearly see that the trade receivables are in line with a year ago but clearly lower than, say, December 2019 but also clearly lower – or, say, more or less in line – with, say, Q1 2019 – 2020, so the last quarter, especially the improvement you will see in the reduction of the net working process. You see that the €249 million is in line with, say, last year and €50 million better than at the end of the year but in Q1 the net working progress was €363 million. So, compared to the end of Q1, you see an improvement of €140 million in the net working progress.

When you look to the accounts payables, it's now €208 million. At the year end it was €280 million and a year ago it was €228 million, so also here you see that accounts payables are lower and ultimately that leads them to a net working capital amount of €588 million, which is also in line with, say, last year and an improvement compared to Q1.

When you look to the overdue receivables, then also more or less the same pattern as a year ago, with some improvement in the amounts over 120 days, which are also, for the most part, provisioned, as you know.

When you look to our balance sheet – and we discussed it before – you see the adjusted EBITDA margin, which is now 8.8%, which is in line with last year. Free cash flow is pretty strong in the first half of this year, with €81 million compared to €8 million a year ago and -€6 million in 2018.

The net debt is €360 million, so significantly lower than a quarter ago and in line with last year and that led to a leverage ratio of 1.3.

So, all in all, I think a strong financial flexibility that we have demonstrated in the second quarter and also improved balance sheet.

With this, I would like to hand over to Peter, who will comment on the operations in the segments.

Peter Oosterveer: Yeah, thanks Jurgen. So, a further breakdown, a bit more colour on the performance by segment, so the Americas first. I'm going to make some comments with a year-over-year comparison, so the first half year 2020 compared to the first half year 2019. Then we've seen organic growth in the Americas, which is with contribution from both North America, as well as Latin America and we also, actually, see improvement in operating EBITDA margin in the two regions combined as well.

So clearly, in the current situation, a stellar performance from the Americas. In North America, most of the positive growth has been, unlike, maybe, in the past, delivered by water and infrastructure. Environment had some impact but actually much less than we had expected it to be, as a result of COVID-19. So strong sustained performance in North America.

In Latin America, we have been able to, in the current situation, stabilise the margins, have continued organic growth and actually have a strong backlog, which has been fuelled by opportunities in infrastructure, in addition to, of course, the typical opportunities in environment and most of that significant backlog has been in Brazil.

Moving on to the segment Europe and the Middle East, the performance in our larger markets, so that includes, obviously, the UK, the Netherlands and Germany, has been very solid. The operating EBITDA margin has improved compared to last year. We didn't see growth in these markets, although we did see growth in some of the countries in these markets, in particular in Germany, which has had a very strong first half of this year.

We had some revenue decline in the smaller countries, which includes, for us, France and Italy.

So, look, performance in the Netherlands as well: as you will probably note and remember from the past, we are no longer involved in the work which was done to remedy the damage done by the earthquakes in the north of the Netherlands. That work did go away as of the first of this year. However, we have been able to offset most of that by other work and in fact we're seeing a pretty healthy order intake for public clients in Europe North, or more specifically the Netherlands.

So, marginal revenue growth in the UK, which is obviously still positive in the current environment, fuelled by wins in infrastructure and water and obviously some declines in the buildings sector in the UK.

The Middle East is not only impacted, obviously, by COVID but is also impacted by a sustained relatively low oil price, albeit that it has recovered quite a bit but that's not necessarily reflecting itself in significantly higher revenue, so the impact there is relatively modest and the actual performance on the lower revenue has actually been quite okay in the Middle East.

Moving on to Asia, Asia-Pacific, I should say, starting with Asia, as you will remember from Q1, we had a significant impact from COVID, at that time largely in China, the first region to be impacted by COVID. That has stabilised itself and in fact the performance in Asia in the

second quarter has improved compared to the first quarter, so over the first half of the year, it is relatively stable, compared to last year.

