

Q2 & HY 2021 Results

Thursday, 29th July 2021

Arcadis Q2 & HY 2021 Results

Jurgen Pullens: Good morning, everyone, and welcome to this virtual analyst meeting. My name is Jurgen Pullens, Director, Investor Relations, Arcadis. We are here to discuss the company's second quarter and half year 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 analysts attending this call, in case you would like to raise a question, please notify us using the chat box by typing 'I have a question' or simply say 'Question'. Please do so only after we have opened for the Q&A. Kindly keep to a maximum of two questions at a time.

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

With these formalities out of the way, Peter, please begin.

Peter Oosterveer: Okay. Thanks, Jurgen, and good morning, everyone. Thank you for joining us to discuss our trading update for the first half and the second quarter of 2021.

I will begin today's presentation with one of our major wins in Q2, a strong example of collaboration across our Infrastructure and Buildings business, as well as an example of including sustainability in all we do. And in fact, you'll see us actually using a couple more nice project wins [inaudible].

As you will be aware, Arcadis is already a partner on the new UK high-speed rail network, HS2. But in May, we were selected as a design partner for the Mace-Dragados joint-venture on the Curzon Street station rail terminus in Birmingham in the UK. The station will be net zero carbon in its operation and adopt the latest eco-friendly design and sustainable technologies, including capturing rainwater and utilising renewable power generation, with over 2,800 square metres of solar panels located on the platform canopies.

Not only is this a great example of cross-business collaboration, but also one where we are combining our global best practices to bring them together on a major infrastructure project.

And just another great win in the quarter, on to the next slide. I don't need to remind you that the transition from largely fossil-based energy to zero carbon energy is a truly critical element of limiting the impact of global climate change. Arcadis is supporting our clients with projects and cost management services to allow them to build a new manufacturing facility to support their US-based business. The facility has the potential to bring 1.7 gigawatt of clean, reliable offshore wind electricity to American communities in the Northeast.

So on to our results now. Our H1 and Q2 update has been underpinned by a rebound of major economies, which is stronger than we had initially envisaged, which obviously creates a business outlook for Arcadis which is quite positive.

As I mentioned to you during our Capital Markets Day, and also during our Q4 2020 and Q1 2021 updates, the growth in demand for our services is driven by megatrends like urbanisation, digitalisation and climate change, as well as the increased expectation societies have in creating sustainable and liveable communities.

And the recent flooding close to home in Belgium, Germany and the Netherlands as well as in China, as well as the heat waves we've seen in the US and Canada are clearly evidence of changing weather patterns. They will occur more frequently. They will occur at different times. And we believe that swift action is required to ensure we reduce the impact and protect lives and communities from further disasters.

On COVID-19, we are seeing central governments all over the world attempt to stimulate the economy through various methods, including accelerating projects, investing in new ways to support the economic recovery and deliver on the 'Build Back Better' agenda. And as a result of these relief measures and stimulus plans, particularly in the US, the UK, as well as the recently announced EU Green Deal, we have won 14 new commissions across the Infrastructure, Buildings and Government sectors, with another 80 further projects in the pipeline. And we do obviously not expect it to stop here.

In terms of our results, I'm obviously very pleased with both the accelerated organic revenue growth in the quarter, I'm also pleased with the improved margin, as well as with the further growth of our backlog, with four of the five last quarters now having generated a book-to-bill greater than 1.

Our strong financial position with a leverage ratio of now 0.3 creates room to invest in our people, our digital expertise as well as into our business.

With respect to our strategic progress, we continue to obviously pioneer sustainable and digital solutions for our public and private sector clients, underpinning our really strong ESG credentials and our strategic direction.

Looking at our people. Over the last 18 months, all 28,000 Arcadians have consistently demonstrated their flexibility, their drive and their creativity. I'm sitting here being extremely proud of their ongoing focus on our clients, on putting our clients first and on their contribution to our business. They have been productive wherever they work, even during the most challenging times.

And COVID-19 has actually accelerated our existing plans to rethink our workplace and adopt a hybrid way of working. And following discussions with our people, we have launched our workplace promise. And our new promise will embrace a culture of trust and allowing our people the flexibility to work from home or to come into a collaboration-focused, inclusive workplace that will also act as a client hub. In addition, we will also soon launch our revised approach towards traveling, which needless to say, will also include a very positive impact on the environment.

Finally, we remain clearly on track with the three-year strategy implementation that we launched in November of last year. Now let me share with you a few stories how we are actually implementing our strategy and how we are maximising our impacts with our clients.

We're proud to be delivering sustainable solutions for our clients across the world, not only highlighting our strong ESG credentials, but also fulfilling our ambition to limit global carbon emissions to 1.5 degrees centigrade, in my view, our generation's single biggest challenge. And I'll share a few Q2 examples with you that demonstrate our commitment to sustainability and our commitment to improving quality of life in communities around the world.

Again, in the UK, we are designing the first carbon-neutral bus station in the country, in Leicester, helping to connect people and places in a more sustainable way. Designed, also, just like with Curzon Street, benefits from solar panels to generate enough renewable power to power the station and to feed surplus energy back into the grid. Not only will this provide a huge boost for sustainable transport, but it will actually also help to regenerate deprived parts of the city of Leicester.

