

# Arcadis Q4 & Full Year 2021 Results

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**Christine Disch:** Good morning, everyone, and welcome to this Virtual Analyst Meeting. My name is Christine Disch, Investor Relations Officer at Arcadis.

We are here to discuss Arcadis' Fourth Quarter and Full Year 2021 Results released this morning. With us on the call are Peter Oosterveer our CEO, and Virginie Dupérat, our CFO. We will start with a presentation by Peter and Virginie, which will be followed by Q&A. For the analysts attending this call, in case you would like to raise a question, please note that while using the chat box type in either question or simply question. Please do so only after we have opened up for Q&A. I will call out your name after which you can verbally then your question to Peter and Virginie. Kindly keep to maximum two questions at a time.

Lastly, we would like to call your attention to the fact that in today's session management may reiterate forward-looking statements which were made in the press release. Please note any of the risks related to these statements which are more fully described in the press release and on the company's website.

And with these formalities out of the way, Peter, over to you.

**Peter Oosterveer:** Thank you very much, Christine. Good morning, everyone, and welcome to our fourth quarter and full year results. I am delighted to report that 2021 has been a strong and prosperous year for Arcadis.

The business is clearly in an excellent position with healthy and sustained organic growth, solid margins, and a strong balance sheet that puts us on track to deliver on our strategic targets for 2023. The last 12 months have clearly not been without their challenges. The continued impact of COVID-19 has been quite dynamic and the emergence of new variants have caused ongoing concern, while we also at the same time saw the effects of extreme weather events in Europe, in North America and in Asia in the summer of last year, showing just how fragile and vulnerable our world has become.

On the back of these unfortunate events, we have seen strong demand from clients and governments to help mitigate and eliminate the impacts of climate change. At Arcadis, we see this as both a commercial opportunity and a moral obligation. The acceleration of the energy transition is undeniable and a necessity for private and public sector clients to find ways to reduce their reliance on fossil fuels.

Recent wins in the Netherlands and UK show that our expertise is recognised by clients to allow them to meet their ambitions for a timely transition towards renewable energy. For Arcadis, this is obviously a sector in which we want to grow and one we want to lead.

Simultaneously, we also are seeing increased investments from clients in growth sectors such as smart mobility, including electric vehicle adoption, sustainable development to create green places and environmental remediation.

In that context, PFAS remains a specific area to watch. In North America, we are constantly innovating and bringing new solutions to the market to tackle this harmful environmental contaminant. Last year, we launched both a mobile PFAS removal treatment technology and a new cleaning agent to eliminate PFAS layers from fire suppression systems. And both solutions greatly expand Arcadis' capabilities and technical expertise in this market and put the business in a really strong position to build a pipeline of new opportunities for 2022 and beyond.

The outcomes from the COP26 Climate Summit in Glasgow in the passing of a \$1.2 trillion US Infrastructure Bill into law last year and other governmental stimulus programs such as the EU Green Deal clearly present very significant opportunities to continue to grow our pipeline. More specifically, the US Infrastructure Act will deliver \$550 billion of new federal investments in America's infrastructure over five years, pretty much touching everything from bridges and roads to the nation's broadband, water and energy systems.

And we believe that we're well positioned to capitalise on these opportunities. But the greater clarity and certainty the act has brought is welcome news for the sector. As I've said, I'm really pleased with both the organic net revenue growth of 3.5%, which excluding the Middle East, would have been 4.2%, and a solid operating margin of 9.6% for 2021.

A very strong cash flow of €234 million demonstrates that our cash programme initiated now two years ago is firmly embedded, and again delivering excellent results. But the probably best evidence of the favourable market outlook is our organic backlog which increased with 5.1% year-over-year as a result of very robust order intake in almost all of our regions.

The strong improvement in our results including the strong cash generation over the last couple of years has created a solid and much improved financial position. Therefore, and in addition to the regular dividend of €0.70 per share, we do also propose a special dividend of €0.60 per share both offered in cash. With that, we will obviously maintain our disciplined balance sheet management policy.

As you'll recall from our most recent Capital Markets Day, we do see global megatrends like urbanisation, climate change, greater digitalisation and growing societal expectations continue to shape the needs of our clients and the communities we serve. And as such, I'm pleased to report that we made great strides in 2021 on the implementation of our current three-year strategy.

Our strategy, Maximizing Impact, launched in late 2020, has, amongst others, been the catalyst for how we operate, which in my view is crucial for our future growth and our future success. In 2021, we did spend a great deal of effort in the design and planning of our new operating model, standardising our processes and the launch of our three global business areas: Resilience, Places and Mobility. And I'll touch on those in more detail shortly.

As we've also communicated in the past, our strategic tenants of focus and scale will continuously make us look for opportunities to optimise our business portfolio.

On our ESG targets, I'm pleased with the very solid progress we've made on all aspects of the spectrum, so environment, social and governance, for instance, in how we are ensuring to apply sustainable practices and deliver on our net zero commitments, but also how we ensure that we become an even more diverse and inclusive organisation, representative of the societies in which we operate, and also that we even more so than we already do look for opportunities to make a positive impact on these societies. And I will delve into these areas a little more later in the presentation.

Across the board, we are seeing solid progress and are on track to deliver on our strategic targets. And I want to focus now a little bit more on our backlog. Our 2021 results do include a further increase of our backlog with 5.1% to a record high of €2.2 billion. This is obviously very encouraging and shows that our strategy is delivering the right results.

Our order intake throughout the year was €2.7 billion, leading to a book-to-bill of 1.04. And the book-to-bill ratio was above 1 in all regions except for the Middle East, which is to be expected, given our decision to reduce our footprint and for CallisonRTKL.

As part of the success in growing our backlog, I'd like to just highlight a few exceptional wins we recorded in Q4, which really gives us a head start in 2022. In North America, we have been appointed by the US Army Corps of Engineers in Huntsville, Alabama, as one of their partners on a \$1.1 billion contract, creating a safe use of land and water.

We've also secured a significant contract with a major global financial client to support delivery of its capital programmes worldwide. Operating a global project management office as well as leading in the direct delivery of projects through managed delivery partner relationships, we will oversee direct delivery of capital works, including the expansion the refurbishment and construction of new builds across more than 60 countries.

