

Arcadis NV Q3 2021 Trading Update

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Jurgen Pullens: Good morning, everyone, and welcome to this virtual analyst meeting. My name is Jurgen Pullens, Director of Investor Relations at Arcadis.

We are here to discuss Arcadis' third quarter results released this morning. With us on the call are Peter Oosterveer, CEO and Virginie Duperat, CFO. We will start with a presentation by Peter and Virginie, which will be followed by a Q&A.

For the analyst attending this call, in case you would like to raise a question, please notify us using the chat box with I have a question or simply just question. Please do so only after the – we have opened for the Q&A. I will call out your name, after which we can probably raise your question to Peter or Virginie. Kindly keep to a maximum of 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 - the risks related to these statements which are more fully described in the press release and on the company's website.

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

Peter Oosterveer: Thank you, Jurgen. Good morning, and thanks everyone for joining us to discuss our trading update for the third quarter of 2021.

I'll begin today's presentation with one of our key achievements in Q3, which is the design and delivery of the new extension of the Port of Calais in France, one of the largest construction projects in Europe. This project started back in 2015 and blends the best that Arcadis has to offer; strong design and construction management skills with additional focus on environmental mitigation measures and preserving the surrounding biodiversity.

Located at the heart of one of the busiest marathon straits in the world in terms of passengers and goods, the new port extension which officially opened earlier this month, increases area capacity of the port from 45 to 65 hectares and allows for the use of the next generation of ferries, a really superb project that will improve trade links and transform the future of Calais and the wider region.

As some of you will recall from our recent Sustainability Day, the transition from fossil fuels to zero carbon energy is really critical if we are to limit rising temperatures to 1.5 degrees Celsius in line with the 2015 Paris Agreement. And Arcadis is heavily involved in supporting our clients with that transition. And last quarter, we secured a significant commission to support tenants expand its power grid to help transport more renewable energy between Northern and Southern Germany.

With our capabilities and digital solutions, communication, infrastructure design and project management, as well as our extensive experience in the energy sector, this project win plays perfectly to our strengths and builds on our current strategy and our mission to improve quality of life.

Now let's get through our trading update. Let me talk about the markets first. As I also mentioned in our Q2 update, we continue to see strong demand from clients and governments to help mitigate the impacts of climate change, support the energy transition and create

sustainable assets and livable communities, all of which enabled Arcadis to deliver strong overall performance whilst maintaining a healthy backlog.

We're seeing increased investments from both public and private sector clients in growth areas such as smart mobility, green places, the energy transition and climate adaptation. This does create a positive business outlook for the future and gives me confidence that we will be able to secure new projects and also to maintain a healthy pipeline of opportunities into 2022.

The COP 26 summit in Glasgow over the next two weeks will also shine further light on the crucial need to accelerate the journey to a net zero and nature-positive world for clients and governments alike. I will be attending in person and hope to see strong commitments and tangible actions on tackling climate change by world's governments.

As far as the results is concerned, I'm very pleased with both the organic net revenue growth of 4.1% and the solid operating margin of above 10% in the quarter. Our strong financial position, with now hardly any debt, creates room to further invest in our people, in our digital expertise and into our business.

And while we delivered the net revenue growth, we're also able to grow our backlog with 3.1% year-over-year as a result of good order intake in virtually all of our regions.

Lastly, we successfully refinanced our credit facilities into a Sustainability-linked credit facility of €500 million with improved terms and conditions because of our strong financial profile.

And on strategic progress and as communicated before, to allow us to accelerate our 2021-2023 strategy and even better leverage the global scale of our expertise and asset knowledge, as well as to drive greater efficiency, we are gradually organising ourselves in three global business areas; resilience, places and mobility. These new business areas will allow for the delivery of best-in-class solutions for our clients as well as efficient service and product delivery.

In our recent September Sustainability Day, we announced our commitments to accelerate the transition to a net zero world, rapidly reducing our operational carbon footprint with the ambition to achieve net zero emissions by 2035. This forms an important tenant of our strategy to put sustainability at the heart of our business and of the solutions we provide, which is why at the time we also launched – we also announced the launch of our Global Sustainability Advisory Services.

The advisory will bring together experts from around the world to each and every project, no matter where they are, to develop comprehensive and holistic strategies for our clients, a demand we see rapidly growing. This resolve to bring sustainability services has also recently been recognised by both Sustainalytics and Ecovadis. Only a few days ago, Sustainalytics announced our renewed and further improved score, allowing us to still lead the engineering and construction rankings with a number one position of almost 300 companies listed, really fantastic achievement for our business and for our clients.

Building on this success, I'd like to share a few more Q3 examples with you that further demonstrate our commitment to creating a more sustainable world and the delivery upon our strategy. In early September, Arcadis was selected by the Los Angeles County Metropolitan Authority, also known as Metro, to assist in operational and capital improvements targeted at increased sustainability, transit accessibility, and expanded service opportunities in advance of the 2028 Olympic Games.

As part of this three-year contract, we will provide support to L.A. Metro's existing operations and capital improvement programmes. Specifically, Arcadis will deliver environmental services for a wide range of projects that support solid waste, recycling and hazardous waste compliance at Metro's sites.

We will also be embedding social impact and environmental stewardship goals into the service delivery plan and will also be using our new community engagement tool developed in partnership with Iris to help build stronger engagements with residents in the area.

In the Netherlands, we obviously have a rich history of supporting clients in the real estate sector to evaluate the energy savings and opportunities that arise from solar photovoltaic panels. With the cost of PV production and installation dropping in recent years, many clients and their respective customers are embracing the benefits of clean energy.