In North America, as another example, we're partnering with the city of New York, the Department of Environmental Protection to reduce flood risk and drive city-wide resilience. The \$53 million programme will allow us to engage property owners across the city in jointly designing and implementing resilience measures that improve local living and health conditions. These plans include, for example, retrofitting private properties and creating green and living infrastructure across the city.

Another example. In Singapore, we're working with the Land Transport Authority in developing innovative solutions to transform mobility in the country. We are having the role of project management, the first integrated active travel and public transport projects with dedicated bus, foot and cycling paths. The S\$26 million commission will provide an uninterrupted and pedestrian-first 21.5 kilometre long transit priority corridor, connecting communities across the city state.

And next, a few examples of our progress on our digital expertise. As we know too well, the pandemic has pretty much upended everything; how we work, how we travel and how we quickly respond to changing circumstances. The reliance on technology and data has grown exponentially over the last 18 months, and our clients' appetite to innovate and digitalise their solutions shows no signs of slowing.

And at Arcadis, we've been investing already heavily in digital skills and empowering our people to create digital solutions to meet our clients' greatest challenges. And I'd like to now share a few examples with you that showcase our role as digital leaders.

Firstly, Arcadis Gen's new AppliedInsight Software-as-a-Service platform. As you might remember, we launched Arcadis Gen back in early part of 2020 to further accelerate our industry-leading digital transformation with scalable and product-based solutions. And earlier this year, we launched AppliedInsight, a SaaS analytics platform and online marketplace, designed to make advanced asset analytics products available to clients of any size.

And one of the products we have available is our Water Artificial Intelligence Pipe Predictor, which is a tool which has the ability to predict water pipe failures, wastewater collapses, flooding and pollution incidents, resulting in a more reliable supply and handling of water to and from customers.

Another example is Field Now, Arcadis' environmental digital data collection programme pioneered in the US and now scaling across Latin America and Europe. It helps to standardise, automate and integrate data right at the point of collection. And utilising software solutions from our external platforms for data collection, Field Now eliminates the need for manual data entry and provides rapid real-time accessibility to field and other data, which can then be transformed into visuals, helping to ensure a project is delivered efficiently and delivered on time.

This capability has clearly contributed significantly to the growth we have enjoyed in the US, and we are now rolling it out globally.

Finally, to initially support our UK-based clients, we are applying newly developed software aimed at agile, flexible ways of working called Buildings Intelligence. The software helps to optimise space, reduce energy use and reduce maintenance costs while improving health, well-being and productivity across workspaces. We've obviously also used this software for our new London office, which is actually pictured in this slide, which provides Arcadians and clients with functionality of mobile apps, room visits, large interactive dashboards, etc., etc., all help to improve the user experience.

And combining these new agile ways of working with the sensors, the machine learning and management insights that come with Building Intelligence, it creates a really rich picture of how a building is operating and how the users are engaging with it, a good example of digital solutions that are helping to improve the everyday quality of life.

And finally, how we are growing our business through focus and scale? As I mentioned at the beginning, we are seeing a strong and sustained backlog of opportunities in our pipeline. In fact, this is, again, the fourth out of the five last quarters in which we were able to grow our backlog.

And one such area of growth is around PFAS, man-made chemicals that are found in a number of everyday products, such as cookware, firefighting foam, etc. And Arcadis is at the forefront of a global effort to sustainably manage the impact PFAS has made through decades of its use. Our knowledge, insight, remediation and environmental planning is successfully addressing demands we see from clients within the defence, aviation and industrial manufacturing sectors. PFAS is just one area where we are using our knowledge and expertise to scale globally to help create a safer, more resilient, liveable world for everyone.

We're quite at the end yet of this presentation, but I believe that the future is bright for Arcadis. Our acceleration of organic net revenue growth and improved profit margin, combined with a very strong order backlog and very solid opportunities ahead, provides me with confidence in our ability to deliver on the strategic targets we've set for 2023.

With that, I'll hand it over to Virginie to provide further detail on our financial performance.

Virginie Duperat: Thank you, Peter, and good morning, everyone. Quite happy to be with you this morning to share with you Q2 and H1 financial results.

So first, maybe to put our quarterly results in perspective. You can see here that we accelerated organic growth to 5.7% and even 6.3% restated from Middle East performance. And we then increased our net revenue to €644 million. Our operating EBITA in Q2 increased by 20% to €59 million, with an operating EBITA margin of 9.2%, which is a solid improvement compared to Q2 last year and quite in line with our 2021 first quarter results.

Net working capital, as a percentage of gross revenues, was 14.3%, to be compared to 17.7% in Q2 last year. And day sales outstanding decreased to 74 days compared to 87 days, which is a result of the cash management programme set in motion one year ago.

For the first half year, our net revenue organically increased by 3% to €1.3 billion. Our operating EBITA increased by 21% to €117 million, and our margin improved to 9.2% compared to 7.6% in H1 2020. This margin improvement resulted from a strong performance in the

Americas and in Europe, Middle East, compensating for a lower margin in Asia Pacific and in CallisonRTKL.