In Asia – sorry, in Australia, we've actually seen a significant improvement in the second quarter, in particular, compared to last year, resulting from the involvement we have in a number of larger infrastructure projects. So Australia already, I think, notoriously outperforming many of the other regions in many aspects, continues to be on a really, really nice trajectory, with further growth in the second quarter of this year.

Then CallisonRTKL, compared to the other segments, more severely impacted by COVID than the other segments, which is not an Arcadis-specific issue. I think by and large the architectural business has been impacted much more significant than our typical business anyway and again not just in Arcadis. We've seen a decline in our revenues, which is largely caused by a significant decline in the retail sector. As you all appreciate, those companies we typically work for who have plans to expand their retail footprint have put those plans on hold for now. That doesn't mean that we have decided that we don't want to operate in retail anymore but it will probably have a different focus, a focus more on flagship stores than on the broader retail sector, as we've seen in the past.

The positive news is, for CallisonRTKL, that their presence in China, just like the Arcadis presence in China, is starting to show some recovery from the COVID impact which was felt in Q1.

Needless to say that, in CallisonRTKL, as the organisation impacted the most within Arcadis, that we've taken additional measures to control the and mitigate the impact of COVID-19 on that business.

A quick word on Arcadis Gen, which as you'll recall we launched as of 1st January. We're proud to, actually, announce that we launched our first product as a result of Arcadis Gen, a product which is also being used by clients. I think it's also pleasing to see that the products we do deliver are products which really cover the entire asset lifecycle, so the planning – planning for assets – but also the delivery of assets and maybe most important in terms of delivering sustained revenue is the fact that these assets, or these products, also cover the operate and maintain part of the asset.

So I'm pleased to see that our fruits – that the fruits are being delivered in the form of our first operational products to our clients.

So, to sort of wrap everything up and then allow you an opportunity to ask any questions, the actions we implemented to secure business continuity, to reduce our cost and to preserve our cash have clearly paid off in the second quarter. Needless to say that we will continue with that focus on these categories to ensure that our performance will continue to be as strong as it was in the second quarter.

COVID-19 has learned us a lot of new things but it has clearly, in our view, also magnified the significant importance societies need to pay in becoming more resilient, while at the same time keeping a very close eye on sustainability, on taking the necessary measures to impact – to reduce the impact of climate change. And as I mentioned before, we increasingly see resiliency and sustainability be closely interlinked.

We see it also as an opportunity for change, both in how we work. It's already visible in how we have worked over the last quarter and some of that change will be lasting but it's also an opportunity for a change in societies, to look at how they really want to design the future societies in a way which makes them much more resilient.

We will continue with our investment in our people, in delivering sustainable solutions, as well as in further digitising what we do for a living and how we offer these solutions to our clients.

We remain vigilant, considering the health developments across the globe and you only have to look at the most recent data to understand why that vigilance is important but I also believe that it is fair to say that we have demonstrated the ability to adapt and quickly adapt to the circumstances created by COVID-19, resulting in delivering solid results in the first half of the year, which provides me with the confidence for our performance in the second half of the year.

Our future position has strengthened, if you like, the quality of our people secures that. We have a very well-diversified portfolio for public and private clients and our recent experience has demonstrated that that diversity is absolutely key and we have further strengthened our financial position.

So, in closing, I look forward to what the next quarters will bring. I also look forward to Virginie Duperat joining us as the CFO once we have the approval from our shareholders in the middle of September.

And with that, Courtney, we are ready to take questions.

Questions and Answers

Operator: Thank you. So, as a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad. Please ensure your line is unmuted locally and you will be advised when to ask your question.

Our first question comes in from the line of Henk Veerman, calling from Kempen & Co. Please go ahead.

Henk Veerman (Kempen & Co): Hi, good morning all. I have a couple of questions, firstly on the unbilled receivables. You had a €150 million decline in unbilled receivables in Q2, which is obviously very strong and you're back to a level seen – you're back to flat, year on year, on that position. So could you maybe explain, so, why the clients not only received the invoice but also paid it within the quarter? You know, I was quite surprised by that very strong, obviously, with the – were there any effects that were driving that, especially because it was COVID-19 times and if anything you would expect people to pay – to defer a bit of some payments?