To cater for this growth, we're helping clients navigate the different incentives and regulations, develop business cases and providing technical feasibility studies to deliver the investment projects. To-date, Arcadis has assessed solar PV potential for over 5,000 assets for variety of clients. Cumulatively, these assets have the capacity to build a power plant that is not – nearly 4% of the Dutch total power generation, with potential carbon savings of 12 million tonnes over the life of the projects.

The reliance on technology and data shows no signs of slowing down. And in turn, clients are increasingly looking to us to help innovate and digitalise their services. At Arcadis, we continue to invest heavily in digital skills and empowering our people to create solutions to meet our clients' greatest challenges. And also here, I want to share a few examples with you that showcase our role as digital leaders.

Building on 60 years of supporting the delivery of wastewater treatment projects in Upstate New York, Arcadis was chosen last month to consolidate two wastewater plants in Chemung County and modernise outdated infrastructure in order to save operational costs. With the client under pressure to meet aggressive regulatory deadlines, we are adopting an entirely virtual approach to designing the project, reducing the time it takes from three years to one and saving up to \$15 million in capital cost for the client.

Using building information modelling experts and leveraging our engineers from around the world, we are developing 3D Digital Twins to innovate and guide the decision-making process for final delivery. And once complete, the facility will have the capacity to treat 28 million gallons of water per day.

As some of you can appreciate the noise from onshore wind turbines can at times be quite loud, causing nuisance to local communities. To help address initial community concerns and build consensus on the need for wind power, Arcadis has developed an interactive noise forecast app called [Geluidsverwachting.nl](https://www.geluidsverwachting.nl). This app provides communities in the Netherlands with hyperlocal forecast for wind turbine noise and shadow flicker.

It also shows how loud the wind turbines are expected to be compared to ambient noise and how much electricity is actually generated by the turbines. This information is then used to optimise the development and operation of further additional wind farms, ultimately helping to create greater trust and mutual understanding on the need for cleaner sources of energy.

Finally, I want to close this part by talking through two examples, which highlight our strategic aim to grow our business through focus and scale. Already, earlier I mentioned the launch of our Global Sustainability Advisory Service aimed at unifying our regional sustainability strategy services into a truly global advisory practice.

We're currently helping clients globally, like, for instance, Akzo Nobel, as well as regionally, like for instance, Transport for the North in the UK set their sustainability strategies and make the right decisions that will have the greatest impact. But the challenges are getting bigger. The target dates are drawing closer and time is running out. This, of course, presents opportunities for Arcadis.

And through the creation of the advisory, we will double down on our clients' pain points, bring new ideas to the table and showcase our global expertise to help them to develop the comprehensive sustainability strategies they do need to safeguard their future while driving profitable growth for our business.

With protecting the environment and sustainable solutions again at the forefront of our minds, it is difficult to forget the devastating effect floods that hit Northern Europe this summer had and the damage they caused to local communities. Our work on advising the likes of Rijkswaterstaat in the Netherlands on river and flood management is well-known. But through a new Arcadis Cross-Border Floods Task Force, we want to bring together a deep global knowledge and know-how around this subject to help other cities and countries protect people from extreme weather events in the future.

This approach is clearly gaining traction with new wins in the city and province of Limburg and new opportunities in Germany and Belgium. Both examples I believe showcase how we bring a local expertise and best practice to the global stage and ultimately improve the quality of life for the clients and the communities we serve.

Looking ahead to 2022, the business outlook for Arcadis is clearly positive. Our organic net revenue growth and improved profit margin, combined with a strong order backlog and solid opportunities ahead, provides me with the confidence in our ability to deliver on our strategic targets.

And with that, I will now hand it over to Virginie to provide further detail on our financial performance.

Virginie Duperat: Thank you, Peter, and good morning, everyone. Really happy to be with you this morning. And if you allow me before turning to the results, I will just start to highlight another win for Arcadis in Singapore.

Drawing on our strong experience in environmental management and mobility solutions, we've been commissioned to deliver environmental specialist services for the design and construction of the Changi East Rail depot. This is a critical piece of enabling infrastructure to support the Cross Island Line, the longest Mass Rapid Transit line in Singapore and the centrepiece of the government's plan to create a sustainable and world-class transport system for the people.

Turning now to our quarterly results. We delivered, again, this quarter, a very good net revenue organic growth of 4.1% and even 4.8% if you restate for Middle East performance and that increased our net revenue to €636 million.

The operating EBITDA margin was very strong at 10.1%. While this represents a decrease compared to Q3 2020 margin, mainly due to COVID-related support which positively impacted our P&L last year, the performance is a 90-basis points improvement compared to the 9.2% reported in the prior two quarters this year.

Net working capital as a percentage of gross revenues was 14% compared to 16.6% in Q3 last year. And days sales outstanding decreased to 74 days compared to 82 days, which is a result of the robust performance and the cash management programme set in motion more than a year ago.

Commenting now the Group performance in Q3 and revenue developments in our geographical segments. In the Americas, we've seen organic growth of 3%, slightly offset by a negative foreign exchange impact of 1%. In this region, and especially in North America, we saw continued growth in all business lines. Order our intake was robust with significant project wins in Los Angeles, for example with L.A. Metro Project, and in New York with wastewater treatment plants, as Peter highlighted earlier.