Our free cash flow of €30 million was solid, in line with our expectations, and demonstrates our sound cash management. Due to the improvement in EBITA and cash focus in the last four quarters, the leverage ratio further improved to 0.3.

Moving to the view region-by-region. North America. So first, North America continued to deliver very strong financial results. Organic net revenue growth increased in all business lines despite two less working days in this first half compared to H1 2020. Key priority in this region is really to attract and retain new talent and while expanding our global excellence centre usage to further leverage, execute also our current backlog and seize flourishing market opportunity.

In Latin America, organic net revenue growth was outstanding, driven by infrastructure and environmental projects in Brazil. Overall, for the total Americas, organic net revenue growth was 7% in the quarter and 5% for the first half. Operating EBITA margin for the segment in the first half improved to 11.5%, driven by higher availability, higher value of project portfolio and lower operating costs.

Organic net revenue growth in Europe and Middle East in Q2 of 20 – of 10%, sorry, was mainly driven by strong growth in the UK, as well as in several countries in Continental Europe, compensating for an expected modest decline in the Middle East. Operating EBITA margin in the first half year improved from 7% to 9.1% due to revenue growth and lower operational expenses.

UK's strong performance in the first quarter continued in the second quarter with excellent organic revenue growth, driven by key clients in all business lines. Arcadis is benefiting from its strong local market position and long-term plans, such as the UK government's 'Build Back Better' stimulus programme, as well as a range of green policy initiatives to accelerate the decarbonisation agenda in the country.

In Continental Europe, there was a steady organic net revenue growth due to good performance in Belgium, Poland, France, in combination with a stable performance in the Netherlands. Arcadis is well-positioned to engage on opportunities presented by government spending on infrastructure, energy transition, and for sure, for first European Union Green Deal incentive programmes.

Asia now. Overall, Asia showed an organic decline of 2% in the quarter and 3% in the first half year. Operating margin continued to be strong in Australia, but was negatively impacted by lower revenue and losses on a few projects. Net revenues in Asia declined due to a return to prolonged lockdowns in Malaysia, Singapore, Thailand and Vietnam. And this impacts economies and commercial development.

China performed relatively well with revenues in line with last year. Revenue in Australia was slightly lower than last year, and the focus continues to be on seizing major infrastructure projects in Sydney and Melbourne. Order intake in both Asia and Australia was positive with a book-to-bill above 1.

In CallisonRTKL, we see net revenues remaining under pressure due to COVID-19 crisis affecting mainly retail and commercial sectors, and now especially in Asia Pacific. Organic revenue decline in the quarter was 11%, and even 15% for the first half year. Order intake in

the US is showing some recovery with a book-to-bill ratio greater than 1. Despite a decline in revenue, operating EBITA margin in the first half was 5%, thanks to strong cost management.

At Group level now, half year EBITA amounted to €115 million, which represents a 25% increase compared to the same period in 2020. Net finance expense decreased to €13 million versus €16 million one year ago. Interest expense on loans and borrowings of €7 million, dropped due to lower average gross debt and lower interest rates.

The effective income tax rate for the six months period ended June 2021 is 21% versus 34.3% last year. And our tax rate was impacted by, amongst other things, updates on previous year's tax positions.

Net income from operations increased by 53% to €81 million or €0.90 per share.

Our free cash flow of €30 million was solid and showed the good performance of the quarter. It's worth remembering that 2020 Q2 cash flow has been exceptionally strong due to the combination of catch-up effects in North America following Oracle implementation in 2019, and also catch up on overdues, thanks to this cash management programme. All these further enhanced by tax payment deferrals granted by governments at the countries were hit by COVID crisis.

Our net debt was €107 million end of H1, significantly lower than last year, driven by the decrease in net working capital financing needs following the results of the sound cash management programme implemented one year ago. Moreover, Arcadis invested €62 million in share buyback and distributed €31 million in cash dividend. The leverage ratio further improved to 0.3.

In May 2021, €36 million of floating rate Schuldschein loans were repaid early, free of interest penalty. And in June 2021, our US private placement note of \$110 million, bearing a 5.1% interest rate, was fully reimbursed in accordance with the expected repayment schedule.

And to conclude on the financial results. I would like to emphasise the fact that we accelerated our organic growth to a 5% increase in the second quarter and sustained a strong order intake. Our operating margin was 9.2% in the first half year, with an excellent performance in Americas and in the UK. Our free cash flow in the second quarter was strong, leading to a solid free cash flow for the first half year. And overall, we now have a strong financial position that creates room to invest in our people, our digital expertise, in our businesses.

And with that, I'd like to hand it back to you, Peter.

Peter Oosterveer: Thank you, Virginie. Let me now wrap up our presentation, reminding you about the strategic targets we set for 2023, which we shared with you in November of last year during the launch of our Maximising Impact Strategy, as well as with a brief summary of our H1 results before we get over to Q&A.