And maybe also, in North America, it's good that the cash came in but have you also found a permanent fix for this billings issue, because you also implemented some measures in the quarter? That's my first question.

Peter Oosterveer: Yeah, thanks Henk. Let me take them at an overall level and then Jurgen can add on any details here. Thanks for the recognition that we made significant progress on unbilled receivables. That came from a number of actions, if you like. The resolution we put in place in May on the Oracle system, which I will speak about in a minute, to answer your

second question, was a contributor. But we were also clearly not happy with the situation at the end of the first quarter on free cash flow. So we actually launched a company-wide programme at the beginning of the second quarter, which had a focus on reducing our unbilled receivables, as well as reducing our overbilled receivables. And that programme actually went as far as having my personal involvement and I think we're starting to see that that programme, which we're not done with, is going to also – has created, actually, some of the improvements which we have seen in unbilled receivables. So it is a combination of the solution on the Oracle system in North America plus improvement we've seen in virtually all of our regions, which contributed to the significant improvement.

You made a point about – a concern you made about clients maybe paying slower than they would normally do given the circumstances. We certainly have a few clients who are using that card but that is more than offset by other clients, particularly clients in the public domain, who are actually paying faster than they would normally do, recognising that we're all dealing with extraordinary circumstances. So whereas we have some clients who would use that excuse, it's more than offset by other clients who pay faster. But I will first and foremost look at ourselves and the opportunity we have to just make sure that we convert unbilled receivables into WIP[?] and that we also pursue clients once the invoice has landed with them, to ensure that they actually pay us. So it is largely our own doing, so to speak.

On the permanent fix, as you described it, which was the second part of the question, what we did implement in May is a permanent fix. We also mentioned, at the end of the first quarter, that we would implement that fix while at the same time we would not give up on the workaround, just to be sure that we cover and are completely covered. But as we further fine-tune the permanent fix, eventually that workaround will cease to exist. Jurgen, anything you want to add?

Jurgen Pullens: Yes and maybe in addition to that – and I mentioned it before – that we made a significant improvement which is not only in the US, it is in all our businesses. And still, when we refer to the US, there is still some room for further improvement, so we can further catch up. So we realised already a large catch up in the second quarter but we can do a bit more, also, in the third quarter.

Henk Veerman: Okay, that's very clear. And my follow-up on that would be: do you believe – is there a reason not to assume that the unbilled receivables could move back to about €200 million at year end because that's approximately, on average, the level we have seen in 2016, 2017 and 2018, before your problems started and would obviously imply a significant improvement, even versus half-year. And I have one further question, before I move back into the queue.

Jurgen Pullens: No, I think it's important that – I think we can make further improvements, of course. If you look to the net work in progress, it is also in relation to the revenue growth, so if we see more revenue growth then of course the absolute amount of work in progress is also a little bit higher. But as mentioned before, yes, there is still room to lower it and we will not guide on specific numbers but that we believe that we can be even more efficient, that's clear.

Peter Oosterveer: And maybe to add to that, Henk, this is not a fluke, as far as we're concerned, in that we have applied this focus one quarter and then sit back, relax. This is an area of improvement for Arcadis and the programme will therefore absolutely continue.

Henk Veerman: Okay, very clear. So, my last question would be: I mean, your sales have been quite resilient in the core business, apart from Callison, obviously. I mean, backlog is up, so if you sort of assume that in Q3 sales will be, like, very resilient as well, when you then look at margins – and obviously we have – the rumours about, like, a second COVID wave are currently in the media, so would you foresee any issues related to your profitability margin if we sort of will have a prolonged stay-at-home phase? Or do you see, for example – do you already see some projects going into difficulty because they would need to be done largely digital? Is that an issue within the company?