And in Australia, we were successful in securing the detailed design work to support the government of New South Wales and partners to deliver the \$1.18 billion Warringah Free Upgrade – Freeway Upgrade in Sydney. The project is absolutely key to a city shaping network of roads to help reduce congestion and improve air quality as population and transport demands grow. In my view, three fantastic achievements that do showcase the quality, the breadth and the depth of our projects across the world.

I'd like to now hand it over to Virginie to provide further detail on our financial performance.

**Virginie Dupérat:** Thank you, Peter, and good morning, everyone. Very pleased to be with you today to provide some further comments on our Q4 performance, but also on our full year results.

So first, if we turn to our quarterly results. We delivered, again, a very good net revenue organic growth of 4% for the quarter, even 5.2% restated from Middle East performance, and we increased our net revenue to €652 million.

The operating EBITA margin was very strong at 10.7%, driven by a continuing strong performance in the Americas and a strong improvement in Europe. 2021 EBITA includes the impact of the accounting policy change in IAS 38, which is about cloud computing, which has a negative impact of 0.1% on the margin.

Now, in 2021, our net revenue organically increased by 3.5% to €2.5 billion. Our operating EBITA increased by 9% to €246 million and our margin improved to 9.6%. And this was mainly driven by a continued strong performance in the Americas and a strong improvement in Europe.

Our free cash flow of €234 million was outstanding and demonstrates our strong cash management and our ability to generate strong cash conversion on a sustainable basis. The balance sheet further strengthened with a net debt position of €168 million versus €326 million last year due to free cash flow generation and further improvement of working capital. And excluding leases liabilities, we had a net cash position of €87 million.

Our organic backlog growth with 5.1% was again very healthy and provides a solid outlook for 2022. Strong market conditions across the private sectors and federal government are driving significant client opportunities in multiple segments.

Capitalising on strong economic conditions while managing the ever-changing requirements from the COVID-19 pandemic, North America delivered year-over-year organic growth in all core business lines.

And a couple of examples. In addition to supporting US states enriching their zero emissions goals and transition to electric vehicles, Arcadis continues to support New York's Economic Development Corporation with the master plan to transform Lower Manhattan's waterfront. This transformative project has prioritised natural and natural-based features to manage stormwater, local energy generation and sustainable material usage, where possible, throughout the design.

In Latin America, net organic growth was strong, led by large infrastructure projects and environmental assignments in Brazil. The operating EBITA margin for the segment was strong at 11%, albeit slightly lower than in 2020, which had some cost benefits because of 2020 market COVID-19 situation that did not materialise this year.

Turning now to Europe. Strong public investment continued throughout Europe and the UK with governments confirming programmes supported by increased tax revenue resulting from the recovery. Infrastructure development and the energy transition, driven by ambitions to reduce carbon outputs, are the main areas of growth.

Organic net revenue growth in Europe and Middle East was mainly driven by significant growth in the UK and in several countries in Continental Europe, compensating for an expected and planned decline in the Middle East, driven by our decision to reduce our footprint in this region.

And to illustrate some recent wins. In the UK, Arcadis was named as Bristol City Council's new strategic partner to support the delivery of new infrastructure, homes and regeneration across the city. In Scotland, we are working with HITRANS to launch the largest integrated mobility-as-a-service transport programme in the country. And in December, Arcadis together with partners, was announced as a supplier of policy consultancy and engineering services to support the Dutch Ministry of Infrastructure and Water Management in adapting and planning for changing climatic conditions in the Netherlands.

The operating EBITA margin for the segment improved to 10.1% from 7.9%, due to an excellent performance in the UK and the Netherlands and further improvements in Belgium, while France and Germany delivered a steady performance.

Turning to Asia now. China witnessed good growth in cost commercial management and programme management, driven by technology clients who are expanding in logistic hubs and data centres to cater the global online markets, in addition, our presence is growing in the Chinese environmental and water markets with the help of global expertise.

In Hong Kong, Arcadis won a contract with the Henderson Land Development Company to provide cost and commercial management services for the new Central Harbourfront site. This project will set a new benchmark for sustainable development within the central business district of the city.

The rest of Asia continued to feel the impact of COVID-19 with prolonged lockdowns, reducing activity and resulting in lower margins on projects. In Australia, infrastructure demand was high, driven by government stimulus programmes and good demand for logistics and data

centres. The energy transition offers significant opportunity in response to climate change imperatives.

The fourth quarter brought a good order intake in Australia, allowing the business to start the year with a replenished backlog. Revenues increased in China, Hong Kong and Australia, while performance was good in Australia and China. The operating EBITA margin for the segment decreased to 8%, due to the prolonged impact of COVID-19 in the rest of Asia.

And the significant impact of COVID-19 on the global economy, especially the design space affected the CallisonRTKL business. Over the last 12 months, the focus was on business turnaround and foundational repositioning, working to align with the existing Arcadis MEPC+ and risk management programme.

CallisonRTKL implemented a rigorous project review process and focused on reducing indirect cost, including restructuring plans delivered in US and in Asia. As part of these plans, real estate footprint was reduced. Total amount of this turnaround and restructuring cost in 2021 was approximately €10 million.

In addition, CallisonRTKL and our places GBA continued to explore together on new areas for collaboration, to deliver better solutions for our clients. And as of 2022, CallisonRTKL will be reported as part of the new places business segment.

As we have turned our organisation into global business areas, this was our last time commenting our business on the regional segmentation. And moving forward, we will comment our business segmentation by business area in line with the Group management organisation. Peter will give later a snapshot of the results by business area, and you will find in the appendix of this press release the 2021 year in the new segmenting model to help for comparison purpose.

Overall, EBITA increased by 8% to €236 million. This increase was mainly driven by a strong margin improvement in Europe and the continued strong performance in the Americas. Net finance expenses decreased to €19 million from €27 million in 2021. Interest expense on loans and borrowings of €11 million reduced by €7 million, due to lower average cost debt and lower interest rates.

And the effective tax rate was low at 25%, mainly due to favourable prior-year adjustments. Income from associates was €11 million due to a favourable outcome of a commercial arbitration. And finally, net income from operations increased by 35% to €175 million, or €1.96 per share.