But one more project example, and a really nice project example. We are supporting The Ocean Clean-up in managing its environmental social risks, impacts and opportunities. And we are working for this organisation on the development of environmental and social impact scanning reports for all the projects they undertake. And these documents are important to them and are an independent and technical analysis of the potential effects that the ocean clean-ups operation could have on the environment or the surrounding communities. And if the impacts are identified, to then define measures which need to be taken in order to address them.

So, responding to the pandemic over the past 18 months has, for us, led to an even greater focus on cross-sector and cross-regional collaboration, increased leverage of our global expertise across our businesses, and thus generating additional benefits for our clients. Our new strategy launched back in November of last year is now proving to be a very timely and prudent springboard for delivering scalable, sustainable solutions, both by leveraging our digital leadership as well as on focusing on opportunities where we have a right to play and an opportunity to win.

In terms of financial targets, I've said it before, we simply aim for further improved predictable and profitable growth, satisfying the interest of all our stakeholders. 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 finally, we are convinced that a more sustainable and more equitable world can only be created if we're all willing to maximise our collaboration and strive to deliver on targets. And in that context, we will continue to reduce emissions aligned with the 1.5-degree centigrade science-based targets before 2030.

To summarise and conclude our half year performance, we are, first of all, very encouraged by the stronger-than-initially-expected rebound of the major economies following the pandemic, which does create the positive business outlook I spoke about before. The public stimulus programmes, particularly increased sustainable infrastructure funding in the US, the EU and the UK and the renewed focus by our clients on carbon reduction and environmental mitigation projects, has allowed us to secure new projects and maintain a very healthy pipeline of further opportunities.

We expect this to continue, given the clear objectives and the longevity of these programmes and because of the continued severe impact of the extreme weather conditions we've experienced in a variety of geographies just recently.

And finally, our acceleration of organic net revenue growth and further improved margin, combined with a strong order backlog and a positive business outlook, gives us confidence in our ability to deliver the strategic targets we've set for 2023.

With that, I will hand it back over to Jurgen, who will, after some short instructions, open it up for Q&A. Jurgen, over to you.

Questions and Answers

Jurgen Pullens: Yeah. Thank you, Peter. And we hereby would like to open our Q&A. In case you have question, and I see already some questions, please let us know using the chat box by 'I have a question' or simply 'Question'. I will call out your name and you can verbally address your question to Peter and Virginie. And again, I would kindly ask you to limit your number of questions to two at a time. I do see that Hans Pluijgers has a question. Please go ahead, Hans.

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

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

Hans Pluijgers: Okay. I was on mute. Sorry about that. Sorry, I don't have my camera on because I'm calling from a holiday place, so therefore excuses for that. But two questions from my side indeed. First, looking, let's say, on the whole investment programmes by different governments and stimulus plans and Green Deal, that kind of things. How do you, let's say, expect that it will start to have an impact on the whole market when you really see that the funds becoming available from those different plants and especially looking at the US, but also, of course, at the Green Deal, will start to have – filter through to the different players and your clients in the market? So we really can start to see have an impact also on your top line.

And secondly, on the cost structure. Of course, with the reopening of the economy and people returning to the office, also on your side, what can, let's say – looking at H1 and also – maybe also analyse base, what kind of cost do you expect to come back because of that? So without, let's say, any additional sales against it. So let's say, what are, let's say, the cost, which could come back when the markets reopen, and, let's say, have a more normal way of working?

Peter Oosterveer: Thanks, Hans. And first of all, thanks for joining us while you're still on vacation. I'll take the first question, and then I'll let Virginie respond to the second one.

On the first question on the impact, the impact as to when you would experience impact, first, make a distinction between programmes which are being funded as a result of actions the governments took during the pandemic. And then secondly, governments are now increasingly taking actions, which are more in the, let's say, sustainability arena, such as the Green Deal in Europe. And it's not necessarily always crystal clear whether a programme or a plan is funded by either COVID-related programmes or more future sustainability related programmes.

As I mentioned, when we – when I went through my prepared remarks, we have already seen a handful, about 14, 15 projects, which are clearly examples of actually more sustainability related funding, with another 80 in the hopper[?], things we see as opportunities ahead of us which are also associated with either COVID-related programmes or Green Deal sustainability related programmes.

By the time that the EU Green Deal, and even more so, the US plans are being formalised – because we are seeing large numbers, but the fact of the matter is that the plans are not necessarily quite formalised yet – we expect that number to, of course, significantly increase. So that is what I would say in terms of the public stimulus now.

Good news is that in the meantime, and particularly, actually in the second quarter, we've seen our book-to-bill for our private clients actually being higher than it was for public clients. So also our private clients are, of course, already taking action coming out of the pandemic, and also action resulting from the need to create more sustainable solutions.

And as a final comment, very, very recent, of course, we've seen the flooding in the Netherlands, Germany and Belgium. And also there, we have already seen clients approaching us to ask for our advice as to best – what to best do with the immediate impact as well as with impact protecting them against future impact. So a whole slew of actions already underway.

And I'll turn it over to Virginie for your second question, Hans.