Peter Oosterveer: No, we don't see issues with the way we execute projects at this point in time, so it's not like working from home has caused a degree of inefficiency which is reflected and visible to our clients; that is absolutely not the case. I would say that, in the context of the resiliency which we have demonstrated, we are already assuming that no earlier than, maybe, September and maybe even later, we will be able to get back to a degree of normalcy, whereby more people will go to the office, so for us the basic assumption is that, until September, we will definitely continue with working from home. When you see the trends in some places, that could easily be extended to beyond that point, so from a performance perspective, I don't have a concern that over time we would see a deterioration of our performance which would be reflected in a deterioration of the profit. It is more a result of whether we will continue to win our fair share of work, whether clients are willing to continue to put work on the market and when we look at the pipeline and the bidding and tendering activity at this point in time, that would also not be a great concern for me at this point.

Henk Veerman: That's very clear, thank you.

Operator: Thank you. The next question comes in from the line of Luuk van Beek, calling from Degroof Petercam. Please go ahead.

Luuk van Beek (Degroof Petercam): Yes, good morning, first a question on CallisonRTKL. Can you give [inaudible] an indication of how the revenues are split between retail offices, residential and other sectors?

Peter Oosterveer: So, Luuk, is the question on specific revenue – on the sectors or how big retail is?

Luuk van Beek: Yeah, for CallisonRTKL, yes.

Jurgen Pullens: Yeah, the CallisonRTKL revenue is approximately between 20–25% of the total revenue of CallisonRTKL.

Luuk van Beek: Is retail.

Jurgen Pullens: Is retail, yes. And the retail business – in the retail business we have seen a significant decline this quarter, so that actually, yeah, explains almost all the decline. Of course, we see also in the other sectors a little bit but, say, most of the decline came from the retail sector.

Luuk van Beek: And you mentioned that you want to focus more on flagship stores there in retail, do you expect that that will be sufficient, together with, possibly, a shift to other segments within CallisonRTKL to keep everybody busy, or should we anticipate any restructuring there?

Peter Oosterveer: We have reduced our workforce already marginally and that, given the fact that it is mostly in North America, doesn't necessarily come at significant restructuring cost, per se. We are, of course, trying to redirect as many of the resources which are typically involved in the retail business to other parts of the business, so I don't think that the expectation at this point in time is that we would see significant restructuring, given our ability to redirect resources, plus where we operate within CallisonRTKL globally.

Luuk van Beek: Okay and then a question on your GAC – GECs, can you update us on how they are developing as a percentage of revenues or workflows?

Peter Oosterveer: Yeah, in the – when we started the year and before that, had built a plan for the year, we had given all our regions an increased percentage of GEC compared to what they did in 2019. So, all of them had a goal, at the beginning of the year, to further increase the utilisation of GECs. By and large, we are actually on that plan. So in spite of the fact that we have challenges, challenges as in now everyone working from home, that we have a modest revenue decline, we're still holding, in terms of utilisation of the GECs, to the plan we developed pre-COVID.

Luuk van Beek: And can you give a number?

Peter Oosterveer: No, I'd rather not give a number but it is a – for some regions a significant increase compared to what it was last year. You probably remember, from the past, that we said that Australia, the UK and the Middle East were kind of leading in terms of utilisation of GECs, 20–25%, some projects 30% and other regions were lagging and we are particularly trying to move the other regions closer to that percentage of the leading countries in Arcadis.

Luuk van Beek: Yes and my final question for now is that you reiterated that it's realistic to expect that not all targets – strategic targets will be reached at the end of the year. Is that just a general way to highlight the current risk in general or are there any targets that you have in mind specifically that may be more challenging? Because I think, for most of them, you are well on track to reach them, despite all the additional challenges that nobody anticipated.

Peter Oosterveer: No, it is largely a general comment but your observation, Luuk, is also correct, that most of them were kind of within the goals we set in 2017.

The one which we, at the end of last year, specifically said needed further improvement was the operating EBITDA margin and that, of course, is still the case because we committed, pre-COVID, to be between 8.5–9.5%.