The overview of the last five years clearly illustrates that our focus on the cash collection programme implemented in 2020 paid off. The focus on disciplined working capital reduction resulted in a record low net working capital percentage of 10.7%, with a DSO of 63 days. We are now confident that we can keep the net working capital percentage and DSO below our objectives set for 2023.

Strong cash flow generation, especially in the last two years led to a significantly strengthened balance sheet with a net capital position of €87 million, if you exclude lease liabilities.

The strong improvement in our results, including strong cash generation over the last couple of years, brought us a solid financial position. This creates a room to continue our investments in people, sustainable solutions and digital capabilities.

Our net debt to EBITDA ratio further improved to 0.8 from 1.3 last year. And our objective is to stay between 1.5 and 2.5 net debt to EBITDA, so we have ample room to manoeuvre. Confident in our ability to sustain strong cash flow generation and in accordance with our disciplined balance sheet management policy, as Peter mentioned earlier, we'll propose a dividend of €0.70 per share, an increase of 17% year-on-year.

In addition, we will also offer a special dividend of €0.60 per share, and both will be offered in cash. In parallel, in 2022, we will continue our investments in organic growth with an annual CapEx between €40 million to €60 million, and we will embrace opportunities for bolt-on to medium-sized acquisition. And this month, our business also closed a deal to acquire a small company to supplement our resilience digital business, taking a majority stake in HydroNet, a Dutch intelligent water solutions provider. By acquiring 70% of HydroNet, Arcadis adds an innovative digital solution to its water solutions portfolio.

And with that, let me hand it back to Peter.

**Peter Oosterveer:** Thanks, Virginie, for sharing the details on our financial performance and also highlighting the strength of our balance sheet.

In addition to the financial targets Virginie already spoke about, I'd like to also update you on our non-financial targets, which we did present to you in November of 2020 during our Capital Markets Day. And they are equally crucial to our long-term success and equally important to our clients, to our shareholders and to fellow Arcadians.

And they include becoming an employer of choice, increasing our brand recognition in the market and crucially having the ambition and the targets in place to generally tackle[?] the climate crisis. But let's touch on people first.

Throughout 2021, it has been both humbling and amazing to see how our people have responded and dealt with the consequences of the pandemic, whether it is through working remotely, juggling family responsibilities and work and/or dealing with loss and suffering. The pandemic has impacted many things we took for granted, yet our people have continued to put the health, safety and well-being of everyone first, adopting new ways of collaborative working, and importantly, continuing to innovate and develop new products, new services and solutions to maximise the impact for our clients and communities.

And as we grow more hopeful that the worst of the pandemic is now behind us, we also see this reflected in the fluidity of the labour market, something we also reported a quarter ago. For us, at Arcadis, it means that our voluntary turnover is still higher than our ambition. However, we do see positive signs indicating that it is stabilising and these positive signs are predominantly in most of our mature and most of our larger markets and regions.

And what is, in fact, also very positive is the fact that an important leading indicator, our staff engagement levels have increased quite significantly with a plus 27 over to a total of 30 on the net promoter score. And we furthermore experience that people who are looking for a new job put more and more focus on the purpose and the vision of the company they consider joining. And in that context, we are pleased to have seen our headcount grow with 5% to now over 29,000 employees worldwide with a 13% growth in our global excellence and global shared services centres, demonstrating again the critical role they play in the success of our strategy.

We have, in 2021, also embarked on several additional actions to ensure we become the employer of choice. We have launched the new Workstyle Promise to encourage and support future hybrid working and we have created five global affinity groups, enabling greater focus on diversity, on inclusion and on belonging. We made our hiring and onboarding process more efficient. However, there's always more to do.

And employee retention and employee attraction will continue to be a key priority for our business in 2022. And to maintain that focus, we've set up a special team, co-led by our Chief Operating Officer, Alan Brookes, and our Chief People Officer, Jacoline van Blokland.

Now turning to ESG targets. I believe that it is now widely accepted that tackling climate change is the greatest challenge of our generation and we all collectively need to play our part. And I suspect that you already know that this is not a new initiative or a call to arms for Arcadis. We have been supporting our clients by providing pioneering sustainable solutions to protect, restore and improve our planet for as long as we've been in existence.

And recent awards by environmental, social and governance ratings agency, particularly Sustainalytics, which ranked us as number one in the construction and engineering category ahead of over 290 other companies, demonstrates that we are on the right path. But as responsible business, we want to be more ambitious.

In September of last year, I did share with you our pledge to reach Net Zero emissions across our global operations. And through a combination of measures to help reduce our carbon footprint, including sourcing of 100% of our energy needs through renewable sources, halving international travel, our aim is to get to the Paris Agreement target of limiting global temperatures to no more than 1.5 degrees Celsius in half the time, which means in 2035.

And I'm now also pleased to announce that we have Science Based Targets initiative approved science-based targets. And on this slide, you see a reduction of 21%, which was obviously already impacted by COVID-related situation.

Last year, we've also committed to playing an even greater role for our clients through the creation of our global sustainability advisory practice. This practice brings together experts from around the world to work on projects no matter where they are, helping to develop comprehensive strategies for our clients. Whether this is creating a blueprint for transport decarbonization in the North of England, or providing engineering support for constructing a new wind turbine prototype in the US, Arcadians are on hand to provide integrated end-to-end sustainable service and solutions at scale.

There is unfortunately no easy fix to urgent issues like the climate crisis, growing inequality and biodiversity loss. But as I saw first-hand at COP26 in Glasgow back in November of last years, progress can be achieved through international collaboration and cooperation and their willingness for business to seize the moment and act responsibly.

Looking into the remainder of 2022, our focus will, of course, continue to be on maximizing our impact, through the projects we execute for our clients, developing new sustainable solutions and crucially continuing to embed UN sustainable development goals into all our projects.

So, finally, as I mentioned earlier, I want to close with some more positive news. In line with our three-year strategy and desire to reflect the changing needs of clients, you will have seen we've now transitioned from a country-led operating model to more collaboration across

borders, more efficiently in new global business areas. These changes which are effective from 1<sup>st</sup> January of this year see the creation of three new business areas: Resilience, Places and Mobility. And each business area has its dedicated leadership team and consists of globally diverse organisations that work together to bring focus and bring the very best of Arcadis collective expertise from around the world to help serve the changing needs of our clients.