In Latin America, organic net revenue growth was outstanding, driven predominantly by infrastructure projects in Brazil. In Europe and in the Middle East, organic growth was strong at 7%, mainly driven again by significant growth in the UK and several countries in continental Europe, compensating for an expected and planned modest decline in the Middle East.

The UK's strong performance continued in Q3 with excellent organic net revenue growth driven by key clients in all business lines. Significant project wins in the quarter included a commercial partner role for the Oxford Cambridge railway and framework wins for the National Highways.

In Continental Europe, we experienced steady organic net revenue growth. Our presence in several major countries positions us well for opportunities presented by public and private clients. This is illustrated by significant project wins in the quarter, including the decommissioning of 24 gas extraction plants for NAM in the Netherlands, but also a 10-year contract for energy distributor TenneT to support energy transition in Germany, and a six-year contract to restore bridges and quays in Amsterdam.

Moving to Asia Pacific. Revenues in Asia returned to good organic growth in the quarter, mainly driven by Greater China, while prolonged lockdowns and low vaccination rates continue to impact economic activity in numerous Asian countries such as Thailand, Vietnam and Malaysia. Australia also reported growth in the quarter benefiting from Arcadis' strong market position in mobility in major cities despite repeated regional lockdowns.

Turning now to CRTKL. Organic net revenues were still under pressure due to COVID-19, affecting mainly retail and commercial sectors, especially in Asia. However, CRTKL secured a few transformational projects involving collaboration of several practice areas such as combination of healthcare and residential or residential and retail in various geographies.

To conclude, I would like to remind that we delivered an organic growth of 4.1% this quarter.

Now, for the first nine months, our net revenue organically increased by 3.4% to €1.9 billion and our operating EBITA increased by 11% to €189 million, while margin improved from 8.6% for the first nine month period of 2020 to 9.5% for the first nine months period of 2021.

Our free cash flow of €105 million was solid, in line with our expectations, and demonstrates our strong cash management. Net debt was significantly reduced year-on-year at €47 million

due to strong cash collection, but also late liabilities disbursements. We also refinanced our – all our existing outstanding syndicated credit facilities into a Sustainability-linked syndicated revolving credit facility of €500 million. And the maturity of this credit facility is October 2026, with two additional options to extend for one year.

We also finalised in August our 1.85 million share buyback programme and cancelled the amount of shares newly issued for dividend payment to avoid dilution. This 1.85 million share have been repurchased at a volume weighted average share price of €34.22 for a total consideration of €63.3 million.

So let me conclude on the financial part highlighting again our strong performance with another quarter of strong organic growth and year-to-date margin improvement, as well as a strengthened balance sheets and steady cash generation.

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

Peter Oosterveer: Thanks very much, Virginie. Let me now wrap up our presentation by reminding you about our strategic targets set for 2023 and presented in November of last year during the launch of our strategy, Maximizing Impact, as well as a quick summary of our year-to-date results before we obviously go over to Q&A.

As I mentioned earlier, to accelerate our strategy and provide an efficient service for our clients, we are gradually organising ourselves in three global business areas: resilience, places and mobility.

In terms of our financial targets, we simply aim for further improved predictable and profitable growth, satisfying the interest of all our stakeholders. And in terms of non-financial targets, we want to further advance our course to be an employer of choice through lower voluntary turnover and higher engagement by creating a diverse, inclusive culture in which everyone can be their self.

And in that context, there's one area I probably want to touch on today, which is the increase in voluntary turnover rates and the actions we are taking to address it.

We, at Arcadis, are obviously not immune for the trends, virtually everyone experiences, regardless of the business in which they operate, which is attrition. Our voluntary turnover rate is now higher than we've seen in the last 12 months under COVID. And although total number of FTE increased 5% year-over-year with GECs actually increasing by 14%, the turnover rate has been identified as a key focus area for the management team.

We have further sharpened our focus on investing in our people and in their wellbeing. We launched a new work style premise to accommodate and encourage hybrid working. We appointed a Global Head of Diversity, Inclusion and Belonging and also introduced more efficient human resource processes to allow our teams to hire faster and onboard new hires more effectively.

The growth in technical capabilities within the GEC is obviously a positive news, which with the further globalisation of the organisation presents us with an excellent opportunity to be less dependent on people availability and shrinking talent pools in other markets. But suffice it to say that voluntary turnover will continue to be very high on our list of priorities.

To summarise our Q3 trading update, we are very encouraged by the continued revenue growth and solid operating margin. We continue to see strong demand from clients to help them mitigate the impact of climate change, support them in the energy transition and create sustainable assets. The increased investments from both public and private sector clients in key growth areas create a positive business outlook for the future and will enable Arcadis to secure new projects and maintain a healthy pipeline of opportunities.

This, combined with our organic net revenue growth, continued robust performance and strong backlog, gives me confidence that we are on track to deliver the strategic targets we have set for 2023.

With that, I would now like to hand it over to Jurgen, who will after some short instructions open it up for Q&A. And obviously we're very happy to take any questions you might have. Thank you. And over to you, Jurgen.

Questions and Answers

Jurgen Pullens: Thank you, Peter. And hereby we would like to open our Q&A. In case you have a question, please let us know using the chat box, and I see already questions coming in, by having, I have a question or simply question. I will call out your name and then you can verbally address your question to Peter and Virginie and kindly keep to a maximum two questions at a time. I do see that the first question is for Martijn den Drijver. Martijn, go ahead, please.

