Arcadis NV 2019 Quarter Four and Full-Year Results

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London – 020 7870 7100
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Arcadis NV 2019 Q4 and FY Results

Jurgen Pullens: Good morning everyone, my name is Jurgen Pullens. I'm Director of Investor Relations for Arcadis. I'd like to welcome you to the Arcadis analyst conference and webcast. We are here to discuss the company's results for the fourth quarter and full year 2019, which were released this morning. With us are Peter Oosterveer and Sarah Kuijlaars. We will start with a short presentation by Peter and Sarah and then we will open up for Q&A. You all received the presentation this morning but it is also available through our investor section at the Arcadis website.

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 management 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.

Peter Oosterveer: Thanks, Jurgen and also, on my behalf, welcome to our fourth quarter results. For people here in the room, thanks for giving us your priority today. I know there was lots of competition but thanks for joining us; and of course, for people on the call, thanks for joining us as well.

I'm going to offer a couple of quick statements before I turn it over to Sarah and then we'll close it out and as Jurgen said, thereafter, of course, we will allow you to ask your questions. What I need now is to know how to – is it this one? Yeah.

So, let me start and I'll probably start by saying – making a simple statement – profitable growth. That is how I would describe our 2019 results, growth in a number of ways and profitable growth, obviously, at the end of the day, matters a lot. Thereby, of course, we are trying to find a balance between the growth of the top line and the growth of the bottom line.

And I'm equally pleased with the growth at the top line, as well as at the bottom line but the significant improvement, as you will have noted, is, of course, of the bottom line, with an EBITDA – operating EBITDA for the year of 8.1 versus 7.3 last year.

I'm going to also expand on areas we identified about a year ago as the so-called improvement areas. Those were the regions which were not, at that time, quite meeting our expectations, particularly Asia, Middle East and Latin America. I'm going to also speak about some growth investments, so here is the word 'growth' again.

And to speak about growth, a measure which doesn't necessarily always get the attention in conversations like this but a measurement we are extremely proud of is the voluntary turnover. I have commented in prior years that I wasn't particularly happy with where we were. As you may recall, we finished 2018 at a 15.6 percentage and we finished 2019 at 13.5%. So, so a significant improvement and definitely a very important dimension and a dimension which is suggesting that we are, as a company, moving in the right direction.

So, in my further presentation, I am going to elaborate on how we did actually improve our performance. That we did it you probably take for granted, but you might be interested in how we did it, what we did so that you can also form an opinion as to how sustainable the improvements are which we created over 2019.

I'm also going to give you a glimpse in what we expect in 2020. As you will recall, 2020 is a significant year, since it is going to be the year in which we are scheduled to deliver on the commitments we made during the 2017 capital markets day.

I'm not going to spend an awful lot of time on this particular slide – for one, because this is information which was all in the press release; two, Sarah is going to expand on this in more detail anyway – other than highlighting, I think, the favourable developments – again, the organic growth at 3%, which is pretty much in line with what he had committed we would deliver and a significant improvement in operating EBITDA margin from 7.3% for 2018 to 8.1% for this year. Not quite where we wanted to be is the free cash flow. I'm sure that we will speak about that later, throughout the day, as well. And then lastly, I definitely also want to highlight the fact that our net debt has come down as a result of our improved performance, of course, as well.

You'll probably remember this distinction, which we introduced about a year ago, where we wanted to be specific on areas where we felt we needed to create an improvement to ultimately get to the 8.5-9.5% bracket for operating EBITDA margin by this year. And we made the distinction because a fair majority of our business, 84% of our net revenue, was already, a year ago, meeting the 8.5%, and we highlighted that the 16%, which was largely represented by the Middle East, Asia, Latin America, wasn't quite there yet. And to remind you of what the actual performance was a year ago, these three regions, the Middle East, Asia and Latin America, generated 1% and now they generated 7.1% operating EBITDA. And I'm going to go into a little bit more detail as to what we did to create that improvement.

We already said a year ago that we were quite proud of those more mature regions in which most of our performance criteria were meeting our expectations. We also highlighted at that point in time that the operating EBITDA for those regions was already within the brackets which we have committed for 2020, which is between 8.5% and 9.5% and they are still at that same level, so at 8.7% for the more mature regions. We feel that that performance is still very, very stable and satisfactory.

Just a couple of things we did, to highlight how we have been able to sustain that level and to also highlight where we see additional opportunities for further improvement. I have to start with North America, a significant part of our business, of course, and a significant part of our business with contributed to continued growth over 2019, both top line as well as bottom line; of course, supported by a market which is quite favourable, quite attractive, still but also in face of some headwinds which came from the implementation of the Oracle Cloud system. And again we'll talk about that a little later. But the fact that America – North America delivered the very solid performance while at the same time working through some issues with the Oracle Cloud system I think is definitely a strong achievement.

In Continental Europe – and not just in Continental Europe, in fact, I could make that applicable to many of our regions – the Make Every Project Count programme, which we introduced about a year and a half ago, has contributed to the improvements in performance. The programme is now solidly anchored in Arcadis. I would not go quite as far as saying completely institutionalised but the behaviour, the cultural change we're trying to drive, resulting from Make Every Project Count is definitely noticeable, just by what we see but also by what we generate at the end of the day. And I believe that Make Every Project Count – I don't believe it, I am convinced that Make Every Project Count is here to stay because it has given us an opportunity for improvement and will continue to give us that opportunity.

I'm really also quite proud of the performance in the UK in the face of what is now no longer the uncertainty but the uncertainty which was there for quite some time. And now that we know that Brexit is a fact, that uncertainty has come to an end. You might have noticed this week that the Prime Minister of the UK made a significant decision, a for us very favourable decision. He decided to go ahead and potentially even expand the HS2 programme, so the high-speed line, which starts in London, will go up north and then, ultimately, might actually go east as well. We were already involved in that project and the fact that this project has now been given the approval to go ahead is a significant positive signal for us as well.

In Australia – I have already mentioned Australia several times and I will continue to mention Australia, definitely, for as long as they are the poster child in Arcadis, poster child as in their performance. They continue to move the needle on the operating EBITDA margin and they are definitely leading. They continue to be the region with the strongest DSO and they continue to be a region with a strong top-line growth as well. So, I'm really proud and will not lose an opportunity to use Australia as an example of where we could go, both internally as well as externally.

And CallisonRTKL, as you will have noticed from our press release, you know, by the time you start to improve regions, then there's another region which tends to be at the bottom and the bottom now is a much different bottom than the bottom we had a year ago. But CallisonRTKL is clearly not where we want CallisonRTKL to be. CallisonRTKL is also not where CallisonRTKL traditionally has been. You might recall, from the recent past, that CallisonRTKL would typically generate the highest margin and they have, unfortunately, because of reasons we fully understand, dropped to a much lower level.

That being said, we believe that, with the changes we made in leadership, combined with some signals we consider to be very favourable – and those signals are a significant reduction of voluntary turnover, an improvement in the book to bill in the last month of the year and the ability to hire people who left us – senior people who left us at a time where uncertainty was, unfortunately, the name of the game – those are signals which we consider to be favourable to create a turnaround in CallisonRTKL throughout 2020.