These three new business areas will be led by global presidents. Heather Polinsky formerly our Chief Operating Officer in North America will lead the Resilience business area, building on Arcadis' rich heritage and expertise in energy transition projects, environmental remediation PFAS and clean water management to create holistic sustainable solutions for our clients.

Mark Cowlard, formerly our CEO in the UK will lead the Places business area, focused on repurposing assets and creating smart, safe and sustainable places for owners, investors, users and communities across the real estate sector. And Greg Steele, formerly ELT member responsible for Australia and Asia, will lead Mobility and work closely with transport owners, operators and contractors to deliver design, asset and progress management and mobility solutions to connect cities and communities.

For me, this move marks an exciting new chapter in how we work at Arcadis. Working alongside our digital products and service business, Arcadis Gen, and our architectural design practice, CallisonRTKL, the structure will allow us to bring forward the very best Arcadis has to offer to clients globally. They will benefit from Arcadis' collective and global expertise, brought to the project in a seamless, more efficient and more agile way.

And for our people, it will mean easier access to global capabilities and experience, effective collaboration across borders and enhanced development opportunities for growing their careers and increasing their expertise.

The company's reporting of first quarter 2022 results will reflect these three new reportable segments. And to assist in the analysis and understanding of the new reportable segment structure, we have restated the four quarters and full year of 2021 for the new reportable operating segments as attached in the appendix to our press release.

So in closing, and to summarise our full year Q4 trading update, a strong and prosperous year for Arcadis with continued revenue growth and improved operating margin. Therefore, and in addition to the regular dividend of €0.70 per share, we do propose a special dividend of €0.60 per share, both offered in cash.

We continue to accelerate our transition to a Net Zero world and provide sustainable solutions to our clients. Our global business area structure is now in place and we'll be even better serving our clients the needs of our growing client base. Further, improved margins, record backlog level and a sustained pipeline of opportunities underpins the confidence we have to be able to deliver on our strategic targets.

And with that, I'd like to hand over to Christine who will now open it up for Q&A.

## Questions and Answers

**Christine Disch:** Thank you, Peter. Hereby, I would like to open up for Q&A. If you have a question, please let us know by using the chat box typing either question or simply question.

Kindly keep it to a maximum of two questions at a time. Let's go to the first question from Hans Pluijgers.

**Hans Pluijgers (Kepler Cheuvreux):** Yes. Morning all. Two questions indeed from my side to start with. First of all on wage inflation. What are you currently seeing there, and how easy can you pass it on? One of your competitors in Europe was already referring to clear increases in billing rates in Q4. Could you give maybe some flavour on that what you see, let's say, in billing rate development and what you expect for this year?

And then, second question on your net working capital and to your DSO. You indicated that you expect that it will remain below your target that you will be able to keep that. But do you still see more room? Now we also – with the full rollout of the Oracle system, do we expect that there's still more room for improvement there and if you can maybe bring it back further?

**Peter Oosterveer:** Okay. Thanks, Hans. Let me take the first one and then Virginie will take the second one. Wage inflation, our answer will fundamentally be no different than what you very apparently heard from our competitors. We're all in the same business with the same structure and largely with the same type of contracts.

And since we're in the people business, inflation, which is obviously high at this point, that is largely applicable, of course, to salaries to wages. And on contracts, we will be able to pass on the inflation to our clients. Unfortunate for them, but that is typically how these contracts work. I can go into greater detail and if we have more time later, I'd be happy to do so. But fundamentally, you can make a distinction between what we describe as time and material contracts and lumpsum contracts. And on both contracts – on the first one we should be able to pass it on to clients as a result of increased salaries starting the new year. And on lumpsum contracts you would typically include the inflation in your pricing regardless.

**Hans Pluijgers:** But can you give maybe some feeling on your organic growth? What was the pricing component and in principle, let's say, the hour component for last year?

**Peter Oosterveer:** I think the impact for last year 2021, which is obviously what we're talking about right now on wage inflation, on the revenue was really fairly minor.

**Hans Pluijgers:** Okay. Thanks.

**Peter Oosterveer:** Virginie, do you want to take the net working capital question?

**Virginie Dupérat:** Of course. So thank you for the question, Hans. Again, we've been able to improve our working capital year-on-year. You're right, the implementation of Oracle in the Netherlands has been certainly a factor to help on that.

Moving forward, we will have been able to have implemented our ERP system in all our biggest countries, so we do not expect to get a lot of additional improvement on that front. Netherlands in 2021 was very last big one to receive the system. But that has really allowed the Group to improve the capability of invoicing faster and that I think is quite difficult in the level of unbilled that we show at the end of the year.

What is quite true also is that there is, again, quite a phenomenon of people paying us in advance are quite early at the very end of the year and that explains part of the improvements that we've been seeing in the cash flow, especially over the last quarter. I think that the free cash flow for Q4 was €124 million last year and it's again almost the same thing this year. So

showing that December month is always quite a very big month and that's also related to the way how our clients manage their CapEx and potentially their budget when they are government-related organisations and such.

**Hans Pluijgers:** Last year, you indicated that a few tens of million positive impact in Q4 the early payments by some of your bigger accounts. Can you give maybe some feeling on what the impact was this year?

**Virginie Dupérat:** So I would say that this year was a bit lower. But again, we had payments in advance and we are even in negative position in some of our key contract at yearend. I would say that it's rather happened in Europe but we've seen that also in the US. And that's both on client, governmental-related organisation but also on private side.

Maybe also something to highlight is that in the order intake of 2021, you have a bit more of contracts that came with down payments. So with the change of type of contracts that we are having, we had also down payments. So probably these down payments are really replacing what we have lost in earlier payments on the other side. And that's why we end up with almost the same level on the fourth quarter.

**Hans Pluijgers:** And one last follow-up. On the tax – deferred taxes, is everything now, the €47 million is paid, the deferred taxes from 2020?

**Virginie Dupérat:** Yes. So the VAT, we have a small amount I think of VAT in a few countries that would go out in Q1 2022. But yes, we've been paying VAT of 2021 and VAT of 2020 in the working cap of this year.