Virginie Duperat: Thank you, Peter. So, on the cost aspect, for sure we still are in a situation where our ways of working are quite limited due to the pandemic and where we merely work from home for the vast majority of us. And in H2, if the world opens more, we should see some

pick-up here and there in terms of traveling. But as Peter mentioned earlier in the presentation, we are also putting in place some new policies around our expectations of how we would travel in the post-pandemic world, also to anticipate on our own, let's say, carbon footprint in the space. And that should also change our ways of doing and why, let's say, produce positive impact in terms of carbon footprint, also have a correlative impact in terms of cost of traveling. So that's definitely something we are working on.

Also, as Peter said, we do think that we want to experience new work style, and that will definitely also have an impact in terms of probably presence of number of days in the offices and such. So a sound part of what we've been able, let's say, to achieve in terms of cost savings during the pandemic might also, let's say, become more sustainable and more structural in the future, just because, in fact, we do see opportunities and desire on our side to go on sustainably working with quite different models, I would say.

And as we have seen, nothing has changed in our way of serving clients, our activity quite rightfully increased also. So, there is no reason for us really to change fundamentally a lot of what we are delivering[?] today.

Hans Pluijgers: Could you give maybe still some number on which costs you expect to come back or some feeling on that?

Virginie Duperat: I'm not going to give a guidance for –

Hans Pluijgers: Actual terms, yeah.

Virginie Duperat: Yeah. But I'd like to say that – and that will also pick up – depends also on how H2 develops and how – you may have seen that the situation is quite contracted also in some areas of the world. So, the total reopening that we expected to happen, I'm not sure that we are going to see that. So, also for us in that respect, that's quite a question and a burden[?]. Some countries are reopening, but some countries are also discussing reclosing their frontier.

So international travel is quite a question. And in terms of travel costs and such, this is what has the strongest impact in terms of costs. And [inaudible] frankly, for me a crystal ball to really have a good view on.

Hans Pluijgers: Okay. *Merci.*

Jurgen Pullens: Thanks. I see that Martijn den Drijver has also a question. He's next in the row. So please, Martijn, go ahead.

Martijn den Drijver (ABN AMRO): Yes. Good morning, Jurgen. Good morning, Peter. Good morning, Virginie. I have – I'll start off with a question on RTKL. In the notes to the semi-annual report, it is mentioned that in the impairment testing part, that RTKL performance was below expectation. There has been certainty in the forecast for commercial and retail business in the longer term, and a strategy review is underway. Now during Q1, you actually mentioned that you would like or that it is your intention to maintain capacity in order to be able to cope with a rebound if and when that happens. So, how do I – how should I read this statement on a strategy review and uncertainty in the forecast? That would be my first question.

Peter Oosterveer: Yeah, let me quickly pick it up first and then Virginie, feel free to add. I understand the question very much, Martijn. Also in the context of the same sort of wording

we used, so basically three, four years ago when we went through a strategic review. This is something not comparable to that strategic review. I want to make that clear. And I'm actually glad you asked that question because it gives me an opportunity to clarify that.

The strategic review is simply to look at, okay, now that we come to grips with a different world, now that we come to grips with markets which have really, really behaved quite differently than we had expected in the past, including what is retail going to look like, as an example. How quickly will hospitality bounce back? We thought that it was important that we got some external perspective on the market. So it is some external support.

Just as we've done for Arcadis core, we've solicited external support to help us with the strategy definition. So it is not to be confused and very different from what we did in 2017/2018 when we went through a review, which included a consideration to see if more value could be created if CallisonRTKL was not part of Arcadis. That is not in question this time.

Martijn den Drijver: So it's more about where to use assets, staff, capacities more efficiently than where they are deployed today?

Peter Oosterveer: Absolutely. Yes.

Martijn den Drijver: And when do you expect to have the outcome of that strategy review? And mostly then also can you share that with us?

Peter Oosterveer: Yeah, we've actually had an interim report. It will – obviously, we are already in Q3. It will run into Q3. But in the meantime actions are already being taken. So it's, again, not going to be a complete overhaul of the organisation. It is just making the organisation, if you like, more fit or what we expect to be in the future, it's more foundational repositioning than anything else. So throughout Q3, we expect that to be finished and then be put in place.

We do expect that the improvement – before we see an improvement in CallisonRTKL's performance – but that is not so much because of the strategic review, but more the way the markets are behaving – will not be seen before the beginning of next year. Some positive signs. The book-to-bill in the second quarter, it was about 1, so that's positive. But that is too early to suggest that the rebound is there. We want to be on the safe side. I think it is safe to assume that it will be difficult throughout 2021, with improvements as early as the beginning of 2022.

Martijn den Drijver: Okay. That's very helpful. Then my second question. Obviously, there are more projects coming to the market. You've already mentioned the reasons why. But that also means that all your peers, as well as Arcadis, will be clamouring for staff capacity, skillsets. So can you talk to us about attrition rates across the various divisions, your recruitment efforts? How easy or how difficult is it to get the right staff and skillset in? And possibly also comment on wage inflation or overall personnel expense development going forward? That would be the second question. Thank you.

Peter Oosterveer: Yeah. I think you mentioned all things which do come into play if the market gets attractive. It then includes indeed typically a pick-up in attrition, that could potentially also include pressure on salaries and then pressure on the cost, if you like, and improve the salaries.