So, back to the regions which we did identify last year as the improvement areas. And it's probably safe to say that the people who work in these regions weren't necessarily too happy that we put them down as improvement areas. But at the same time, they have taken the challenge in a very positive way; and I would say that they have created quite a remarkable turnaround and improvement in all three regions.

What did we do and why did it happen? In the Middle East, I think the selectivity, a word we have used quite a bit in the past, so making sure that we focus on the right clients in the right countries, is paying off. We have also repeatedly had to answer the question, 'Why is the revenue dropping?' And the answer has been repeatedly and still is, 'Well, it is dropping because we want to be more selective. We're looking for profitable growth, we're not looking for growth at any price.' And that selectivity has definitely paid off and the fact that the revenue has dropped is something we have fully accepted and absolutely continue to accept.

The good news, though, is that, in the last quarter, we did see growth in the Middle East as well but the best news, really, is that from a minus 3% operating EBITDA a year ago, we're now to 7% EBITDA, so quite a significant improvement.

In Asia, we reported last year that we – that we felt that we needed to make some changes in leadership as well. We also had to work through a number of legacy issues. All of these issues are behind us now. The leadership is permanently in the saddle. The leadership has also taken the opportunity to simplify the organisational structure and also there, that has resulted in a significant improvement of our performance from about a 5% operating EBITDA a year ago to 9% and – albeit small – organic net revenue growth as well.

And then lastly, Latin America, coming out of a prolonged period of challenging circumstances, economic circumstances which were not very favourable, continued reduction of our presence in, particularly, Brazil. I think we can now safely say that, in 2019, we did turn the corner. We have commented before that we felt that we had the right size, with about 850 people in Brazil. And not only did we feel that we have the right size, the results show that that size is actually conducive to the market we're seeing and that market actually is improving as well. So, positive, from minus 2% to, now, plus 5% and kudos to the leadership in Latin America for that significant improvement.

I need to talk about PFAS because PFAS is, particularly for people here in the Netherlands, right in the centre of a lot of attention. That might make it a new issue for a lot of people. It is actually not a new issue for Arcadis. We have been working in PFAS-related activities for a significant amount of time. We have a significant presence, we have a significant capability which we actually broadened throughout 2019 and the beginning of this year. Last year we announced the partnership with Evocra and then not too long ago, we actually announced a similar partnership, a global partnership, with ABS. And it is of course all intended to further strengthen our position in PFAS-related work, which for us is business advisory, environmental consultancy and then remediation.

I do fully acknowledge that, for some businesses, this is a threat. For us, this is an opportunity, an opportunity we actually expect to create significant growth over the foreseeable future.

You've probably also seen the announcement we did a little while ago on the creation of Arcadis Gen, which is our new entity focused on delivering digital services and products to clients. It is bringing together capabilities we had acquired through, particularly, the acquisitions of EAMS and SEAMS. And what we added to that combined capability was a capability we already had within Arcadis, so-called client-facing IT. That, together, is about 200 people who are based in different locations in the world, intended to serve Arcadis globally. You might have seen that we had two significant wins, one which was announced last year for Transport for London, which is really going to help customers of the Underground in London with more secure, more safe utilisation of the assets Transport for London runs for the London. So, what will ordinary people like you and I see is a much more predictable and much more safe schedule for running the Underground transport for London. And – excuse me – a similar award for Amtrak, which is a large train operator in North America. A similar award also there, we are going to help the client to optimise the use of their assets to be more predictable to customers who use and will continue to use trains in an increased fashion.

Lastly, you probably agree with me – hopefully you agree with me that we have a very strong pedigree in sustainability. It is part of our heritage. We clearly recognise that this will increasingly become more significant to our clients, to the world as a whole. The issues which we're seeing as a result of climate change are undeniable. The impact has been very significant. Just lately we've seen significant impact and we therefore believe that our position, which is already quite favourable, is a position we need to further strengthen and in that context, the acquisition of Over Morgen, which is a company based here in the Netherlands, was for us a very good fit.

There's other things we do to strengthen our position in sustainability, as you will recall from last year. We have sustainability now as a measure for the LTIs for our senior management. We're proud to announce that over 2019 the measure actually improved, not measured by our own people but measured by Sustainalytics, which is a company in this space, which looks at, you know, how sincere – how real companies behave in terms of ESG. And our incremental improvement from 70 to 73 over 2019 is certainly noteworthy.

I'm actually proud to actually also take a personal responsibility for sustainability and that came through the announcement and the appointment to become a member of the executive committee of the World Business Council for Sustainable Development, as of 1st January, which is for a term of two years, which is a really interesting, I think, organisation, not only an interesting organisation but I would say the predominant body to actually advance the whole course of sustainability.

And with that introduction, I'm turning it over to Sarah.

Sarah Kuijlaars: Thank you Peter. Good morning. I'm pleased to share a strong set of financial results for quarter four and the full year 2019. But before doing so, I'll start with a project example from here in the Netherlands.

Arcadis is providing consultancy and design services for one of the largest Dutch offshore wind energy projects, where we are utilising our expertise in offshore geotechnical, engineering and digital modelling capability.

So, now turning to the financials on slide 11, before talking to the details, it's worth highlighting that these figures are presented on a consistent basis to previous years, in line with IAS 17. A summary of our results under IAS 16 is provided in the appendix and our annual report, to be released next week, provides full details, in line with IAS 17 and IAS 16.

I start here with a picture highlighting the improving trend over the last six quarters, of our key financial metrics. Net revenue growth, solid margin performance and better-managed net working capital.

With regard to net working capital, if we normalise for the implementation of the Oracle solution in the US, we would be around the same level as last year. Our net revenue for quarter four is €660 million, a 5% growth for the quarter. And maybe good to remind you all, this is the tenth consecutive quarter of organic growth.

We delivered a strong EBITA margin of 9% for the quarter. To demonstrate that we are moving in the right direction, this is the strongest quarter four margin since 2015. For the year, our operating EBITA increased by 18%, to €209 million. This margin improvement reflects our ongoing focus on some of the actions we took as management, as Peter mentioned, especially Make Every Project Count, which is about improving project performance by aligning behaviours, processes and systems, also our ongoing attention and priority to key clients and further utilisation of our global excellence centres.

As we previously reported, the working capital progress in Q4 has been held back by the implementation of the new Oracle Cloud solution in North America, and I will expand further on this in the coming slides.

Turning to slide 12, we have delivered an improved EBITDA of €235 million for the year, up 15%. Walking further down the income statement, our financing charges sit at €30 million. We have a lower interest expense on a lower average gross debt but this is offset by a lower interest income from loans to associates.

The year-to-date tax rate was 27%, in line with our normalised rate of 2018. Net income of €18 million includes the full provision of the exposure in the associate ALEN, as we communicated in December. This consists of €82 million of expected credit loss on shareholder loans and corporate guarantees and €10 million included in other operational costs, relating to provision for expected wind-down costs.

NIFO was strong, at €125 million, an increase of 43%. This allows us to propose a dividend of €0.56 per share, with an increase of 19%. This is, of course, good news for our shareholders.