**Hans Pluijgers:** Okay. Thanks.

**Christine Disch:** Thanks, Hans. Next question is from Luuk Van Beek, Degroof Petercam. Luuk, please go ahead.

**Luuk Van Beek (Degroof Petercam):** Yes, good morning. First of all, a question about Asia, where you mentioned outside of China is still quite a significant impact from COVID and also some project losses. And these countries typically still rely quite a lot on lockdowns and probably also going forward. So can you indicate to what extent do you expect this impact to abate or remain in 2022? And also provide a bit more colour on the project losses because that's something that I'm not really used to at Arcadis?

And my second question is about the special dividend. Can you talk about the decision-making process there in the sense of the trade-off between the special dividend and share buyback? And also going forward, what will be your criteria to do any additional shareholder remuneration in the future? And what form do you take there?

**Peter Oosterveer:** Okay. Thanks, Luuk. We'll do the same thing. I'll take the first one and then Virginie will take the second one.

The lockdowns we referenced, Luuk, were not in China. Actually what we were trying to say is that they are in all other countries other than China, because China with the exception of maybe a couple of spikes in a couple of cities has largely come out of lockdowns way before anyone else. But unfortunately, the same is not true for any of the other countries other than China. So that in our case it's applicable to the larger places, such as the Philippines, some of the

smaller places such as Thailand, Vietnam, Malaysia, and to a lesser extent, Singapore. So the lockdowns are largely in these countries and not so much in China.

The project losses, they have, to an extent, also something to do with the pandemic and the inability in Singapore that is, not in China. In Singapore to – as for prolongation cost on contracts, which is unfortunately a bit of a Singapore specific issue, but certainly something which has impacted us. So it is partially also the result of the pandemic.

So in closing or in summary, no lockdowns or not significant impact in China lockdowns because the world is largely back to normal. It is all the smaller countries. And the project losses were in Singapore, as a result of inability to be repaid for prolongation cost.

**Luuk Van Beek:** And then going forward, do you expect the situation in those countries to improve?

**Peter Oosterveer:** Yeah. Well, I think, what we're seeing ourselves in the Western world, Luuk, is that what ultimately makes a situation get better is large vaccination or a high percentage of vaccination, people becoming more immune. So it probably be – will be the same, if I can be a bit optimistic in Asia, but it will be with some delay.

If you look at some of the countries in which we operate, whereas in our country everyone who wants to be vaccinated, could have been vaccinated. That is unfortunately not necessarily the case in all countries in Asia. But I do expect that throughout 2022, we will see that improve as well.

**Luuk Van Beek:** Thank you.

**Virginie Dupérat:** Okay. So let me take the question on the dividend, and also some capital allocation on a larger basis.

So yes, first, if we have a look back, as we were just doing in the previous question, over the cash flow that we've been able to deliver over the last two years, it's quite obvious for us that the strong cash management policies that we've been putting in place and the discipline and the management of the balance sheet gives us a lot of confidence on the ability to generate a solid cash conversion of our EBITA in the future.

And based on that, we see no reason not to be confident, and let's say, to do what we've been saying we would do when we launched the three-year plan as well on our Capital Markets Day and return back to the shareholders what we think should be there and probably progress a little bit towards the leverage ratio, which is our objective.

And doing that with an additional special dividend now both of them being offered in cash leaves us the capability in terms of balance sheet management to still have capability of doing the investments we wanted to make in our own growth, which is about maintaining our CapEx policy of €40 million to €60 million per year and that's still the case for 2022, plus also offering us the opportunity to go around our M&A strategy and potentially embracing opportunities of bolt-on acquisitions, but also middle-sized acquisition.

And doing that we have ample capability to manoeuvre with our balance sheet, while not jeopardising the commitment on leverage.

**Luuk Van Beek:** But going forward, what do you – will you take a look every year if a special dividend is warranted again? Or do you think this is really something exceptional? So how

should I look at that decision-making process? And also might you choose a share buyback over special dividend in future situations where you want to return additional cash?

**Virginie Dupérat:** Yeah. I think that share buyback is still an option. That is something that also takes, frankly, a bit of time to execute on our side. So what we see this year is that we have the capability of increasing the regular dividend, and that's the thing that we are doing, in the bracket of our policy of distribution of 30% to 40% of our net income from operations.

And on top of that based on the last two years' results in terms of free cash flow generation, we give a special dividend. Is that a commitment to come back with a special dividend every year? In that case, we would have just increased particularly the regular dividend. So this is what it is. It is a special dividend to recognise the fact that we are moving ahead with the strong cash flow generation.

**Luuk Van Beek:** Thank you.

**Christine Disch:** Okay. Next question coming from Olivier Vandewoude from KBC Securities.

**Olivier Vandewoude (KBC Securities):** Hello. Do you hear me?

**Peter Oosterveer:** Yeah.

**Christine Disch:** Yes.

**Olivier Vandewoude:** Okay. Thank you. First question is again about inflation and also the rising interest rates. You mentioned over the – in third quarter and a couple of minutes ago that it's not directly impacting Arcadis. But do you see these trends hampering maybe the demand for your services, if this persists? And what's your view on that?

And then the second question is about the strong margin in Europe and the Middle East. Could you give some insights on the dynamics from this? Is it because of operational efficiencies or maybe higher?

**Peter Oosterveer:** Yeah. Probably, we follow the same rhythm again. I'll take the first question, and Virginie can do this. I appreciate you guys break it up that nicely. So that's helpful.

Olivier, the inflation, of course, is still high and stays higher than we would have expected some time ago. If you believed what people said two or three months ago, then after a spike towards the end of last year, this year it was supposed to come down, and obviously we're not seeing that quite yet.

As I mentioned in response to Hans' question, it is something which doesn't impact us significantly because of our business model and should give us opportunity to actually pass it on to our clients. And that typically happens at the beginning of the year, beginning of the year, or I should say the first part of the year is when typically, salary increases are being provided.

And that, of course, then typically also aligns with inflation. And again, as I mentioned in the response to Hans' question, that is simply something we would pass on to our clients. If that continues throughout the year, if inflation remains high, then we could potentially have to do something else, depending on how the attrition would develop, but that is not something we expect at this point in time.