We are starting to see some of it, particularly in the markets where we do really well. And I'll single out two, in particular, North America and the UK. And Virginie actually made a comment about it. Our focus is on retention. Our focus is on attracting the right talent. Our attrition has gone up slightly in Q2.

We are – we find that one of the more – at least attractive measures in Q2 in what was a very good quarter. But attrition going up is not what we would like to see. It is inevitable. It is what most of our peers have seen as well. I maintain what I've said before, Martijn, that we have an availability within Arcadis to offset most of that pressure, and that availability[?] is to try and use our global excellence centres more extensively. That is a little easier in some places than it is in others.

If you look at the UK, they already use global excellence centres quite extensively. So to push that further, it's a bit more challenging in North America but that opportunity is much greater. So we have tools available internally to balance and offset the impact, but that the market is getting more attractive and that you start to see all the things which come with a hotter market is absolutely correct.

Martijn den Drijver: And is it your intention to – or maybe I should rephrase that. In the past, have you had to resort to significant wage increases to get control of that attrition, [inaudible] those such a move in order to prevent higher rate of attrition?

Peter Oosterveer: No. We take a measured approach. In my four-plus years, I've not seen us having to do something across the board at a scale which you would call abnormal or material. But if someone[?] who we consider to be key is thinking about leaving, then we might do something which is out of the ordinary, but that is more on an individual basis than across-the-board basis. It's interesting to know that our total number of employees had actually gone up for the year with 5%. So we're still able to attract people.

Martijn den Drijver: Got it. Thank you very much.

Jurgen Pullens: Thank you. I see that Luuk Van Beek has a question. Luuk, when you are there, please go ahead. Can't hear you, Luuk.

Luuk Van Beek (Degroof Petercam): Yeah.

Jurgen Pullens: Okay.

Luuk Van Beek: Can you hear me now?

Jurgen Pullens: Yes.

Luuk Van Beek: Okay. I've first got a question, the leverage is now well below your target of 1 to 2 times. So I was wondering, you mentioned some investments. Will they have a meaningful impact on your leverage ratio?

And secondly, I have a question about the project loss in Asia that you mentioned. What is the reason behind it? And how significant are they?

Peter Oosterveer: Virginie, please go ahead.

Virginie Duperat: Thank you, Peter. So, starting with project losses. We had, let's say, a bunch of projects in Asia that have been suffering significant extension of time due to the

current situation of COVID crisis, where you have prolonged lockdowns and difficulty to work on those projects.

In some of these projects, we are dealing with some, let's say, public organisations. We are facing that on all of the projects at the moment and each and every contractor is now claiming for extension of time. And this is just not only us. So that was, let's say, a cautious decision to admit that we might not be able to get 100% of this extension of time in a decent timeframe. So this is what it is about. And that's a couple of million [inaudible].

In terms of your other question around leverage, yes, you're right. We are at 0.3% – 0.3, sorry, as a leverage. At the moment, it is quite low and lower than where we expect to be. So that gives us room from, let's say, additional investments and additional heavy investments. As said in our Capital Markets Day, we do want to invest in our capabilities, and that goes for sure with CAPEX, but also potentially with some, let's say, interesting M&A additions that would help us accelerate our strategy.

So, this is also something that we are contemplating for sure at one point of time. If we do think that there is nothing that could materialise sufficiently soon for us in terms of M&A transaction, we might consider also additional return to the shareholders, based on the fact that we know also now that we probably do produce better cash conversion thanks to our cash management profile[?].

But as we speak, probably a bit early to get that. Also, remember that our current SVB[?] programme is still ongoing, not yet finished. So I would rather let this one finish before we come back with any figures.

Luuk Van Beek: But would be – would the share buyback be your preferred method to return cash to shareholders or would you also consider other methods?

Virginie Duperat: I am quite agnostic in terms of dividend and share buyback, frankly. And I think that it's probably good practice to maintain, given our decent[?] share[?] of [inaudible] because tax interests and tax anticipation of shareholders can be quite different depending on where they are.

Luuk Van Beek: Okay. Thank you.

Jurgen Pullens: Thank you, Luuk. Quirijn, I think you have a question as well. Quirijn? Are you still on mute, Quirijn? We can't hear you. Now Quirijn.

Peter Oosterveer: I think we may have lost him.

Virginie Duperat: Yeah.

Jurgen Pullens: I think we lost you, Quirijn. Then I go to Hans Pluijgers with some follow-up questions. Hans?

Hans Pluijgers: Questions. First of all, on Australia. So, in the previous press release, you already mentioned that there was, let's say, some delay in projects being rewarded. Could you give maybe some feeling on what's happening in that market currently? So what you do expect, let's say, for H2? You already mentioned you have a book-to-bill of above 1.1. But still some

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

Jurgen Pullens: Yeah, Quirijn we can hear you. But let's – Hans has one question and then we'll come back to you.

Quirijn Mulder: Yeah, Hans is questioning as well. So, I'll just wait.