Luuk van Beek: Okay, that's clear. That's it for now.

Operator: The next question comes in from the line of Hans Pluijgers, calling from Kepler Cheuvreux. Hans, please go ahead.

Hans Pluijgers (Kepler Cheuvreux): Yes, good morning gentlemen, two questions from our side. First, coming back on the unbilled receivables, you've mentioned you've taken company-wide initiatives to reduce the unbilled. Could you be a little bit more specific what kind of measures you are taking. Is that more or less – for example, more stringent contract conditions? So could you give some flavour on that?

And secondly, on the tax – deferred tax payments relating to some government support measures: did I understand that you expect them to pay – be paid next year, so that we can still – don't see a reversal in H2, so we can take them for next year as a reversal.

And then, on the backlog, US – or, so, Americas is stable but you're talking about Brazil quite strong on infrastructure. So could you give, maybe, some more detail on the backlog in the US?

And the same for Asia-Pacific: –5% at the same time you're talking about an improvement in Asia in Q2, so is Australia then down in the backlog? Also, of course, maybe some bigger projects have started up. So could you give some more flavour on the breakdowns of the backlogs in those two regions?

And lastly, on the Middle East and Asia, you already mentioned that, at CallisonRTKL, you, a little bit, refocused activities, now it's a lot more difficulties in, maybe, some – also some smaller countries in Asia and again some difficulties related to oil price in the Middle East. Are you considering maybe some additional strategic reviews for those two regions? Could you give, maybe, some ideas, yeah, on that?

Peter Oosterveer: That will keep us busy for a couple of minutes, Hans, but we'll take them one at a time. So, unbilled receivables, your question is: what did you actually do? Did you do anything on contract terms? So, starting at a high level, we identified, on the unbilled receivables and overdue receivables, at the end of the first quarter, by region, an improvement we wanted to see at each and every region. We then embarked on biweekly calls with all the regions, particularly those regions which needed to see the improvement, because we also, as you all know, have regions which are well within and actually much better than our stated strategic goals, so to speak, so it's not every region but particularly those which require an improvement. The biweekly calls have a level of detail which includes, in these conversations around contract terms, what do you do on future contract terms but also includes conversations like, 'What can you do today to ensure that clients are paying?' So it is a – quite a granular approach by region with a list of projects to go through to see where we have opportunities to improve our unbilled receivables and our overdue receivables.

We've also changed some parts of the remuneration to ensure that there is a stronger focus on free cash flow, so that is also a contributing factor in my view.

The tax deferral: yeah, you're absolutely correct in that we do expect that that will be something we have to pay back in Q1 of next year.

Jurgen Pullens: Ultimately we have to pay it back in Q1 of next year, so we can decide, of course, to pay it back earlier but that is up to us.

Peter Oosterveer: And then on the backlog, specifically I think you mentioned North America and Asia-Pacific, or I think you made an assumption that the backlog is probably declining in Australia, there is a very, very healthy growth in Australia but Australia,

as you will recall, is also typically the region which focuses on the larger programmes, which tend to be lumpy. So the book-to-bill in Australia is indeed lower than one but when we look at the bidding activity currently going on in Australia, when we look at the number of projects which are expected to be awarded in Q3 and Q4 and if we apply our normal win rate on these projects, there's no reason for us to be overly concerned about the book-to-bill being lower than one at this point in time and actually the expectation is that, in the second half of the year, we will definitely catch up on that, so that observation is a correct observation.

And then lastly, I think you asked a question about Middle East and Asia: are we planning to do any additional strategic reviews? As you know, we are actually in the process, as we speak, to update our strategic, so we're not necessarily looking at additional strategic reviews.

Hans Pluijgers: And maybe on the US, the breakdown between the US and South America, on the backlog?

Jurgen Pullens: On the backlog, yeah, you see, when you look to the US, it's a very, say, modest decline in backlog and a strong increase in Latin America, so on average it is this flat or slightly positive, so 0.3%, so you see a couple of percentages decline in North America. What we do see is a good development in water and infrastructure and some impact in, say, the environmental business in the US.