Should it happen, then we will, of course, not hesitate to take further action. But at this point in time, it is simply something we believe we can pass on to our clients on pretty much all our contracts. It is currently at a percentage which we consider to be manageable and indeed to be passed on to clients.

If something would continue to go on throughout the year, then in the second half of the year, we would have to look at it again.

**Olivier Vandewoude:** Okay. Thank you.

**Virginie Dupérat:** And moving maybe to the question of the margin in Europe and Middle East. Clearly, this has been an excellent year and an excellent quarter for Europe and Middle East, in particular, we can highlight the very outstanding and high performance of the UK business. That comes from the fact that the activity is really, really high. We had high order intake and then a lot of projects to execute.

And that's really driving the high utilisation and the high performance. On top of that, we've been increasing a little bit the usage of our GECs in some of these countries also. So we have another utilisation of GEC, which is also pushing the margin in Europe. And that's really explaining the performance.

In Europe, Continental and Europe South, also I think the effect mainly in Europe South of the results of MEPC programme, which has been really showing improvements over the last two to three years in this region, and then that gives a very high performance.

**Christine Disch:** Okay. I would like to give Quirijn an opportunity to raise some questions. Quirijn, can you hear us?

**Quirijn Mulder (ING):** Yes, I can hear you.

**Christine Disch:** Great. Please go ahead.

**Quirijn Mulder:** Can you hear me?

**Christine Disch:** Yes, we can. Go ahead.

**Quirijn Mulder:** Thank you. A couple of questions about Europe. I see let me say 7% organic growth full year, but fourth quarter ended with 2.7%. So there is a slowdown. So maybe you can elaborate on that.

The second question is about the – maybe you can give more granularity for the breakdown of the order book, because we see a book-to-bill of 1.04, but we don't see any order book in different areas. Maybe you can give – maybe for the last half then the US, Europe, Asia and what is the order book developing in the different countries?

And my third question is about the US. I see a decline in EBITA margin in the second half of 2021 of 80 basis points. Maybe you can elaborate on that. 80 basis points, it's lower than the first half year and which is, in my view, quite irregular. So maybe you can say about something about it, and also with regard to the outlook for the American market there?

**Peter Oosterveer:** Thanks, Quirijn. I'll take the second question and then Virginie, if you could respond on the comment Quirijn made about the slowdown in Europe, the alleged slowdown and the EBITA margin, because you already referenced to the EBITA margin in the US. So I'll take the breakdown of the order book.

It's indeed 1.04 for Arcadis as a whole, Quirijn. And I think in my prepared remarks, I did mention that that includes an above 1 book-to-bill in all regions except for the Middle East and CallisonRTKL. So without going into a lot of detail and breaking it down even further, all regions had a book-to-bill above 1 and have added to the growth of the backlog, of course, except for the Middle East as one would expect and CallisonRTKL as one would probably also expected.

**Quirijn Mulder:** So – but that seems interesting what you say here. But if you exclude the Middle East and CallisonRTKL from that calculation, what is then the book-to-bill?

**Peter Oosterveer:** Not sure we know that. Do we have that?

**Virginie Dupérat:** Yeah. If you exclude the Middle East, you would probably be 1.06, 1.07 something like this. That's what we restate for ourselves. We don't restate CallisonRTKL.

**Quirijn Mulder:** Okay.

**Virginie Dupérat:** Maybe moving back to your question on European organic growth. European organic growth moving forward will go on being quite impacted and that has been the case, especially in Q3 but drastically in Q4 by the decrease in Middle East. There is an acceleration of the decline in revenue in Q4 in the Middle East, as our projects and our backlog are getting further executed. And you can expect that to be even greater in 2022.

Then I think that the other question was on the margin in the Americas. Last year was a year of COVID in the Americas. So I think that – and that was the case especially in Q2, Q3 last year. The US has been benefiting from furlough system, meaning that when people were not working, they were more or less out of the P&L, which is something that you don't for sure see at all in 2022 as you could expect.

On top of that, there was withdrawal of bonuses last year and with two years in a row of quite exceptional performance on that side. There is a rather, let's say, quite a consistent provision in terms of bonuses to be paid in the H2 P&L of the US.

And then, in terms of outlook, again, we start the year with quite a very good backlog in the US and in the Americas region as a whole. We've been seeing a lot of very good order intake. Year-on-year I think the big difference is that we got a lot of important frameworks in 2020 order intake. And in 2021, it's a bunch of different contracts. But these frameworks of 2020 being multiyear, plus a great order intake we've been having in 2021, gives us a lot of confidence to start 2022 on the this geographic area.

**Quirijn Mulder:** Okay. Maybe a final question then about the attrition rates. Can you give me the breakdown of the attrition between the areas to get some feeling? I think Europe is between 9% – Europe, US is 9-13%. But what is the direction of the attrition at this moment? Because that was a discussion in the third quarter what – when it went up somewhat.

**Peter Oosterveer:** Yeah.

**Quirijn Mulder:** So what is the development in the fourth quarter?

**Peter Oosterveer:** Yeah. So, first of all, to clarify the reported attrition, so the 14.9% is the so-called 12 months rolling average. So that takes into account what we've seen over a period of 12 months. If you break it down, which, of course, we do, and you look at the more recent trend by month or the absolute numbers by month, which is different than the rolling average – it feeds into rolling average but at the end of the day it's different – then we've seen it peaked

in August of last year pretty much across all of the – most of the regions I should say. And from that point onwards it has remained the same.

The fact that you don't see that necessarily in the rolling average is simply because of the principle of rolling average. But if we break it down by region and look at the monthly attrition, the absolute numbers, then we see a stabilisation as of October with a couple of ups and downs, but generally stable in terms of the trend.

And in fact, if we look at January and that is why I made a comment about the beginning of improvement in particularly the mature regions and interpret that as [inaudible] the UK, we see actually definitely stabilising and some slight improvement.

The only exception on that one in definition of maturities is Australia. And in fact, I had a conversation with our people in Australia this week. And what has really impacted that in Australia, although it is also stabilising is the fact that, the country has pretty much been locked as in people couldn't leave and come in. And Australia, because of a booming market, is indeed still depending on people coming in from abroad and working there. And with the expectation and the hope that also the country will be unlocked, and in fact that's already progressing, as we speak, we do expect to see further improvement.