Hans Pluijgers: Yeah. So, let's continue on Australia. So, could you give maybe some feel on what's happening there in, let's say, with respect to big project rewarding? What you expect there for H2?

And secondly, on the cash flow. Strong cash flow again in Q2. You still had some repayment of deferred taxes outstanding. Could you give maybe feeling what happened in Q2? Have you now fully repaid that? And secondly, on that part, the payables went up in Q – in H1. Let's say, was there some delay in payments in there? Could you give some feeling what's happened there? Or there are some other figures – numbers in that line that explains the increase?

Peter Oosterveer: Okay. Thanks, Hans. I'll take the first question, and then I'll turn it over to Virginie again for the second one. So Australia is obviously still a very attractive market for us. We did indeed, actually already in Q4 of last year and then also in Q1, signal that projects are slipping because of focus of the government.

Unfortunately, we were not successful on one big project, which has been awarded in the meantime, at least not in the initial role we pursued. But quite often, when you're not successful on, for instance, the design role, there is an opportunity to pursue an independent verifier role. And that actually is always a nice reward in case you're not successful. So we're now pursuing that role on that same project.

And further on, there's still other opportunities, particularly in Melbourne and Sydney, which we are pursuing as we speak. So it maintains, or this continues to be a really attractive market for us with very good returns. Unfortunately, we were not successful on one big project, but we still have an opportunity to play a different role on that project.

Virginie, you want to take the cash flow question?

Virginie Duperat: Yes, for sure. In terms of cash flow, we had some repayments of tax deferrals in H1, and that will remain happening over H2 and probably also a little bit will impact the beginning of 2022. These are, let's say, schedules that has been set up by the various governmental organisation. And so we've just put the numbers when they are requested.

So, I guess that if you have a look towards the fact that year-on-year, we've been, let's say, this year, paying our normal VAT elements in H1, plus repaying some elements of last year that were deferred, you probably have a delta year-on-year of around €40 million, which is, let's say, some significant amount. The payments are quite regular, so I would say that we should probably have almost the same type of impact throughout the rest of the year.

[Inaudible] last point I missed in your question, Hans.

Hans Pluijgers: On the balance sheet, you saw an increase against the end of last year.

Virginie Duperat: Yeah.

Hans Pluijgers: Can you give maybe some feeling what's happening in there, if the payables increase, or are there some other costs in there that increases?

Virginie Duperat: So I would rather say that the elements that we had at year-end were quite unusual. And the vast majority of the difference between year-end and now is that at year-end, if you remember, we were just on the point of moving Netherlands and Germany towards Oracle implementation. And that for sure, let's say, triggered a payment behaviour of paying by anticipation to make sure that you don't have too many elements, from an accounting standpoint, to transfer from one system to the other.

Hans Pluijgers: Okay. Thanks.

Virginie Duperat: So that's the vast majority of the difference.

Hans Pluijgers: Yeah. Thank you.

Jurgen Pullens: Thanks, Virginie. Let's try again, Quirijn. I hope you can hear me.

Quirijn Mulder: I can hear you.

Jurgen Pullens: We can hear you. Please go ahead.

Quirijn Mulder: That's fine. Okay. A couple of questions. My first question is about the remarks of Peter about the projects. So 14 projects in the pocket. Is that not yet in the order book? How do I – should I see that? And the other 80 ones, are they a €1 million each? Or can you give me some minimum or some median numbers for that – for the sizes of these projects to get an idea about the size of this – what's coming up?

And then on the attrition rate, are you not afraid that it gets worse in the coming period with – especially in the US, given the – let me say, the demand side and the shortage of – the war for talent as your predecessor always said to us?

And my third question about the Far East, still lockdowns. But outside China, how do you look at the situation there? And do you expect some recovery in the coming period? Let me say, would it start already in second half, let me say, if COVID is over? Those are my three questions for this moment.

Peter Oosterveer: Okay. Thanks, Quirijn. So first of all, on the projects. The 14 I mentioned are in the pocket. If I do speak about projects, then I do generally mean that those are projects we already won. The 80 is just a number of projects we see in the pipeline, which obviously, as always, varies in size. These projects which are in the tens and tens of thousands. And then there is, of course, larger projects. So it is a huge variety of projects.

And we didn't necessarily wanted to suggest that we will continue to report on all these projects. We wanted to signal that we are seeing the beginning of the impact, the positive impact of the stimulus plans. And that some of the projects we are actually – have won are directly funded by stimulus plans. So there is a variety of projects.

The war for talent, yeah, it is inevitable. As I commented on Martijn question, Quirijn, that as the market gets more and more attractive, that people start to move again. I think that is compounded by the fact that people generally have stayed put for most of the pandemic, had not necessarily pursued any other opportunity. We are now seeing that as the world is opening up, people are looking for other opportunities.

We are seeing also clients actually taking people away. As painful as it is, it's probably less painful to see someone go to a client than to see someone go to a competitor, to be perfectly honest. And frankly speaking, clients are willing to pay salaries which we, in our industry – I'm

not talking about Arcadis alone, but probably also speak on behalf of our competitors – would typically not pay and then you just have to accept.