Now turning to cash, on slide 13, from an EBITDA of €235 million, we now see the working capital timing impact of the North America Oracle implementation. Despite the good progress made in the fourth corner – in the fourth quarter, the return to normalised working capital takes more time than earlier anticipated. Tax and interest is broadly in line with last year, so we delivered a cash flow from operations of €143 million. We continue to manage CAPEX carefully and so deliver a full-year free cash flow of €97 million.

Slide 14 shows our progress on working capital. You will recall that in quarter three we had a high level of unbilled receivables in the US. In absolute terms, the unbilled receivables is €90 million lower than Q3 and the accounts receivable are normalised at 16% of gross revenues and in line with Q4 2018.

As a percentage of gross revenues, unbilled is now 16% of gross revenues, compared to 21% at Q3. Furthermore, it's worth highlighting that we have a lower proportion of aged receivables. Needless to say, working capital and cash collection remains top priority.

And so, on to slide 15. Our continued improved EBITDA and continued cash generation results in a net debt position for the end of December of €310 million. This is our lowest position for five years and significantly better and below our peak debt position of €623 million in June 2015. With an EBITDA of €235 million, this gives a net debt-to-EBITDA total leverage ratio of 1.4, fully in line with our strategic framework. We will continue to safeguard our now-strengthened balance sheet.

So, now turning to the regions. Our performance is led by a strong 8% organic growth in North America for the year. It is pleasing to see that North America, with 30% of our revenues, provides strong profitability and so continues to be an important building block for Arcadis's performance. Our environment business, now more than half our North American business, continues to be very strong, covering both the public and private sector. It achieved both double-digit percentage growth and percentage EBITDA margin.

Water, our second-largest business, also continues to contribute strongly to these excellent North America results. We do show a higher gross revenue increase in North America. We are becoming more involved in larger programmes and where we are lead consultant on projects, we use third-party-cost subcontracting, for example our successful environmental FieldTech Solutions.

Latin America, with 3% of our business, also showed strong growth for the fifth quarter in a row, led by Brazil. Operating EBITA margin was 5.3%, showing a marked year-on-year improvement. Across the Americas, backlog growth is solid.

Turning now to Europe and Middle East, representing 44% of our net revenues. Here is a project example from Germany, where we're providing project management and expertise across biodiversity, water management and infrastructure development, enabling the construction of the new GIGA factory for Tesla in Berlin.

For the segment, revenue growth was 7% in Q4, helped by a return to positive net revenue growth for the Middle East. For the year, revenue growth was 1%, absorbing 10% decline in the Middle East, as a result of our increased selectivity. Overall, the region delivered 7.6% margin, a year-on-year improvement.

UK performance was robust despite Brexit uncertainties. And as Peter mentioned, Boris Johnson gave the go-ahead for high speed rail, committing to fix the spine of the UK's transport network, including commitments on HS2 and the Northern Powerhouse Rail. both are strong ongoing opportunities for Arcadis.

In the Netherlands, margin delivery continued to be strong.

Onto Asia and Australia-Pacific, representing 13% of total net revenues. Australia showed positive growth and operating EBITA margin continues to be excellent, at 13.3%.

And finally, CallisonRTKL delivered a revenue of €222 million and an operating EBITA margin of 7.6%. While a disappointing financial result, the newly-strengthened leadership needs and gets the time to implement the necessary changes. We are seeing a significant lower attrition, at 16.6%, compared to, historically, over 20% and some pleasing recent positive momentum around backlog.

And so, to conclude, this is a strong set of results for 2019, with positive contributions across the portfolio contributing to a sustained margin improvement, here showing the trends since 2016.

We will continue to focus on managing our working capital and cash generation. Even despite the temporary delay in cash flow in the US, Arcadis now has a strengthened balance sheet and healthy leverage ratios. And I'll now pass back to Peter.

Peter Oosterveer: Okay. Thanks Sarah and let me wrap it up. I think what you have seen on the press release and what I hope you have heard from us today is that we feel that we are nicely on track to deliver on our strategic priorities. And let me cap it off by bringing you back to what those priorities are and then also highlight where we think the opportunity lies and why we feel comfortable that we will be able to deliver on the specific measurements which were part of the strategic priority. So, you will remember that when we launched our new strategy in 2017, we actually introduced the three strategic pillars, which we consider to be important to deliver on the commitments, which is people and culture, innovation and growth and focus and performance. And as I mentioned before, one non-financial measure but yet still very important in our business is the voluntary turnover, also known as attrition. And I think the improvement we made in this year – or I should say last year – to bring it down significantly, with more than two percentage points, I think is worth noting.

It's not where we ultimately want to be. I really feel strongly about a need and a desire to continue to further improve on this and my goal has not changed. My goal is still to ultimately be at the level where we have a single digit to express our voluntary turnover. And as you might have seen from some of the detail, in fact, in some regions, particularly those who perform well, we are already at that level.

Equally important is the belief that culture is significant in terms of delivering on goals, the necessity to create a culture which has a growth mind-set but at the same time also has a discipline to focus on the right clients, to focus on the right projects; and when you're focused on the right project, actually be diligent and disciplined in the execution of our projects. And that's why Make Every Project Count is such an instrumental part of our journey.

Innovation and growth. While we are shoring up our capability, while we are improving the foundation, we're not losing sight of the fact that the industry is moving on. And I think the launching of Arcadis Gen, as of 1st January, is, for us, a very logical step in also capturing opportunities which will increasingly become available through the delivery of digital products and digital services. And by the way, the intent, of course, there also is that through the delivery of these digital products and services, we actually create higher margins for ourselves than we do in our more traditional businesses.

Our focus on key clients, the 200 which we have now selected to, has also paid dividends. The growth on our key clients is more significant than the average growth, which is what we wanted it to be. In fact, we committed to have a growth from key clients which would be double the growth in general and we are well above that. So, it's showing that it actually works and not only at the top line but also at the bottom line. We spoke about PFAS, so I'm not going to reiterate that one.

And all of that has created an operating EBITDA improvement which gets us pretty close to the bottom of our bracket and should hopefully give you the same confidence I already have that that bracket is something we will achieve throughout 2020.

We still need to improve our net working capital and Sarah has explained why that is. That is largely because of the issues we have encountered with the implementation of the Oracle system in North America. And proud to also say that the leverage ratio is already well within the brackets we had set for ourselves for 2020, which was between one and two.

So, what is going to drive that growth? It's fundamentally to do more of the same and more. So, first of all, you need to have, you know, obviously, the business and the drivers in the business which will fuel that growth and we believe that urbanisation, sustainability, globalisation and digitalisation will continue to fuel our business, will continue to provide those opportunities. And if you, for instance, realise that now close to €1 billion of our revenues is already coming from cities and with the ongoing urbanisation, the move of people to cities, you can just clearly see that that opportunity is not going to go away any time soon.

Our digital agenda will continue to be a more significant part of where we expect to grow in the future, where we expect to create higher returns and Arcadia Gen, again, is part of that journey.

Now, to also say that it took a long time, it took a lot of hard work to get rid of the legacy issues and I believe we are at the point that we can safely say that significant legacy issues have now all been behind us, which allows us to focus on our core business more significantly than we've done in the past. All our intention can now go to the core business and I think, over 2019, we have already seen that attention and the focus on core business is indeed what makes us the great company we are.