Martijn den Drijver (ABN AMRO): With regards to the Americas, you mentioned outstanding growth in LATAM, organic growth of 3%. That seems as though the US has decelerated. Can you talk us through what you're seeing in that market specifically to provide us a bit more colour as to why we've seen 3% growth in the third quarter, for example, versus 7% in the second quarter? That would be my first question.

And then with regards to client behaviour. So my second question. We're seeing energy prices, raw materials impacting projects. Now obviously, you're more in the design phase, so ahead of actual construction. But we also see COVID-19 uncertainty increasing. So what are you seeing in terms of client behaviour in the various end markets? That would be my second question. Thank you.

Peter Oosterveer: Let me take the first question – the second question, first, Martijn and then I'll ask Virginie to comment on the question on growth in the Americas.

You're obviously right in that we do see energy prices rising. I think you're also seeing that increase in the supply chains are being put under severe pressure. I think the criticality of supply chain is very clear. But you already sort of provided a bit of the answer in terms of how that impacts us because of the fact that our role is largely in the earlier stages of project development, with the exception of where we work with clients on, for instance, having a construction management or cost management role, there we do see a bit of impact.

But in terms of direct impact on Arcadis, I think it's negligible at this point in time. We do see clients actually looking at supply chains very critically. I think it's no secret. I suppose that many clients are looking at whether the global supply chain they have created over time is the

supply chain they want to maintain for the future. But again, in terms of direct impact on Arcadis, the both components you mentioned, both raw material prices as well as energy prices is not necessarily impacting us directly.

Martijn den Drijver: And the COVID uncertainty that is rising, not having an effect either yet, I guess then?

Peter Oosterveer: Not yet.

Martijn den Drijver: Okay.

Virginie Duperat: Well, I can maybe take the question on Americas region. On Americas, in fact, this quarter, we had a really decent performance of growth. But yes, you're right. There's really a difference of pattern between what happens in Latin America, which is really a booming market and something which is a bit more slower on the Americas – North Americas side rather.

That I would explain also the fact that if you compare Q3 this year – Q2 this year and also Q2 last year, definitely in Europe but also in the Americas, we have had an effect on holidays, as you would expect also. People have taken their leaves. And then consequently, we had an effect in terms of production of net revenue in that respect.

And we had less leave than we anticipated in all of them. You have on the standard yet, I would say in H1, so then this probably has been a little bit of catch-up that has happened in Q3 also, which is also the demonstration that in some of these areas of this world, we have been seeing a little bit of normalisation of the way of living, I would say. So that would be the main, let's say, explanation.

The other one is that the order intake pipeline is quite strong. So then you have a lot of people also working in terms of delivering these bids and such. And then at that point of time, the conversion is something that you could transform in production of revenue and such would happen only at the moment the order intake is fine and the project is in motion[?]. And that remains in the non-billable powers, so long as it's not converted.

So the acceleration in sum respect in terms of pipeline as a kind of, let's say, slightly detrimental effect in the absorption of power immediately when you have a big step-up in growth. And that's also some of the effects that you can see in North America.

I would also highlight the fact that the nature of the project is probably not exactly the same in all the geographies where we operate. We have a lot of environmental projects over there. So the revenues that we are going to derive is really attached to the number of people that we have on the ground, while in some other types of project, you can produce based on some milestone or different things that happens, where the direct link between the number of people working at one specific moment and the metrics of revenue can be a little bit differentiated. I hope this helps.

Martijn den Drijver: Thank you, Virginie.

Jurgen Pullens: Okay. And the next question is coming from Luuk van Beek. Luuk, please go ahead.

Luuk van Beek (Degroof Petercam): Peter, well, you mentioned that you won a couple of new transformational projects. Can you indicate when you expect these to start contributing to revenues? And more in general, when you expect as the new revenue streams of

CallisonRTKL to take over the role of commercial real estate and basically allow them to stabilise the revenues again?

And the second question is about the COVID measures that supported last year in Q3, possibly also in Q4. So can you remind us a bit about how much impact it was and to what extent we should take into account an effect in Q4 as well?

Virginie Duperat: Thank you, Luuk. So starting with the COVID because a short answer on that side. I would remind that last year we received approximately €8 million support in H2. So then you can probably take that on a kind of linear basis year-on-year. And that was mainly social cost reductions, social charges in some of the countries, namely in Asia and – but also in other areas of the world. So that's, let's say, the big missing effect that we would see year-on-year.

And then if we turn now to CallisonRTKL. This transformational project have a strong importance not really in terms of magnitude and volume of order intake, and don't get it wrong, but rather in the fact that the strategy which is pushed at the moment by CallisonRTKL and the new opportunities that they see starts to see a little bit of momentum and start being converting. And that's a positive sign.

Then for these projects, we will probably start seeing some revenue as short as Q4. But again, that's not something I'd expect to be perceptible or readable immediately in the line of the revenue. It's been a complex year. We knew it was a complex year. We have the management of CRTKL that has been appointed around the year and something like this last year. Now it is a complex team, and as you would expect, they are really pushing and changing things. So what we've been seeing in Q3, but I would say it's Q4 and not getting in the details of year-end performance because that's not the purpose of this trading update.

But definitely, this is a semester of restructuring in some respect. We're starting, for example, to get out on some of our leases offices. We regroup with some Arcadis office and we'll expect some other effects of that type to happen in Q4. And we've been seeing also a little bit of restructuring in terms of number of people. And that I expect will also be on track to restart on a different foot next year.

Luuk van Beek: Okay. That's good. Thank you.

Jurgen Pullens: Thanks, Luuk. Hans, you are next in the row. Hans, go ahead.