Hans Pluijgers: Okay, maybe then one last question, maybe also too early because of the strategic plans for the end of the year, on your past dividends but your – for 2019 but now your cash flow remains very strong. Of course you have, let's say, used some furlough measures but yeah, with this current very strong balance sheet position, any, let's say, indication, maybe, of what you were planning to do with the dividend, maybe to reinstall it or could you give, maybe, some feeling on that?

Peter Oosterveer: Yeah, when we took that decision a quarter ago, which of course was a difficult decision for our shareholders, we didn't take that very lightly. We considered all the options, we looked at the situation at that point in time and whereas we've had a good quarter of solid performance, we think it is still prudent to remain vigilant in the current environment, which still has a degree of uncertainty but it is something which has not dropped off our list as a topic for further evaluation but we didn't think that it was prudent to revert a decision we made only a quarter ago at this point in time.

Hans Pluijgers: Okay, thank you, clear.

Operator: Thank you. The next question comes in from the line of Martijn den Drijver, calling from ABN AMRO. Martijn, please go ahead.

Martijn den Drijver (ABN AMRO): Yes, good morning gentlemen. I was wondering if you could talk a little bit about the split between private clients and public clients and then more specifically, or as a second part to that, the behaviour of the private clients going through this second quarter and into July; that would be my first question.

And then the second question regards personnel expenses. When we – you talked about measures to contain cost, or reduce cost, you mentioned hiring freeze and there's also natural attrition. Personnel expenses increased +1.7%, so that's a plus and then, tied up to that, the non-operating costs, so are there any restructuring elements there, even though you said no

major ones? I just wanted to understand if some of the measures you've been – you have taken will have an effect in the second half of the year?

Those were the first two questions, thank you.

Peter Oosterveer: Okay, I'll take the private and public first and then Jurgen can end on the second question. So, our ratio between private and public at the highest level is roughly about 50/50, or close to 50/50. That ratio is conceivably going to change because we are redirecting focus from private to public clients, so expect that ratio to change but that's not going to be big jumps per month or per quarter, that will take time. But clearly, if we now look at our opportunities, we see most of the opportunities on the public side, as opposed to the private side. I think your question was also in terms of what sort of behaviour do we see from clients?

Particularly I think you were referring to July and has it changed from Q2 to July? No, we don't see a change in such a short timeframe. The changes – or that behaviour is still very much as I explained when I spoke in response to Henk's question, that we see clients who are actually willing to pay faster than they normally would do, or even faster than their payment terms would actually describe, simply because they do recognise that we're all in a very challenging situation and cash is important for everyone.

We, at the same time, also have, of course, as I mentioned in response to Henk's question, private clients who are trying to use that card to actually delay payments. At the end of the day, though, it is all upon us to make sure that we do pursue the payments which we're rightly owed in an assertive way and that is what we have tried to further enhance through the programme I spoke about a couple of minutes ago to make sure that we don't necessarily lose our focus on getting paid simply because clients would argue that they might not have the money available.

So, in the bigger scheme of things, not a change compared to Q2, with some clients using the card but then again offset by other clients who are saying, 'I am willing to pay faster, just tell me when you are ready to have the invoice.'

Martijn den Drijver: If I may provide a follow-up, I wasn't so much asking about the payment terms, more about how willing are they to look at new projects, or how willing are they to continue with projects that they may put on hold during Q1?

Peter Oosterveer: Yeah, so the – to start with, there is lots of positive news that retail clients in CallisonRTKL really have stopped their projects on a moment's notice but that is really an exception. By and large, all the other clients are – and I think the advantage we have compared to, maybe, people who are actually in construction is that the – when you look at the total cost of a project, the expenses they have on the work we typically do, compared to the expenses they would have if they would start construction are of a different nature, a different magnitude. So the temptation to stop projects is always there, particularly when the going gets tough but we have not seen, as we said in our press release, any material cancellations or stops of projects.