The opportunities to further improve our operational performance are still largely the same. It is through a continued focus on Make Every Project Count. I would say that a significant part of the improvement in operating EBITDA came from Make Every Project Count. But we have not completely exhausted that opportunity, we believe there is much more opportunity to capture, the focus on key clients I just mentioned and the use of our global excellence centres to be at a higher percentage than we currently are is still the opportunity available to us as well, to further improve our financial performance.

You will have noted that we did, also, in our press release, express an intention to repurchase €3 million of shares to cover both employee incentive plans. That is nothing new because we've done that in the past as well. What is the newer part is that we're also covering the dilution which happens through the stock dividend. So, that is definitely different from the recent past.

So, in closing and to now allow you the opportunity to answer any questions, we believe that we are nicely on track and will be able to deliver on the goals we've set for 2020 and more to come throughout this year. Thank you.

I guess, with that, we're opening it up for questions. I'm not going to be arbitrator who says who's first. Go ahead. Go ahead.

Questions and Answers

Luuk van Beek (Degroof Petercam): Okay. Luuk van Beek, Degroof Petercam. Well, first of all, a question about your portfolio streamlining, basically. So, for the last years, you've done a lot of work on that, mainly in the weaker regions but also in the strong regions and areas. How far in are you now in the process and to what extent do you think that will still have a negative impact on your total organic growth?

Peter Oosterveer: Yeah, so I think we did say that the portfolio review is an ongoing process, so it's not something we had told ourselves would be taken two years and then we would stop it. It has become more of a discipline so that we continue to look at our business and see where we have an opportunity to actually win, or at least be amongst the winners. We started that in the Middle East, of course and I think that has paid dividends, a focus on a smaller number of countries and a smaller number of clients, I think, has created the improvements we've seen.

The next we took care of, in that regard, was in Asia, where we exited a couple of countries, exited services we were providing, so-called D&E[?] services, in China. So, that has been pretty much finished as well, so we exited from Taiwan, we exited Indonesia, we exited Korea and we exited the D&E services in China. We've actually done some smaller things in Europe already, and Europe is now the region we are looking at to convince ourselves that we are in the right places.

Then we'll probably look at regions where we haven't looked at in the past, so we looked at the high-priority ones first and it is indeed still part of a process which will continue to run its course, so that we can continue to convince ourselves, on an ongoing basis, that we are in the right place, the places where we have an opportunity to actually deliver on our goals.

Luuk van Beek: Okay. And you also mentioned the GECs as a key driver for margin expansion. Can you give us an update on how that's developed over the last year?

Peter Oosterveer: Yeah, so the commitment we made at the beginning of last year was that we wanted to have 15% growth in the GECs. And 15% growth is not necessarily 15% growth in terms of headcount but more important for us, 15% growth in billable hours. And we achieved that growth, so we kept the headcount pretty much stable, to first utilise capability we already had available, i.e., high availability and we created that.

We have given all the regions this year a further stretch goal, so the expectation is that all regions will continue to grow throughout 2020 as well. We are roughly around 10% of the total. I have stated publicly in the past and I'm not going to change that view, that something more like 20-25%, even maybe 30%, is possible, so that gives you an idea of that opportunity which is still available.

Luuk van Beek: And the final question for now is on your balance sheet and your share buy-backs. You announced a share buy-back for 3 million shares, or up to 3 million shares. If you look at the leverage, it's going down quickly, already at the low end of your target range. Do you see that share buy-back as a structural instrument that you will use in future years as well, or how do you see this use of your cash flow in the future?

Sarah Kuijlaars: Yes, I think it – indeed, I think it's a demonstration of our strengthened balance sheet today. And I think, in the longer term, you're aware that we come out in Q4 with a new strategic framework and as part of that, a longer-term capital allocation position but I think it's great to see that we do now have the stronger balance sheet as a result of a lot of actions internally.

Hans Pluijgers (Kepler Cheuvreux): Yes, Hans Pluijgers with Kepler Cheuvreux. A lot of questions but I will stick to three to start with.

First of all, you already discussed margins at the beginning. And let's say you saw clear improvement but the main improvement was indeed in the improvement areas. I know, you have a target set for next year – for – sorry, for this year already between 8.5-9.5%. But I believe, let's say, maybe your ambitions for the longer term are somewhat higher.

So, yeah, looking at the development, because also in our idea, the improvements in the markets are closing in to the 8.5%. So, where do you see, really, the longer-term potentially for, really, improvement also in your – let's say in the key areas you mentioned? Because there it was about stable, though of course Callison had some impact. But you could maybe elaborate a little – somewhat more and maybe give some building blocks, how you see it.

Secondly, coming back on RTKL, yeah, could you give, maybe, some feeling on how do you, let's see, that progress to development in that company over, let's say, in 2020, with respect to sales development and margins. Is it still a transition year or do you expect to see some clear improvements there?

And lastly, of course, the US, on the cash flow there, it has taken somewhat longer but could you give maybe somewhat more detail on precisely what you're currently doing and why it's taking somewhat longer and when do you expect, let's say, that issue is to be solved, so when we can say we can, in principle, include the cash into our numbers?

Peter Oosterveer: Yeah, okay, thanks Hans. I'll take them one at a time, obviously. So, it is obviously very positive and encouraging to see that increasingly the focus is on what do you do next, as opposed to what did you do in the past and that's – excuse me – understood. And I'm not going to give you a specific number because that's part of the capital markets day.

I think what we have said is that the improvements which we have seen and you've, rightfully so, noted that the improvement areas are, I mean, at least trending in the right direction and in some cases, like Asia, it's already well within the brackets. It's not like we are sitting on – or resting on our laurels and saying, 'This is good enough,' we will continue to push these improvement areas as well.

I think that I've also highlighted where I see the levers for further opportunity – GECs, Make Every Project Count, key clients and in fact maybe somewhat more mid-term, the contribution which would come from digital services. So, I'm not going to give you a specific number quite yet. As I commented before, my goal is first to deliver on the 8.5-9.5% for 2020 and then, in the capital markets day later this year, we will give you specific numbers for the next couple of years.

On CallisonRTKL, yeah, the turnaround is taking longer than we had expected. The issues which, I think, were all kind of resulting from that prolonged period of the strategic review had a deeper impact than, I think, we had anticipated. I've commented before that to leave a people organisation in somewhat of an uncertainty for nine months is obviously something I don't want to do again. I think, though, with the changes – the first change we made, with Kelly Farrell as the CEO, we took a first step. She has subsequently looked at her organisational structure, made some changes in the organisational structure and the operating model as well to increase the accountability, to also increase the focus on their equivalent of Make Every Project Count and then also to increase the focus on clients.

As I mentioned in my opening comments, the positive notes, or the positive signals I'm seeing, are the reduction of voluntary turnover, which is typically a sign that things are starting to stabilise. The improvement in the backlog in the last quarter, which is showing that our clients also increased their confidence in us. And lastly – and that's quite important and significant in the architectural world because winning work is, to a large extent, determined by having senior people who can convince clients that you are the right individual. We were very recently able to hire two senior people back. And with that we are also, of course, hiring – or bringing client relationships back, which is a welcome change from where we were because these people all left during this period of uncertainty. The fact that they know us and decided to come back is another positive signal. So, the expectation is that, throughout 2020, we will see an improvement in CallisonRTKL as well.