Hans Pluijgers (Kepler Cheuvreux): Yes. Can you hear me?

Jurgen Pullens: Yes, we can hear you.

Hans Pluijgers: Yes. Okay. Great. Now, two question here from my side. First of all, you already mentioned – pointed out increase in voluntary turnover rate. Could you give maybe some feeling where especially you're seeing that? Is there any region where that is such somewhat more visible than other region? And especially also a follow-up on that. Where do you expect, let's say, the biggest issues in the coming quarters with respect to staff and also therefore also, of course, increase in staff going forward?

And my second question is on the cash flow. A good cash flow in Q3. What do you still believe, let's say, is the potential to further reduce – these are, of course, Middle East a little bit help. But can you give maybe some feeling in other regions, what you see and what the impact could

be, let's say, on the detail, what you believe, let's say, a level could be, let's say, in the next – in two years' time?

Peter Oosterveer: Thanks, Hans. Let me address the turnover since I already addressed it a bit in the prepared remarks. The voluntary turnover, the first question – sub-question was where is it most noticeable. It's most noticeable in Asia, followed by Australia. And then the other regions are also seeing an increase. Continental Europe is relatively stable actually. And in fact, the US is also still at the level which I consider to be manageable.

Well, that being said, you only have to read what is available in the public domain, what is being said about – and sometimes people use grandiose terms such as the great resignation. It's quite obvious that where the light at the end of the tunnel is visible for people, light at the end of the pandemic tunnel that is, people have used the time to ask themselves, 'What is it I value?', 'What is it I want to do?', 'What is it I want to do differently?' And that is causing quite a bit of pressure on the market in combination of course with – when you look at people in our space quite a good set of opportunities in many places. So it's almost like a perfect storm.

People asking themselves, 'What is it I want to do with my life.' 'Do I need a change?' And then that's combined with really good opportunity. What brings people to a company? What keeps people at a company hasn't really changed in my view. First and foremost, it's with a nice word 'purpose.' Companies with a strong purpose are more attractive to the people who join the workforce now.

They dare to say that we have a very strong purpose and that is what we do hear from our people. They do like that we focus heavily on sustainability coming out of the Sustainability Day last month, it is [inaudible] make choices, so purpose is important. Attractive projects is still a very important. People like to see a diverse slate of projects so that they have an opportunity to advance and develop themselves.

Remuneration, of course, needs to be in place. And last but not least, being diversive, inclusive culture helps an awful lot as well. And that is why we focus on all of these components quite heavily.

Last but not least, goes without saying that people want to be part of a successful team, and I leave it up to all of you to decide whether you will describe us as successful or not, but clearly that helps too.

That being said, looking ahead, I think it's going to be challenging for some time. And what I think is helpful for us is the fact that we have that growing presence in a global action centre. As I mentioned in my prepared remarks as well. So Romania and India and in the Philippines, and my experience from the past suggests that that is a really good way to offset pressure you could get in other markets when attrition goes up. So it is clearly an area of a lot of attention.

We want to bring it back to below 10%. That is what we have communicated a year ago. That is still very much our goal.

Virginie Duperat: Okay. Maybe let me take the second question on the cash flow and the expectation in terms of DSO. Yes, cash flow was quite good this quarter, but that's really the stabilisation in terms of what we can achieve in terms of cash conversion based on the enhancement of our processes undertaken more than one year ago. So that's really now embedded into the processes and bringing fruits.

I would just, let's say, highlight a little bit also the fact that we have been seeing our suppliers also taking some holidays. We have been taking holidays also. So we have a little bit of increase in suppliers on the face of the balance sheet due to the fact that we received a bunch of invoices quite late in September and October that might have been [inaudible] ones and will have a small effect the opening of the quarter of catching up on that side. That's probably the only seasonal effect I would highlight on that front, but not something massive either.

And then in terms of DSO, we are 74 days as of today. As you can imagine, Middle East getting down in terms of revenue in terms of, let's say, special[?] number of days. If you isolate Middle East by itself, we start reaching number of days that can be a little bit heavy also because the working capital will take more time to decrease on the face of the balance sheet than the revenue and the elements in P&L as you can expect based on the traditional pattern of this region.

Hence, we do capture our fair share of cash collection and it's progressing on that front. But that has a small impact somewhere, I would say, in the calculation of our current DRO and will weigh also because of recent embedment of Arcadis weigh in Europe. So there is still capabilities of catching up on that front to have our Oracle system in the smooth running one that we can see in Australia, in the US or in some of other regions as well. So we'll probably have some capabilities over there.

And then that also depends on the pattern of the project we've been taking when we are in some joint venture in infra[?] in Australia, we can also be in a situation where we see some down payments. It can happen. So there will be, in the future, I guess, the subject of being done to lower to 70 days, which is really achievable, but deals are around. I do not expect to get through to drastic changes because we want to have the flexibility also of being quite selective in terms of portfolio. And the portfolio has an impact also in terms of the pattern of DSO.

Hans Pluijgers: Thank you.

Jurgen Pullens: I see that, Maarten, you have also a question. Maarten, please go ahead.

Maarten Verbeek (the IDEA!): Hi. Good morning. It's Maarten of the IDEA. A couple of questions from my end. First of all, you just mentioned that last year there were some €8 million COVID contribution and that was something we could split in two ways in Q3 and Q4. More or less that just the last year's margin to 10.3%, this year 10.1%, so still below the point, but you just argued has a lot to do with productivity. People have taken holidays. What's the outlook for Q4? Because then also revised, we're going to have an margin of 10.3% for the final quarter of 2020. What do you expect for productivity in Q4? Will that be a negative once again?