We see a few but again, that is also then offset by clients, particularly in the public space, who are willing to look at projects they can pull off even quicker than they would normally do. So not of any significant impact, except for retail in CallisonRTKL.

Martijn den Drijver: Okay.

Jurgen Pullens: Yeah, maybe regarding your question around, say, restructuring cost. Restructuring costs in total for the first half-year were about €5 million, which is lower than last year and it was really spread across the regions but we see some – a bit more, say, still in Latin America, in – and that was also related to Chile. We do see some impact in CallisonRTKL and then a little bit across all regions, small amounts and the headquarters, so in total close to €5 million in the first half-year.

Martijn den Drijver: And the savings of that should be roughly €1 million–€2 million, a small amount, given –

Jurgen Pullens: Yeah. Yes, yeah.

Martijn den Drijver: Alright, those were my other two questions that I had left. Thank you.

Operator: Thank you. The next question comes in from the line of David Tomich[?] calling from VEB. Please go ahead.

David Tomich[?] (VEB): Yes, thank you very much and good morning, gentlemen. This is David Tomich from VEB European Investors. I was just wondering on your working capital initiatives. To start with, a question on the Oracle ERP system. You mentioned in today's release that you realised a catch-up in invoicing, so does this mean that all the necessary functionalities that you had to put into the system have now been completed and if not, what issues will still have to be resolved?

The second question is on the company-wide programme that was touched upon several times earlier in this call. I was just wondering if you could elaborate a bit more on specific changes you made, probably to project management when it comes to, for example, project administrations on cost incurred, claims variations, etcetera. So what specifically have you been doing over the past quarter to get a better grip on your unbilled receivables position?

And the next question is on the trade payables, which showed a decline and it's obviously negatively impacting your cash flows but do you see this as a purely temporary issue or do you foresee structurally shorter payment terms for the quarters to come?

And my third question, at this moment, would be on the goodwill impairment test, of which there was no mention in the press release. Does that mean that you did not – did not consider the COVID-19 developments to be a triggering event for the goodwill impairment testing and a follow-up to that is, if not, apparently, then why do you consider that no input variables have been changed, so that that would impact your headroom for your different CGUs? Thank you.

Peter Oosterveer: Okay, I'll start David and then Jurgen can add. I'll start with the question on the Oracle ERP system, whether the functionality has now all been deployed in North America and the answer is yes but you will probably also appreciate that any time you deploy a large piece of functionality, there are tweaks and modifications to be made, so I want to be specific by stating that the missing functionality which we were lacking before has now been deployed in May, as we said before but there will – of course also be tweaks to be made to functionality, as with any software system you would deploy and you would expect.

The second question was on whether we made any changes to project management procedures, claims evaluation. The answer is no. The answer is that this was largely an issue of behaviour, so being more assertive, being more expedient in making sure that we do get our bills out, in combination with the functionality on the ERP system in North America and also behaviour as it relates to following up, when an invoice is out, to make sure that the client actually pays us. So no change to procedures, it is all a behavioural issue.

Then you had two questions on payables and then a question on goodwill and I'll defer to Jurgen for those two.

Jurgen Pullens: Yeah, okay. Yeah, it's – I heard you saying, David, the position of the accounts payable worsened. I'm not sure how to read that because, on the other hand, you can say we – the payables are lower than, say, they were, say, at the year-end. And also, when you express it as a percentage of gross revenues, then it is now 6%. It was also 6% last year and it was 8% at year-end, so you can say that, yeah, the accounts payables are lower. Of course it has an impact on your cash flow but it means, also, that we pay as normal the accounts with our, say, subcontractors in time and that's what we are doing.

So it's absolutely not an issue and I think that 6% is pretty normal.

Regarding your question about impairment testing, next to the press release we issued also our interim statements and probably you did not have time to read it but, say, in note 11, we fully described, say, our considerations around the impairment testing and yes, COVID-19 is a driving event and we performed also an impairment test of the goodwill of June.