And then lastly, on the Arcadis Way. The Arcadis Way, Oracle Cloud implementation, just to refresh your memory, kicked off in July of last year. That was the very first time we actually did a cloud implementation because all implementations prior to that one were the so-called EBS system. The issues, which were largely related to billing, invoicing, have been more severe than we expected them to be. At the same time, though, the improvements might not necessarily be visible but in terms of, for instance, unbilled receivables, we have significantly reduced the percentage or the value of unbilled receivables. I'm not going to be extremely bullish in terms of saying that, at the end of this month or the end of next month, we will be able to completely normalise it. I think a more realistic period to – for it to be completely normalised is half way this year.

Hans Pluijgers: Maybe a follow-up on that, on the billed receivables. There you saw quite a significant increase in the non-overdue and in the 31 days overdue. Is that mainly then the US, because you, of course, maybe have been sending out the invoice but still they have to come in, in the coming months? Is that the main driver for that increase?

Sarah Kuijlaars: On the aged receivables?

Hans Pluijgers: On the aged receivables, yeah, because, of course, the more aged receivables debt was improving but between 31 days and 60 days, that was increasing. Is that mainly US?

Sarah Kuijlaars: So, indeed, the US impact is significant on there and as you rightly say, some of the very old receivables, which include US but also Middle East has improved slightly. And I think, maybe to add to Peter's point, it's great to see that the billing now is higher than revenue, yeah? So, we're closing that gap, we're getting the invoices out there and this is the, you know, recent US debt, so we're – and receivables, so we're confident that we're going to get that in the short term.

Hans Pluijgers: Yeah but what I'm referring to is, on page 14, you refer to a not-past-due that increased from €244 million to €381 million and year on year, about €60 million and also the between 0-30 days overdue, that increased also quite significantly.

Sarah Kuijlaars: Yes.

Hans Pluijgers: Is that – this mainly US?

Sarah Kuijlaars: It is, because that's the unbilled bit that's gone into the receivables and will be coming in shortly, yeah. Yeah.

Peter Oosterveer: Okay. Then maybe a final comment on the Arcadis Way, even though you might have additional questions; but the implementation in North America, as I mentioned, was the first one to go on the cloud. Prior implementations, in other regions, were all on the so-called EBS system. We have actually, in January, done a retrofit in Australia from the old EBS system – I shouldn't say old because it's only a couple of years ago – from the EBS system to the cloud. That has gone extremely smooth, so the changes we made in our approach, learning from the North American implementation, have clearly paid off in the retrofit in Australia because you didn't ask any questions, which suggests that you haven't picked up any noise on this; neither did I pick up any noise, so that's quite positive. So, we're trying to learn from the experience in North America, which was not what we wanted it to be and again, the Australian one went much smoother.

Martijn den Drijver (ABN AMRO): Yes, good morning, Martijn den Drijver, ABN AMRO. Just a clarification, RTKL. You're happy with the book to bill, happy with the backlog development, new hires, basically you're saying, 'We'll let the team do whatever it needs to do and no additional measures are contemplated at this point in time.'

Peter Oosterveer: No. No. We have spent quite a bit of time with the leadership, particularly Kelly, to ascertain ourselves that we are on the right track, so we are not contemplating any significant changes in the structure in the short term.

Martijn den Drijver: Okay, clear. Then moving on to unbilled receivables, you seem relatively happy with the performance. However, if you look at the absolute numbers, it has increased by 23%, if you add – and look at how net sales has improved to 4% and gross sales by 6%, I just don't understand how you can be happy with the unbilled receivables development. So, maybe you can add some comments on that.

Maybe it was a bit distorted by the impact of Oracle Cloud, so maybe you can tell us what the actual number was, or some kind of range. It was €50 million during the Q3. What was the remaining impact in Q4, so we can have a better view of how unbilled receivables has actually developed? That's my second question.

And then, on Continental Europe, if you mention a good performance in the Netherlands and in Belgium and Germany, at 3% organic growth, but your EBITA margin declines, that kind of suggests that your performance in France has deteriorated quite significantly; can you elaborate a little bit on that?

And then, my final question for now, on ALEN. Can you update us on the timing of any cash flows if possible, and your thoughts on, maybe, the choice that you still have on assuming debt – meaning taking on the debt of the banks – or the alternative?

And as a final one, can you remind us of the total provision for the credit losses as per year end for ALEN? Thank you.

Peter Oosterveer: So, we'll take them in the same sequence as you raised. So, we'll start with the unbilled receivables first.

Sarah Kuijlaars: Yeah. So, I think it's worth highlighting the – so, indeed, the unbilled receivables has to continue to improve but it's worth noting that that was a – that was a high number in Q3 and we moved from the 12% to the 8% in Q4. But December 2018 was at – it was at 5%, yeah? So, we've still got more work to do on the unbilled and that is – the majority of that is indeed in North America.

Martijn den Drijver: Can you quantify the impact from Oracle, also?

Sarah Kuijlaars: So, in terms of cash flow, it is about €50 million. I think what is positive is that the majority of that, at Q3, was in unbilled. It's now moving from unbilled to billed, which gives us confidence it will go from billed to cash in the coming months.

Martijn den Drijver: Okay, so – alright.

Peter Oosterveer: So, your next question, I think, Martijn, was on Continental Europe –

Martijn den Drijver: Yes.

Peter Oosterveer: – and I think specifically on France. Yeah, we didn't speak about France. It's not because we don't want to speak about France but since you asked the question specifically. So, in France last year, we took a couple of actions as well and we made also there some changes. That gave me quite a bit of confidence. In fact, I've been to France myself to see what our business outlook is and how our CEO is performing, and I have been particularly encouraged by the way he took care of a number of legacy issues which we had in France, as well. So, when I spoke about legacy issues largely being resolved, that included legacy issues in France, particularly legacy issues related to one particular client but five projects for the same client.

So, we didn't mention France because we wanted to hide it. The performance and the improvement we're seeing is not where we want it to be, so we still need to create further improvements in France than the improvements we've seen throughout 2019. But the signs, the signals, including taking care of some legacy issues, are definitely encouraging.

Martijn den Drijver: Okay. And just to follow up on that, previously, when we talked about France, you kind of indicated that if the results do not improve, then you might even contemplate a sale. Is that off the table now, given these positive signs that you've seen, or is that too early to say?

Peter Oosterveer: No, I think this is part of the larger conversation, the larger question around portfolio. You know, our patience is not unlimited. So, if a country does not improve in a time which we consider to be reasonable and the business outlook is not such than you can expect an improvement any time soon, then we would still not hesitate to take the actions; as we've done in Asia, as we've done in the Middle East. That doesn't mean to say that there is an immediate potential sale on France but they will have to deliver just in line with the rest of the organisations, otherwise we'll have to take a different decision.

I think your next question was on Ireland. Let me just give everyone a highlight, or an overview, on Ireland as a whole and then Sarah will give you the specifics on the guarantees.