So all in all, we are hopeful because of the early signs of an improvement and particularly an improvement in our larger more mature regions.

**Quirijn Mulder:** Okay. And then the Far East is still [inaudible]?

**Peter Oosterveer:** No. Actually, recently – two things about the Far East, and more specifically China, which has always been and not only for us really high but it's actually coming down. And our engagement in China is improving I would almost say spectacularly. So we're actually quite positive about the developments we see in China in particular as well.

**Quirijn Mulder:** Thank you.

**Christine Disch:** There's a follow-up question from Hans Pluijgers, Kepler. Hans, go ahead.

**Hans Pluijgers:** Yes. A follow-up on also on the question from Quirijn, and especially on employee turnover and attrition. You already pointed out to give some things you are, let's say, currently working on to reduce the turnover. But what really makes you different compared to your, let's say, your direct competitors in the markets where you're active? So how do you believe you can, let's say, outperform your key direct competitors? Is that you believe – let's say is it on wage or is it other things where you can actually outperform? And what do you expect, let's say, in employee growth for this year? And then secondly on – you referred to in your presentation optimising the business portfolio. You talked a little bit on M&A, but do you mean also that you plan to divest some operations? Could you give maybe some feeling on that? And also on your remark, what do you mean with mid-sized acquisitions?

**Peter Oosterveer:** Okay. So how do we outperform our competitors? I think there's probably a different answer in different places, Hans, but it is simply not only wage. Wage increase or spectacular pay in my experience is a very short-lived solution.

It has to come from a mix of things you offer people and that includes wage but it also includes career opportunities. And it also increasingly includes the purpose you have as a company, your willingness to be vocal, visible in societies and communities, your willingness to invest in

improving communities outside the business you have and the whole people proposition, which now increasingly also includes offering people flexibility with the experience over the last two years to work in different places than not simply in the office.

You will recall from a couple of years ago after joining – after me joining Arcadis that we added people first as the fifth value to our set of values. And I'm glad that we did it at that point in time, because over time we've seen that that has become even more and more important. So I think it is – it has to come from a mix of actions, attractive projects, a competitive salary, opportunities for people to continue to develop and an opportunity for people to bring their best and their own self to the organisation, no matter who they are and what they believe in.

And I think what we have all embarked on and it is a set of actions in the last year gives me confidence that we will eventually become the employer of choice. So no real concerns there.

Optimising business portfolio was the – your last question. That is – it's not necessarily something new, at least not in my perspective. And I think we have signalled that in the past that we will continue to look at opportunities and places, where we have a right to play and a chance to win. And it is pretty clear when you look at our performance where we have that right to play and an opportunity to win and provide a meaningful return.

Could it mean that we would divest some smaller prices? That's certainly a possibility. But it's not going to be meaningful in terms of looking at Arcadis as a whole. It will be particularly the smaller countries, where if we have convinced ourselves that we really have no right to play and no opportunity to win because we're not a meaningful player, we then – we should make a decision to exit that country and that could indeed mean some divestments. But I would not necessarily look at this as something, which would be significant or material.

Mid-sized acquisition, yes, that's a mid-sized acquisition. I'm not going to give you specific numbers. Bolt-on acquisitions are typically smaller ones. Mid-sized acquisitions are acquisitions which are larger but they are not going to come into the category of really big things. I think we have signalled that in the past and we will continue to signal that.

**Virginie Dupérat:** We've done a bolt-on recently that we announced today, but [inaudible].

**Hans Pluijgers:** Okay.

**Peter Oosterveer:** Did I miss one of your questions, Hans?

**Hans Pluijgers:** Yeah. Also a question coming back on the employee side, let's say, I asked also with respect to what do you a little bit expect with your employee growth for this year net or just some feeling on that?

**Peter Oosterveer:** Yeah. I think if you want to really simplify things, I don't want to necessarily simplify them for the sake of simplifying. But typically, our employee growth would go hand-in-hand with the growth of the business with some exceptions. If you are able to become more efficient, then it does have to go hand-in-hand.

And the second comment I would make is that most of our employee growth will come from the GECs as opposed to other places. I did quote two numbers. I did say that we grew the employee base with 5%, but that we grew the employee base in the Global Excellence Centres and the Global Shared Services Centres with 13% and that is probably an indication of what you will see in the immediate future.

**Hans Pluijgers:** And how much do the global – sorry. How much –

**Peter Oosterveer:** Not the numbers – I’m not saying the numbers, but the proportionality of where we would grow.

**Hans Pluijgers:** Yeah, that is clear. But – and how much do you know the Global Excellence Centres account for total of revenues? You guys gave the number in the past, so if we could –

**Virginie Dupérat:** Yeah. That’s a bit difficult to say because that goes in the P&L. But I think what is important to note also for this year is that, as part of the Middle East attrition and such, you don’t have the same attrition in the GEC, while the Middle East was a great user of the GEC because we reallocate progressively. So wouldn’t we have that phenomenon, we would have had to hire more in the GECs. And we would have seen a further increase to this one, so that’s more or less showing that the percentage of usage of the GEC is increasing on a global basis, if you restate from Middle East and that progress faster and far faster than what happens onshore in the countries.

**Peter Oosterveer:** Yeah. Revenue growth would not be a good measure, Hans, because an hour out of the GEC is not necessarily generating the same revenue as an hour in, let’s say, a Western country. Hours is a better basis and I think it’s about 12% or 12.5% right now.

**Hans Pluijgers:** Okay. Thanks.

**Christine Disch:** Okay. There’s another follow-up question from Luuk Van Beek. Please go ahead.

**Luuk Van Beek:** Yeah. A couple of follow-up questions indeed. First of all, about your digital solutions and basically renewable solutions that play, I think, an important role in raising your margins going forward. Can you talk a bit about the progress you’ve made in that area? And then a question about CallisonRTKL, where you’ve completed your portfolio review. So, how quickly do you expect that to translate into better results? And my final question is on the competition, because I think many other companies have discovered sustainability as an attractive market as well. Do you see any sign that competition is increasing or that they’re trying to buy market share by bidding more aggressively on projects?

**Peter Oosterveer:** I’ll probably take this in the reverse order, starting with the competition and then CallisonRTKL and then digital solutions maybe Virginie, you can address that one.