Then secondly, could you inform us about the book-to-bill ratio you had either at this quarter or the first nine months?

And lastly, you mentioned about the strong – or the net debt position and most likely will go to net cash surplus by year-end if you don't make acquisitions. You mentioned that you could do all kinds of things with such a strong balance sheet. But not really mentioned what you might do for shareholders. Obviously, you said that you might do something with share buybacks or something else, but could you give somewhat more clearance on that item? Thank you.

Peter Oosterveer: Well, let me take the last question, your last question first, and then let Virginie respond to your first two questions including the book-to-bill, Maarten. So the – what we do for shareholders has not really changed. I think we have communicated during the Capital Markets Day what our vision is in terms of what we want to do with the cash, which is to continue to invest in the company in addition to, of course, payout the dividend.

We also have the option open to provide additional shareholder returns. And last but not least, when speaking about additional capabilities, I think we've also said it before that we do look at an opportunity, the right opportunity to enhance our capabilities, which would have to ideally check two boxes. It has to be something which gives us additional capabilities and sustainability. And the second box, which we really like to check at the same time is digital solutions. So as a minimum, either of the two. Ideally, both of the two.

So that is probably not necessarily a change or something we have – we've said before. Invest in the company and deliver on the commitments to pay a dividend and where appropriate, keep the option open for additional shareholder returns.

Virginie Duperat: So getting back to your two questions. I'm sorry, it seems that I have dust somewhere on my throat so that it's a bit of a nightmare. I apologise. Coming back to last quarter. Yes, for sure, in Q3, we had a COVID support at around €8 million, as I said, for the full H2 2020. We also had this effect of probably complementary vacation this year that we didn't have last year because people frankly, in this year 2020, they had difficulties to go anywhere.

They wanted where that's been some compensation this year. So then, in terms of absorption of the massive cost and visibility, you have an effect in terms of the level of overload that you could reach in the P&L. So that's probably this overabsorption effect which is a little bit missing also this year. And then I would say that book-to-bill year-to-date is just a little bit above 1.

Maarten Verbeek: Okay. That more or less implies that in Q3 it was below 1?

Virginie Duperat: Yes, probably. But again, I would not be completely affirmative on that point because I need to admit also that some of the things that you see in vacation effect is that there can be a little bit of delay in terms of registration of order intake in the systems by the search box[?].

Maarten Verbeek: Okay. Thank you.

Virginie Duperat: So then I'm a bit measured on that one because really what we see is just slightly below. So it might be a bit of catch up beginning of next quarter, I believe.

Maarten Verbeek: Okay. Thank you.

Jurgen Pullens: Next in line is Henk Veerman. Henk, go ahead.

Henk Veerman (Kempen): Hi. This is Henk Veerman from Kempen. Thank you for taking my two follow-up questions actually. The first one is on the voluntary turnover, which was already discussed a little bit. My follow-up question is this. In the recent – in the years where turnover was really a problem, I think voluntary the rate was about 15%. Do you expect that the turnover this year or the run rate into next year could approach this level again, or is the problem not that severe at least yet? And do you already seeing it affecting project execution? That's my first question.

And then my second question is on a follow-up on the capital allocation. Indeed, you're rapidly approaching net cash. Last year, indeed, you mentioned that acquisitions is one of the things you plan to do with the cash. Can you update or can you maybe give a little bit of colour on what has happened on this front in the recent or year-to-date in the recent quarters? So have you looked at many targets? What has been the main reason why the acquisitions have not materialised, especially because some of your peers have done some also some acquisitions year-to-date quite some sizable acquisitions year-to-date. Thank you.

Peter Oosterveer: Okay. Henk, thanks for the follow-up question on voluntary turnover. Let me take that one. Yes, we – you're right in that in the past, we have seen voluntary turnovers for Arcadis as a whole exceeding 15%. We're not quite there yet, which is, obviously, in a way, positive. I would say that if I look at what the voluntary turnover was a couple of years ago and why people left at that time, and why people now consider leaving is a different ballgame. And that doesn't make the number acceptable.

As I stated before, we will do whatever we need to do to bring that number back to single-digit, which is our goal. But people now leave for different reasons, and most of that is same reasons as people leave other companies. And largely, I think, a combination of coming out of the pandemic wanting something else, with lots of opportunities. Couldn't go to 15%. I can't rule it out.

We will try to do whatever we need to do to avoid that from happening. But the outlook and the market in the next couple of quarters in terms of people, that is, will probably remain somewhat volatile. So I can't rule out that it could get 215% again. Conversely, I'm not making a commitment that I can guarantee you that it will be below 50%. But it is something which is extremely high on our priority list because at the end of the day whether we acknowledge it or not, we are a people company and we will only be good if we can retain and where necessary hire people quickly.

Virginie, you want to take the second one and update Henk and others on the progress we've made?

Virginie Duperat: Yeah. Sure. Thank you. So M&A remains something quite, let's say, important on our plate. As we said, it is something that we are considering and that you can expect we are contemplating each and every opportunity that we think makes sense for us. Then we've been seeing, as you have seen also, recent acquisitions that made by competition and that's good. We do not have exactly probably the same goals or looking for the same things. And that, let's say, would be the only comment that I would make on this ones on our site. It remains something which is quite key and where we think we might have some opportunities. But I do know that takes time to come to a decent point. So when and wherever there is something to be shared and such we come back.

Henk Veerman: Okay. Thank you.