So, when we made our announcement in late December, the announcement was fundamentally that we had decided to stop any further investments in Ireland, which is still our position. So, that hasn't changed. We also, at that time, said that we would work with our partner to create an orderly wind-down for us. And we also described, at that point in time, that there's different scenarios which could ultimately lead to an orderly wind-down. We're now in the middle of February. I don't think that we had expected in late December that, by now, we would have been able to tell you what that orderly wind-down would look in detail but I can tell you that we have had an excessive amount of conversations with our partners, which are actually going on as we speak.

I'm actually pleased with the progress in those conversations but they're not at the point where we can share with you any specifics on what that wind-down would look like. But I'm not expecting that would drag out for years, based on the conversations we have had so far.

And let me also say, before someone asks the question, 'Is a lawsuit upon you any time soon?' because that was a question we got in December, the conversations are very constructive, so I don't see a lawsuit on the horizon at all, just as I said in December.

Martijn den Drijver: And previously you also mentioned that ECL[?] would still be a possibility. Is that still on the table, based on your conversations?

Peter Oosterveer: Yes, it's amongst the scenarios which we are pursuing.

Sarah Kuijlaars: So, in terms of guarantees, the total amount was 93 and that's related to the ECL for this year, and the P&L was 83. And you recall we also took a €10 million provision to make the full P&L impact €93 million for 2019.

Martijn den Drijver: You also had a provision already in the balance sheet last year, so the total would now be? Because what you mention now is the addition.

Sarah Kuijlaars: The addition, yeah but the total is –

Martijn den Drijver: But the total?

Sarah Kuijlaars: – €93 million.

Martijn den Drijver: €93 million, okay, thank you. And on your discussions about assuming debt? Is that part of the conversations that you are still having?

Peter Oosterveer: Absolutely.

Martijn den Drijver: Okay, thank you.

Operator: To ask a question via the phone lines, please press star one on your keypad now.

Quirijn Mulder (ING): Good morning everyone, Quirijn Mulder from ING. A couple of questions. My first question is about – that in the presentation it's all about the geographical breakdowns. I'm missing some view on the different segments. So, I would like to – how is that developing with regard to building, or water, etc., in terms of order book and where you see the biggest changes.

And then my second question is about the organic growth was 4% in the key markets but the margins stated 8.7%. In normal cases, when there's an organic growth, there's also an improvement in – of EBITA margin, so maybe you can elaborate on that, what's happening exactly there.

And then, my third question, for this moment the last one, is that the organic growth in the fourth quarter was 5% overall and I'm interested how sustainable that 5% is for you into – going into 2020, let me say, excluding effect of coronavirus.

Peter Oosterveer: So, let me start in a difference sequence here and start with your last question first. I think we've repeatedly said and will continue to say that, at least for the foreseeable future, that we're not looking for growth at any price. We're looking at quality growth, we're looking at profitable growth and our commitment for 2020, of course, is still part of the goals we set during the capital markets day, which means that we would commit to a growth which is, for the non-key clients at least, equal to GDP in the countries in which we operate and 3%, by and large, is probably just a little higher but that is, I think, in line with the commitments we make. And for 2020 our commitments will continue to be the same. And our commitment for key clients, by the way, will continue to be the same as well, which is twice GDP. And as I said in my earlier comments last year, 2019, we exceeded that nicely.

So, that's on the – how sustainable the 5% will be. And if we can create 5% with the right quality of the bottom line, we will not hesitate to do so. But it's not top line growth at any price. We have, I think, done a really good job to move the organisation away from the belief that the only thing which matters is top-line growth. We don't want to disturb that balance, the balance between top line and bottom line. So, I will be very careful before I will convey a different message to the organisation. I want the people to continue to focus on growth, which will give us the top-line improvement but certainly, maybe even more importantly, the bottom-line improvement.

Your first question was on segments. I'm not sure I completely understood the question because I – break it down in businesses –

Quirijn Mulder: No –

Peter Oosterveer: – as opposed to the segments?

Quirijn Mulder: No, no, I would like to know more about what's the situation with regards to the order book in water and building and infrastructure, how is the development there, because it has not been discussed in the presentation at all. So, I'm missing that there, somewhat.

Peter Oosterveer: I don't think that we have actually, in the past, in this presentation, updated you on the businesses and the growth of the business, per se. We can do it more anecdotally and we can give you any specifics that you'd like to have, probably, separately. But then I'll probably take it by region, if you don't mind?

Quirijn Mulder: Okay, I understand what you're saying but that idea –

Peter Oosterveer: No but I –

Quirijn Mulder: – it's – we would like to get a feeling on where is your biggest growth. Is that in water or is that in infrastructure? Where do you see the best opportunities and what is –

Peter Oosterveer: By the time you total it up or by –

Quirijn Mulder: No, for the whole. For the group, at group level.

Peter Oosterveer: We can probably give you that number. I thought you wanted to break it down by segment and then by businesses; but it's just looking at the four businesses for Arcadis, as a whole, where is the highest growth coming from, correct?

Quirijn Mulder: No, if you break it down by region and then by segment, that is more the work for an analyst, I think.

Sarah Kuijlaars: So, environment is definitely the strongest growth, but we also see growth in the – yeah, across the others but yeah, environment was definitely the strongest growth and that was linked to the point I made about environment in North America, where it's more than half of it is in North America and it's growing double-digit growth and margin in North America.

Peter Oosterveer: Then there was one question left, I think, yeah?

Quirijn Mulder: No, if you look at the key markets. Last year you made 8.7% EBITA margin. That was the same as 2018, it was also 8.7%. Your organic growth was about 4%.

So, I'm interested whether – what is the reason that you did not show any growth in the key markets in terms of EBITA margin because I think there are a lot of opportunities there and the markets are willing to ask for your services.

Peter Oosterveer: Yeah, I think the – part of the answer to that question is CallisonRTKL being part of key markets there. So, CallisonRTKL's decline in operating EBITDA margin took down the total for that segment, if you like, the 84%. I think that probably is the most significant explanation, actually, for it not growing.

Quirijn Mulder: And what about RTKL? You speak – let me say you have spoken a couple of times about, let me say, management change, etc. But what about the markets? What is the development there? Are you more looking for retail? What's the situation in the US with the architectural work? And what's the situation in China, for example, because I think those are the most important markets for them. And maybe the market structure has changed in the last couple of years, which you might not see yet but it might have an impact on the profitability and the revenue of the RTKL business.

Peter Oosterveer: Yeah – no, that's just like almost any other market. That market is subject to change as well. You mentioned retail specifically, which has always been an important market for CallisonRTKL. It is still an important market for CallisonRTKL but you have to easily argue whether, longer term, retail, particularly shopping malls will continue to be, you know, a driver for significant growth. And the answer is most likely not, simply because people are not going to, in great numbers, continue to go to shopping centres, except for the fact that, if you have multi-purpose type of shopping centres, then you might still get investments in this sort of thing.

So, the focus will – we're not moving away from retail but we're not expecting the biggest growth in CallisonRTKL to come from retail, simply because of dynamics in the world, which is people taking away from shopping malls.

For healthcare, as an example, we'll have to replace – if we see a declining growth in retail, then it will have to come from healthcare, in particular and workplace.

Quirijn Mulder: Thank you.