**Virginie Dupérat:** Yeah.

**Peter Oosterveer:** It is indeed an area where everyone wants to play. I think everyone has acknowledged and recognised that sustainability is what matters and is what clients are demanding. There is – I’m not going to accuse anyone per se, but the term greenwashing is, of course, a term which then immediately comes to mind.

I am deeply convinced, Luuk, that with our capabilities and our track record, the fact that we are not just all of a sudden waking up to the necessity to deliver sustainable solution, but have always done it, that we will continue to have a very attractive proposition for our clients and a strong competitive advantage.

We’re not seeing that the drive for people to act in this space has necessarily put pressure on what you can create as a return. So we don’t see that at this point in time. Yes, it is a space which will get a bit more crowded, but it will probably get crowded with not necessarily typical

competitors, but we'll also probably get crowded with competitors who are typically already generating even higher returns and think about consultancy – typical consultancy company. So, on that last one, no, we don't see competitive pressure because of people wanting to get into the space.

On CallisonRTKL, I think our story really won't change. We have signalled throughout 2021 that 2021 will remain a challenging year for CallisonRTKL, but that we would see improvements in 2022. And we are encouraged by some early signs, which do indeed support – there's still a current view that in 2022, we will start to see improvements in CallisonRTKL.

**Virginie Dupérat:** So maybe complementing on digital and renewable front. So first, just coming back on the small acquisition that we are, let's say, announcing today that really fits with what we've been telling all year long that we were trying to achieve. So definitely, we focus on increasing and improving our business with additional bolt-on solutions.

This one specifically is for the water market, so that is around water solution and sustainable solutions. And this one is also about intelligent data, extracting data from weather forecast and availability and helping water treatment plants to benefit from all that. So that's exactly what we are trying to achieve and to progress on.

I think that the launch in 2021 of AppliedInsight on Gen front is also quite a significant point. We see there the increase also in software as a solutions – software-as-a-service solutions being sold and a recurring revenue progressively increasing on that front. So that concerns all our businesses. And this is really what we try to do to sustain all our GBAs with our digital services and solutions. And frankly, it's very difficult to say that we would have now a project which would have no component of digital solutions. The multiplications of digital twin or virtual models is really quite a phenomenon where we are observing.

And that's also one of the key success factors when discussing renewals or formulations of contracts because you've been developed something that the client is quite, let's say, working with and eager to go on using. So that's really part, I would say, of the DNA and that's the idea making that really an integral part of what we do and what we deliver on a project-by-project basis.

**Luuk Van Beek:** Okay. Thank you.

**Christine Disch:** There is one last follow-up question from Hans Pluijgers.

**Hans Pluijgers:** Yes. Thanks, Christine. On your slide 20, where you provide the details on – some more details on the EBITA margin by operation for last year. Do you believe, let's say, where do you see for the – in the longer term the most upside, or do you believe that all of these different business units should have, let's say, about comparable margins in the long term? Is that do you think that's feasible, or – and do you believe, let's say, all of these operations still have margin upside? Could you give maybe some flavour on that?

**Peter Oosterveer:** Yeah. So, first of all, the fundamental principle why we moved to this new structure is to better serve our clients based on their continuous request of getting the best of Arcadis to their respective projects. But, of course, we also expect because of our ability to be more efficient in delivering these services and more consistently to our clients globally that we would improve the performance in all of these business areas.

Will there be at times impact and they could be economic which would have an impact on one of these GBAs over another one? Sure, there will be. But as a matter of principle, Hans, because of the use of the Global Excellence Centres, because of the use of the Make Every Project Count programme, because of our continuous focus on key clients which cuts across all these three global business areas, we are not giving any of the global business areas a free ride and not generate improvements in performance.

**Hans Pluijgers:** And what – and do you believe, let’s say, that all – and of course, clearly Places is still below your own margin target. Do you believe, let’s say, that all operations should be ahead of your current target for 2023? And don’t – say let’s say meaning that they will reach already 2023 all of them, but that should be feasible in the longer term.

**Peter Oosterveer:** Yeah, absolutely. I mean we – just like we have done in the past, holding everyone pretty much to the same standard, that is not something we expect to do differently in the future because of the move to the global business areas. So if we set our goals for the organisation as a whole, then the expectation fundamentally as a matter of principle is that everyone does their share and delivers pretty much the same sort of performance in alignment with these overall goals.

**Hans Pluijgers:** Okay. Thanks.

**Virginie Dupérat:** Just maybe to complement highlighting the fact that Places is more exposed to Asia and to CallisonRTKL. So, that also explain what you are saying for 2021.

**Peter Oosterveer:** Sure. But if CallisonRTKL improves which we expect to do, then that will have an impact on Places, a positive impact.

**Hans Pluijgers:** Thanks.

**Christine Disch:** Okay. Given there are no more questions, I would like to conclude the Q&A session and turn it back over to Peter for some closing remarks.

**Peter Oosterveer:** Yeah. Thanks, Christine. And sorry, we are a little over time, but I hope you don’t mind and it does hopefully show the interest in Arcadis what we have shared with you about the past, but also what we have shared with you about the future.

I will finish probably where I started when I did say that I’m truly delighted about the strong prosperous year Arcadis has seen in 2021, despite the fact that all of that happened in a really challenging environment and with challenging circumstances for many, many people. And that makes me even more proud about what we have done.

We have delivered strong performance in a year, where, of course, we have to manage the pandemic, had to manage the people impact on the pandemic in a year where we also set ourselves up for the introduction of the global business areas, which are now in effect as of the 1<sup>st</sup> of this year. So truly proud of what we have done in Arcadis in 2021.

That I think has put the company in a really, really strong position financially, first of all, as you have heard from Virginie, in particular, but also organisationally because of the creation of the global business areas. So sitting here proud about what we have done and excited about where we will go next with the outlook – with the business needs we increasingly see from our clients and then keeping in mind all the work we did in 2021 to set ourselves up for an even better future of Arcadis.

So I want to thank you all for your interest in Arcadis. I truly hope that the next time we will be able to meet again in person. I'm relatively optimistic that that will happen. And I actually look forward to seeing you all in person. In the meantime, please stay safe and healthy. Thanks everyone.

[END OF TRANSCRIPT]