Jurgen Pullens: Are there any more questions? I think Martijn? Martijn, are you in the call?

Martijn den Drijver: Yeah, I have to follow-ups.

Jurgen Pullens: Yes. Okay. Please so go ahead, Martijn.

Martijn den Drijver: Yeah. Okay. I'm sorry, Peter, but Henk's question, you didn't quite answer that one. Is attrition impacting project execution? So I would like to ask that one again because I think it's an interesting one.

And in relation to that attrition again, I realised it's an industry issue. But how should we think about wage inflation for 2022? Because, I know you've been, as a company, reluctant to use that measure. But it seems kind of inevitable that you will have to do it. So can you perhaps shed some light on your thinking on that subject?

And then for Virginie, we've talked about OpEx developments, travel, marketing going up slightly in the second half. How has that impacted the third quarter and what should we think in terms of the fourth quarter? Just a bit more colour on those two elements, please. Thank you.

Peter Oosterveer: Yeah. My apologies that I didn't completely answer Henk's earlier question. The brief quick answer is no. It's not impacting project execution, but that is not the reason for moving it down on the priority list. It is an important priority for us. But at this point in time, with the attrition we're seeing, it's not negatively impacting project execution. So, sorry for missing that question.

Wage inflation is, of course, quite possible. Now, the answer there has always been and will continue to be that that is typically something we would pass on to our clients. That is typically something you would actually cover in contracts through either specific clauses or by having clauses in there that you are entitled to an annual salary increase anyway. So it could happen. It's likely to happen, but it's not something which we would have to take the burden ourselves. That is something we would pass on to our clients.

Martijn den Drijver: Okay. Clear.

Virginie Duperat: Then maybe moving to the OpEx. OpEx in Q3 and Q4, yes, for sure, there is a little bit of increase in travel compared to last year. The world has been reopening again. But I think that in the measures we've been taking last year and in the new way of considering our work, there is a lot which is really embedded. So I would not highlight a huge increase in terms of travel year-on-year. There will be some, for sure, because the world has been better this year.

But again, this seems to be quite embedded. What we had last year also, and that we are losing this year, if you remember, has a lot of companies who've been withdrawing bonuses and other these sorts of things in Q1 2020. And we are delivering rather good performance. So as you can expect, I'm not withdrawing bonus provisions from the P&L this year, which is also something which is a positive in my view because it shows that we are where we thought we would be able to be.

So that's probably also one of, let's say, the differences that you could expect to see between Q3 last year and Q4 last year and this current semester, something being right back in normal expectation in terms of what your employees measures[?] representing in your P&L as well as, let's say, real effort which is sustainable in the future in travel but also in workplaces where we've been committing, as you remember, to decrease over three years; and while as you can expect, a lot of these efforts will have rather late effect because it takes time to achieve a vast

majority of the savings, some of the quick wins or some of the things have already been benefiting to 2021 P&L.

Martijn den Drijver: Okay. Thank you very much.

Virginie Duperat: Thank you.

Jurgen Pullens: Okay. Quirijn, can you hear us and if you have a question, please go ahead, Quirijn.

Quirijn Mulder (ING): Yeah. Can you hear me?

Jurgen Pullens: Yes. We can hear you, Quirijn.

Quirijn Mulder: Okay. Now, let me first ask about, let me say, the current situation – the situation with CallisonRTKL. It looks to me that the first half year, the rest on stabilisation with regard to the order book, the organic decline of 17% is quite disappointing, in my view. So can you tell us – give an idea what – is RTKL loss-making at this moment? That's my first question.

The second question on RTKL is, what is – what are you going to do to address the situation, because it doesn't look like that the company is going to recover soon as it is spreading out, let me say, the impact is not only in malls in the US, but it looks like it is in – it's a real structurals problem. And then, to what extent – yeah, was, let me say, RTKL a drag on the organic growth in the third quarter? I think it's maybe 100 basis points or something like that. That were my questions on RTKL.

Virginie Duperat: Okay. On RTKL in H1 maybe you remember, we've been seeing a little bit of start-up late in last year and beginning of this year in Asia, in China. And that has been quite stopped not before there was no market but also because we started perceiving that situation in the market we operate in China and might not be as safe in terms of economic conditions of our clients that we could quite think. So what we've been doing is becoming quite selective in this area in terms of the project we've been thinking for sure and that's not helping a result in terms of revenue and in terms of order intake as you can expect.

Hence, I have to say that for these immediate starting when we've been seeing some of, let's say, announcements on the Chinese market at the beginning of September, we think that it was the right decision to be quite early in the year, making sure that we were not exposed to these sort of clients and where we really work in China with government-related organisation, or let's say, major international developers that do not face the same current problematic situation, I would say, that some of the developers on the Chinese market do face.

So that's probably the first point. The second point, as we said, we wanted to turn our business on some of the sectors where we see the restart is quite complex. It's not bringing the right project and there is really low pace after COVID and prolonged effects of the COVID crisis to new sort of sectors and then the science – life sciences, but also healthcare and such. And that takes time, as you can expect. And for sure, we need to take the right project.

We have the capability with the rest of what the business is doing to, let's say, absorb part of it and re-prepare CallisonRTKL to be ahead of the curve. We are also developing new capabilities in terms of collaboration with our places organisation for intelligent buildings and so on. And that's the development of new offers, and that occupies the teams that they need to be ready also to answer some of the predevelopment of the market.