Speaker: Sorry, some follow-up questions. First of all, looking at the Middle East, you already pointed out that in Q4 you saw some growth again but still, year on year, still a clear decline, margin clearly improved; but yeah, how do you see that going forwards? Do you really see now that it will – let's say, will you have, again, like what we've seen in Latin America, the way is up again? Or do you have, maybe, to take some different measures there? And let's say, how has changed the composition of clients from public to private? Could you maybe give some feeling on that?

Secondly, on the CAPEX, Sarah mentioned a better focus on the CAPEX, more improvement on that. It came down quite significantly, so what has changed there and how should we, let's say, look at CAPEX, for 2020? So, why could you, let's say, take it down so significantly?

And lastly, again, going back a little bit on CAPEX for distribution, combined with M&A, yeah, the acquisition in ALENS was somewhat different from – let's say from what you announced in the past, which – maybe the focus was on digital acquisitions, so that's more that this is strengthening your position in sustainability. Is this, going forward, also what we should expect, maybe you'll become slightly more active in some markets and some market segments to improve your position there? How should we see that and how could it also aid, in fact, in the longer term, capital distribution?

Peter Oosterveer: So, I'll take the first and the last one and then I will ask Sarah to take the second question on. So, on the Middle East, yeah, it is kind of interesting to see how discipline and focus actually can create results. And as I mentioned before, I have never been bothered about the fact that we would see a decline in revenue. In fact, that was something I had assumed needed to happen in order to improve our performance.

Our mix is changing, the number of countries is changing. It's simply now the Emirates, which has always been relatively stable, Qatar. And that is probably not going to be, longer term, a country of growth, simply because of lack of investments after the world cup is completed. And up until that point in time, there will continue to be investments and Saudi Arabia. And I know that, in that context, a lot of people have always had mixed feelings about Saudi Arabia, but our focus on Saudi Arabia and particularly to now focus on a limited set of services – project management, programme management, has now created the situation whereby we're not going out of our way to try and win a lot of work but we're creating extremely healthy margins from Saudi Arabia. That's probably something you have not heard us say in the past. And I'm not going to make it bigger than it probably needs to be because it is from a small basis, but it does show that if you can be and continue to be focused, then you can actually make a decent living in Saudi Arabia.

That being said, though, there's still other things than simply only margins we need to focus on. We still want to ultimately end up with a set of clients which not only generate healthy margins but also pay us in time, so the DSO needs to come down as well. We're still in the midst of that journey. You know, time will tell if that journey is a realistic journey. I am just very pleased, at this point in time, with the fact that the discipline is there and I am not going to move away from that discipline. And so, if that comes with modest growth, as we've seen for the first time now, at least in the last quarter, I am perfectly okay. I would rather see that than allowing people to go out and chase everything which moves.

So, on the last question, capital allocation and particularly, are we going to change our view on M&A; no, not at least until the point in time that we have worked through our strategy and shared with you what our new strategy is. So, for the foreseeable future, which is between now and November, our stance on M&A will be the way it has been for the last two years. If we see something which is attractive, is a complementary capability, fills a niche, like Over Morgen did and EAMS and SEAMS, then we'll look at it but I'm not going to close out this meeting to say that, all of a sudden, we'll go after a lot of large acquisitions.

Sarah Kuijlaars: And then, on CAPEX, indeed we have implemented a greater control around our CAPEX. The CAPEX is broadly two parts. One is on investments in IT and the other half on real estate, our offices. And on that, on the latter part, we've got a new manager of workplace, of real estate, which allows us to have a global model of really ensuring we invest where it's wise, with the right investment return and of course the principle part of the IT investment has been Oracle, yeah, and that will continue over the coming years.

I think it's worth highlighting – and I think it links in with the announcement we made last year about the Chief Technical Officer – obviously, moving forwards, there's a much greater link between traditional IT and technology and software, so the type of investment could well change and, obviously, that's something we'll talk more about in November. So, it's less – it's not bricks and mortar, it's more investments in software and capability. So, the investment will change but I think we're all committed to invest the right level to ensure that we enable future profitable growth.

Speaker: Could I get some guidance for this year?

Sarah Kuijlaars: It will be broadly similar.

Speaker: Broadly similar.

Quirijn Mulder: A couple of questions left, Quirijn Mulder from ING. ERP[?] roll out in the – in Europe somewhat delayed maybe because of the US, similar issues? That's my first question.

And the second question about the PFAS NOX. On the NOX, you did not give any comment but there should be some impact on the NOX, given the fact that you are active in the Netherlands, and there are certainly – so maybe you can elaborate a bit on that? And then, with regard to the presentation on the PFAS, you speak about addressing a market of $500 million. So, maybe you can elaborate what you mean by that. Is that a total market on an annual basis? What is the current state with regard to what you do in PFAS, etc.?

Peter Oosterveer: Yeah, so addressable market means the market we can potentially pursue. And, you know, I'm not going to tell you that we will be able to capture 100% of that market; no one expects that. In 2019, our revenue in PFAS was about €40 million, so just under 10% of that addressable market, which is not a bad share but we want to, of course, increase that share. So, it is an annual addressable market, an annual addressable market for Arcadis. Other people might have another number, based on their capabilities, but this is a market we feel we can address. And the expectation is that that market is going to continue to grow. And when I say 'grow', the expectation is not that it will stay, necessarily, single digits. It will be a significant opportunity, clearly.

As far as the Netherlands is concerned, yes, nitrogen and PFAS are both two hot topics in the Netherlands, both without a resolution at this point in time. As you might have seen from the press release, we have signalled that it is still an issue which needs a resolution, it needs clarity. If that clarity is not going to be provided, then it will have an impact on our business and not just our business, it will have an impact on everyone's business who acts in this space, including the larger contractors.

At the same time, though, we also didn't want to miss the opportunity to say that, in the meantime, as we're trying to work through this issue and trying to find out – we, as in everyone in this space – what the best solution is, we have also had the opportunity to provide more consultancy services than we probably would have not been able to provide if this issue didn't surface in the Netherlands.

So, it does have an impact and I don't know that I can predict what the depth of that impact will be, because I can't predict when this will be adequately resolved, will regulation which is clear to everyone.

Quirijn Mulder: Okay, this has had, already, probably an effect in 2019, as some – there were delays by some, let me say, infrastructure work in the Netherlands.

Peter Oosterveer: Yes. Yes. We – I don't think the fact that it is an issue was signalled this time for the first time. We've signalled in the past for as long as this issue came up and I think the nitrogen issue came up in May of last year and PFAS shortly thereafter and we have, I think, consistently said that it will have an impact, if there's now regulation. At the same time, though, it might have an opportunity and in fact, on PFAS, it has had an opportunity as well.

Quirijn Mulder: But the balance is probably negative, then.

Peter Oosterveer: Yes.

Jurgen Pullens: I'd like to switch also to the conference call to give people the opportunity to raise questions.

Operator: Please press star one now if you would like to ask a question and wait until your name is announced. We have no questions coming through via the telephone lines.

Jurgen Pullens: Go ahead.

Luuk van Beek: Luuk van Beek, Degroof Petercam, again. I have a question on corona. You mentioned that it has an impact in China. Can you explain what measures you've taken to protect your business and how it's impacting your operations and for customers and so on?