What we – we considered that, let's say, the amount of goodwill is recoverable as at 30th June but we see also that the headroom of the Middle East and CallisonRTKL remained limited and even declined for CallisonRTKL since the end of 2019.

We will continue to monitor the developments, of course, about the business forecast and the impact of the evaluation of the goodwill and of course, the – as normal, if there are any changes in the economic climate or poor outcomes that might impact evaluation of the goodwill but at June, we really considered the situation and we believe that the amounts are considered recoverable. But you see it in note 11 on the interim statements.

David Tomich: Thanks.

Operator: Our final question comes in from the line of Bart Cuypers, calling from KBC. Bart, please go ahead.

Bart Cuypers (KBC): Hi, good morning. Yeah, just following up on what has been said on the backlog. So yeah, it remains relatively well filled on a group level, let's say, so just wondering, on the – yeah, if there – has there been increased pressure from competition on landing to – yeah, on landing the available projects there or would you say that, yeah, the quality of the backlog and margin potential remains relatively stable compared to, let's say, the start of the year? So that's the first question.

And then the second question, on ALEN: so yeah, a big part of the cash-out, has been – has already been done, so if I'm correct, that's about – a little bit less than €25 million in provisions remaining there. You helped with the Brazilian real there but assuming that that would stabilise again, normalise, the FX, at the current situation, how the file[?] is going, the

wind down, do you expect it to land in what your assumptions were previously and how long that would take, approximately?

Peter Oosterveer: Yeah, thanks Bart. I'll take the question on backlog first because it is a very valid question. I mean backlog in terms of revenue is one thing but your question, of course, is what's the quality, what's the profit level you take backlog in and the question more specifically was have you seen any pricing pressure – you didn't use the word but that's my implication – lately because of competition? And pretty much across the globe that answer is no, not at this point in time, at least. We are also not seeing ourselves forced to – if I use the word 'take a nosedive', that's probably too negative but at least significantly lower our expectations for the work which is currently available to us in the market.

So, no, there is no deterioration or impact on the quality of the backlog we take in as we speak, in terms of profit level, because that's the question, I guess.

Bart Cuypers: Yeah, indeed, exactly.

Jurgen Pullens: Yeah, Bart, regarding your question about ALEN, yeah, we are in the process of the orderly wind down and that – and we are still busy with that. We stopped investing – as you noted, we had a €17 million gain on the repayment and on, say, the amount we provided for, so the guarantees. What is still left on the balance sheet is a provision for the guarantees of €40 million. That is for the remaining outstanding guarantees and on top of that we still have a provision of €9.5 million left on the balance sheet – or €9.6 million to be fully precise and that was – we took also an additional provision of €10 million for all kinds of other wind-down costs and that provision is still largely there.

Bart Cuypers: Okay, so the file is continuing to evolve in line with expectations previously at the moment?

Jurgen Pullens: Yeah.

Bart Cuypers: Okay. Okay. Thank you for the answers.

Operator: Thank you. That does conclude today's question and answer session, so I shall turn the call back across to yourselves for any closing remarks?

Peter Oosterveer: Yes, thanks Courtney and thanks everyone for your questions and your participation this morning. Just in closing, the situation we are currently all in requires all of us – and including us here in Arcadis – to remain vigilant considering the health developments we see across the globe. That being said, though, I am really pleased and actually also quite proud of the way our people have responded to their current situation. Their adaptability has been demonstrated. I am also pleased with the overall performance and I am particularly pleased with the significant improvement in free cash flow in the second quarter and all of these things do give me confidence for the remainder of the year, while we remain that vigilance in terms of looking at what is happening around us.

So, with that, thank you for your interest in Arcadis and I hope to talk to you again in a quarter's time.

Operator: Thank you for joining today's call. You may now disconnect your handsets. Hosts, please stay connected and await further instruction.

[END OF TRANSCRIPT]