So as you can expect in the sort of things that always go with some, let's say, small projects or test projects that we are thinking and that allow to develop this new type of offer. But clearly, 2021 is and needed to be this full year of getting to a point where we do restart. And as I said earlier, there is also a need to restructure their cost base to adapt to the current situation as you've been thinking yourself. It's a sharp decline that they've been seeing in terms of order intake.

So then there are cost structure and the fact they see this cost structure to restart, they need to get a little bit of agility, which they are doing, as we speak. So, yes, with a sharp decline of revenue, it's very difficult to get to breakeven point. So that's also something. On top of that, if you have some restructuring costs, then the picture is not as nice as you can expect, but sorry to say that. But in my view, it's a positive because at some point of time, you need to get to that sort of a situation to have the capability of restarting. So being now in the situation to know exactly in which towns we need to be present, where we can withdraw, where we see positive in the future and, let's say, reorganising to be ready for 2022 is exactly the place that we are, and we really think that there is a complementarity in what CallisonRTKL is doing. And that further cooperation with our places organisation in the future would only be benefit for our two business lines.

Quirijn Mulder: Okay. Thank you. My other question are on IT OpEx. I know, let me say, the cost – let me say the running cost in the third quarter were relatively high compared to the expectations. Can you maybe elaborate us on IT, on CapEx in IT and CapEx in general and also update us on the cost in OpEx for IT? Alongside, let me say general cost which increased, in my view, quite sharply compared to third quarter in 2020 outside this €8 million for, let me say, I assume €4 million for government support.

Virginie Duperat: So as I said earlier, in the beginning of the year, we have on our plan in terms of CapEx development, so we say €40 million to €60 million a year. So there is no reason not to be in that range for the full year. And this is exactly the track that we are seeing at the moment. And vast majority of that, yes, it's a lot of digital CapEx and IT CapEx both in terms of infra but also a lot in terms of, let's say, hours[?] of development.

Just as, let's say, kind of warning, just telling everyone that there is a new IFRS announcement in terms of accounting of cloud computing developments and that will impact all the companies probably for year-end, including our sales for sure. And that's what the accounting team is working on. So we do expect that in the future, more of the things that we were qualifying as CapEx will be qualified as OpEx.

Quirijn Mulder: Okay. Thank you.

Jurgen Pullens: Okay. Thanks, Quirijn. I assume that –

Quirijn Mulder: These were my questions. Yeah. Thank you, Quirijn. Hans Pluijgers, do we a follow-up question yet?

Hans Pluijgers: Yes. Can you hear me again?

Jurgen Pullens: Yes, I can hear you.

Jurgen Pullens: Go head, Hans.

Hans Pluijgers: Can you hear me?

Jurgen Pullens: Yes, we can hear you, Hans.

Hans Pluijgers: Okay. Sorry. Yeah, a follow-up on wage inflation question already asked. Looking at, first of all, this year, could you give maybe some feeling what your average wage inflation was, which we should calculate as a maybe split between in the organic growth between wage and underlying volumes?

And secondly on that, how is that included in your target growth for 2020-2023? Did you also there include, let's say, some wage inflation because you get initial feeling on that what the split was there for your organic growth target?

Peter Oosterveer: Virginie, you want to take this one?

Virginie Duperat: Yes. I think that we've been giving a guidance and such for the P&L. We've been, okay, embedding some of the things for sure. But in my view is more a mechanical effect. As Peter say, we expect to pass more of the single [inaudible]. You wouldn't beat the organic growth targets with, let's say, artificial elements of push coming from this sort of thing.

Peter Oosterveer: But maybe to add to it, Hans, it's not such that we, in building a plan for the three years we build the plan for, would assume that there would be significant wage inflation built into the growth numbers. I mean, typically, what you would do is you would assume a realistic, reasonable percentage of wage inflation, which is what you typically see, let's say, directionally between 2% or so, let's say, 2% and 3% max across the board, that will be actually be on the high side?

And we're not assuming that – or have not assumed when we built the plan because at that time, a year ago, I don't think that we had enough knowledge to even make an assumption that there would be more wage inflation as a result of general inflation.

Hans Pluijgers: No, but this already gives a lot of clarity because, indeed, let's say, maybe the building blocks are a little bit changing, but this gives already some more clarity. Thanks.

Jurgen Pullens: Are there any more questions? I don't see them any more in the chat room. No? Then I like to hand back to Peter for some closing remarks.

Peter Oosterveer: Yes. Thank you, Jurgen. Thanks everyone for the active conversation here as well. Just closing it out, we believe that we delivered another successful solid quarter. And in delivering the solid quarter, I think we benefited from the actions we took prior to corona. When you look at our trends over the last couple of years going as far back, I'd say, 2-2.5 years ago, obviously we've strengthened the foundation. And because of that much strengthened foundation, we came through corona so far actually in a very positive way.

In addition, we are also learning and will forward-looking benefit from improvement activities and lessons we've learned through corona, particularly as it relates to the need for extensive travel, how would you use real estate in the future. So that is an additional improvement we expect to see in the future.

And needless to say that the world is increasingly acknowledging and accepting the impacts of climate change and nature loss, and that is about time. It is really about time that that recognition and acknowledgement is there. And that's combined with the much stronger foundation we currently have as a company, gives us the confidence to be as positive about the

future as we have been and, to restate what I've said before, also creates that confidence in our ability to deliver on the targets we've set for 2023.

So in closing, thank you very much for your interest for the active dialogue. And let me ask you to stay safe and healthy and we'll see you again next quarter. Thanks very much.

[END OF TRANSCRIPT]