Peter Oosterveer: Yeah. So, to put it in perspective, China is about 4% of our total revenue. That's the first important data point to take into consideration. We have about 1,730 people in China and about 800 in Hong Kong, or thereabouts, or 850, so say 2,500–2,600. As you will have seen from the public domain, quite a number of businesses have been impacted. For us it meant that most offices in China have been closed for an extended duration and extended meaning an extension of the Chinese New Year, which is typically already a closure anyway.

By now, most offices have been reopened again. That doesn't mean that everyone is ready to go to work. The only office which is still closed is our relatively small office in Wuhan, which is the centre of the virus, of course. How quickly we can pick up work is not just depending on whether we can open our office but if you think, for instance, about the quantity surveying work we do in China, which is a significant part of our business, then for us to be back at work means that, first, contractors need to be back at work to, for instance, go back and resume the construction on a building. If they don't get back to work, then there's no point for us to be there. So, business will – potentially will – surely start up slowly after there is a firm point in time that everyone can say the situation is safe again.

We are looking at this in terms of a number of scenarios. One scenario is that, fairly soon, there will be a situation where things are under control and people can go back to work. And that means – fairly soon means in the next couple of weeks. The other scenario, which is another extreme, is that this will drag on for a longer period of time and then, of course, the scenario doesn't get more attractive, it gets worse. And so, we are not at the point yet where we are able to quantify exactly what these different scenarios will be, simply because we do not know when we will reach a point where we can say everyone can go back to work, the situation is now under control. It does suggest that, at this point in time, because of the number of additional people being infected coming down, except for today, because they introduced a new measurement, which is – there's not much you can do about it but it seems like, over the last couple of days, the number of incremental infections came down and that suggests that we're getting close to the point of having it under control. But, you know, I want that point to be more certain than it is at this point in time. 4% of our business, a lot of people can't go to work. In some cases, we allow people to work from home but not in all cases that actually is a solution.

Speaker: Yes, maybe just a follow-up on the last one, first of all – that implies that, in principle, currently, you're not billing – at no – almost no billable hours in China. Is that how we should see that?

Peter Oosterveer: Yeah, it's – I mean it is indeed if you have people on the payroll but you don't have projects they can work on, then that's fundamentally a low – very low billability. It's not like it's zero but it's certainly not where we want it to be. So, – but this mechanism is a painful mechanism because you want to sustain your workforce and the expectation that there will be a solution any time soon. You still need to pay them but, obviously, there's nothing you can allow them to charge time to.

Speaker: Yeah. And then, a question on the US FieldTech Solutions, where you indicated the environmental business is growing quite rapidly. Did you get, maybe, some feeling how the FieldTech Solutions were growing and how big part of the environmental business in the US it now accounts for?

Peter Oosterveer: I don't have the specifics on FieldTech Solutions but we might be able to get that to you separately. I will say, though, that the way the environmental business is growing is, I would say, close to spectacular, given the size of the business already and the view of what a lot of people think about the US as a country which at this point in time might not care so much about the environment. That is not what we see and that is why we have this growth. If we look at our pipeline, there's nothing which would suggest that, any time soon, there will be a sudden stop to that growth. So, it is a healthy pipeline, tremendous growth, I would say, in light of some challenges which clearly are prevalent in the US environment but still a really good business and a business which is a significant part of our overall business by now.

But we come back – we can circle back separately on FieldTech Solutions and the growth in there. But it's certainly been a big contributor.

Yeah?

Martijn den Drijver: Okay. Martijn den Drijver, ABN AMRO again. Just to follow up on working capital, Sarah, if I look at payables – and I'm – then I'm taking into account accruals as well but it's gone up quite considerably. In your presentation, you say you noticed that you – you mentioned accounts payables, seq[?] are stable at 7% growth but if I look at the absolute number, it's gone up quite considerably. Is there something special that we should know about?

Sarah Kuijlaars: No, I think it reflects the fact that our gross revenue has gone up quite considerably; and particularly in North America, there's a lot of the subcontracting, yeah, so the –

Martijn den Drijver: Yeah but again, as with the unbilled, the payables have gone up way more than your gross revenues.

Sarah Kuijlaars: Yeah but it's 7% of gross revenue in December 2019, as it was in December 2018, so there's nothing abnormal going on there.

Martijn den Drijver: I would assume that, if you look at payables, that you would look at your costs, not so much your gross revenue. I mean I realise that your third party also flows through gross revenue but I would more link it to costs.

Sarah Kuijlaars: No but a significant portion is our – is the subcontracting and I think it's – you know, it's worth reiterating that it's 7% this year, as it was last year.

Martijn den Drijver: Right. Then the second question I have is on – I know we will have the annual report in a week or two but what is the available undrawn credit facility at year end? Is that a number that you can give right now?

Sarah Kuijlaars: So, our liquidity has obviously significantly improved, it's north of €500 million.

Martijn den Drijver: Okay, so the refinancing of the Schuldschein, which comes to you in May, not an issue?

Sarah Kuijlaars: It's not an issue. Obviously, we've initiated the process to maintain that level of liquidity but it's not an area of concern, no.

Martijn den Drijver: Okay, because you are able to draw down on the RCF to refinance the Schuldschein, that is a possibility, there's no restriction on that?

Sarah Kuijlaars: There's no restriction on our RCF, no.

Martijn den Drijver: Okay, thank you.

Quirijn Mulder: Quirijn Mulder for a last, last question. Maybe it's a strange question but can you give me an idea about what percentage of your revenues are related to climate change? Do you have any idea about that number?

Peter Oosterveer: Yeah, so we slice and dice our revenues in many, many different ways but we haven't gone that far yet. But I say that not with a – I say it, probably, with a smirk on my face but I don't mean that with a smirk on my face because I think that is actually going to actually change over time. So, I don't think that we have that specifically. Do we have it, Jurgen? I don't think we have it. You know, what we can do is probably take a look at it and see if it we can come up with a meaningful measurement. You know, intuitively, I would say it is growing, if I see, you know, where we get involved in either proactive or reactive issues related to climate change, including in North America, I would probably not be overly ambitious to say that I suspect it is growing but I can't give you the specific numbers.

I would expect, though, going forward, that it will grow, once we have established a baseline and my expectation is, going forward, it will change, improve, increase.

Quirijn Mulder: Okay, thank you.

Jurgen Pullens: And there are no further questions so I'd like to maybe hand over to Peter for a final remark.

Peter Oosterveer: Yeah. Yeah, thanks Jurgen and thanks everyone for, again, your attendance, including people on the line and for your questions. As we said in our comments, we're pleased with the performance in 2019. We also acknowledge that there's still additional work to be done. That will probably never change but at the same time, we feel that we are well on track to deliver on the commitments we made to you in 2017 vis-à-vis 2020. In quite a number of cases, we are already delivering on those commitments, we still have some work to do but the confidence that we will, throughout this year, deliver on the remaining commitments, is absolutely there.

We also appreciate the interest you have in seeing what comes next. I need to test your patience just a little longer because we are in the process of revising our strategy. We have set a date for the capital markets day, by the way, which is in our press release. We're close to also deciding where it will be held so – I know that we will be talking to you in between but we definitely appreciate the interest you have in Arcadis as a whole and in our revised strategy, including capital allocation and the like. So, thanks very much.

[END OF TRANSCRIPT]