But you lose someone to a client, but could still be a good ambassador for you. I wouldn't necessarily dramatically say there is a war for talent going on. I still think that we have opportunities enough to retain people. And it comes down to creating the right environment, the right culture and maybe even more so to make sure that people have attractive opportunities to work on so that they have an opportunity to develop themselves. So it is not, at the end of the day, simply a matter of paying more money.

If you were to engage in only upping the salaries and not worry about anything else, I think you'll end up in a dead-end [inaudible]. But it is a fact that, as I said in response to Martijn's question, that if the market gets more attractive, attrition tends to go up. But I would not make it too dramatic at this point in time. I think we still have levers to pull.

And then work outside China. Yeah, it impacts, unfortunately, at this point in time, all the countries we work in outside China. So that includes the countries I mentioned, the Philippines, Malaysia, Thailand, Vietnam and Singapore. And those happen to be also countries where a fair number of our people are actually required to be at site. It is not necessarily similar to other places in the world where people have the facilities at home and the nature of the work actually allows people to not go to site. So as long as these countries will stay in that lockdown, it will probably be tough.

Now I don't want to overstate this because by the time you single out China from the rest of Asia, you end up with a number of countries which are all smaller than China, but it is still something which is impacting us, as we speak. And I don't think that if you look at the vaccination rate in some of these countries, which is obviously not comparable to what we see here and in other Western countries, this will probably go on for some time.

Quirijn Mulder: Okay. But let me say, if there's not a lot of – and let me say if there's a decline in revenues, in fact, in the Far East, how does that translate into the book-to-bill?

Peter Oosterveer: Yes. So, I think these things will typically go hand in hand. I mean, if there is – if a country is in a lockdown, not only are you impacted by the inability to perform the work, but you will likely also see that the opportunity to award new work is also being impacted. So, it goes hand in hand. It's not like we see a tremendous amount of opportunities which we are winning, while in the meantime, we can't perform the work. It goes hand in hand.

It's just at a slower pace than you would like to see or will see if the country is no longer in the lockdown. So it's just having an impact on the revenue, and it's obviously also having an impact on the book-to-bill. But again, by the time you exclude China from Asia, you're talking about 1% or 2% of the total revenue of Arcadis.

Quirijn Mulder: Yeah. Thank you.

Peter Oosterveer: Jurgen, you're on mute.

Jurgen Pullens: I'm sorry. I was on mute. Thanks, Peter. Martijn, I see you have some other questions in the chat. Maybe they are already answered. But I think I see you, so I think you still have a few questions. Go ahead.

Martijn den Drijver: Yes, I do have. Okay. At the Capital Markets Day, you mentioned that there are going to be €40 million to €60 million in investments, CAPEX and OPEX. If I look at your CAPEX total in the first half, €25 million. How should we think about these OPEX/CAPEX investments? Well, let's first deal with CAPEX investments in the second half of the year. Do you think it will end up at the lower end of the range of €40 million, or should we think about it ending up at the higher end of the range, so the €60 million? That's question one.

And then I have two accounting questions, if I may. If I look at your segmental reporting, there is a line 'Corporate/Unallocated'. And the number in the first half of 2021 was minus 15.2, while it was minus 6.2 in H1 of last year. And so there's a significant step-up in Corporate[?] in H2 or Unallocated. So could you please explain that? And I also saw in your overview of the provisions that you've added another €6 million provision for litigation, which follows on an addition in 2020 of €20 million for litigation. So is there something we should be worried about? Is this normal practice? Perhaps you can shed some light on that provision for litigation? Thank you.

Virginie Duperat: So thank you for your question, Martijn. And starting with CAPEX. As you said, we are almost, as we speak, at half year in the middle of the range. And so I guess that – with that, there's no reason not to be there towards H2. Might be a bit of acceleration in H2 because a little bit of inertia to start with. But this is the way I would say it, for sure.

In terms of corporate costs and such, part of this, let's say, investments that we make in our strategy do, let's say, refer to our strategic implementation and such. It's been a decision not to allocate that to the region and to keep that centrally. So that's why you have it over there, while, in fact, it concerns other standardisation, automation and such, and something getting along with the digital transformation of the company. And that's rather the increase that you can see in that amount.

And then on the litigation provision, I had the same remark as you did when I first turned my financial statements and said, come on, how can it happen? I'm not aware of any litigation. And this is the first consolidation of Whitehawk[?], which is our captive value insurance. And because we have a captive value insurance, we are now in a mechanism to apply similar methods as insurance companies do. We calculate actuarial provisions that are on the face of the balance sheet.

I think that it shouldn't become litigation because it's not – it's about having that a potential litigation and it's kind of self-insured[?] provision that you have to build around the mechanism of the captive. And that represents the increase. And we'll isolate that on the different line towards the year-end, because, frankly, same thing as you do, I think that that's not very easy at the first[?] rate.

Martijn den Drijver: Okay. So let me recap. The provision for litigation is actually – has nothing to do with an actual client filing a claim against Arcadis.

Virginie Duperat: No, there is no one behind it.

Martijn den Drijver: Okay.

Virginie Duperat: It's really mechanical actuarial provision that you need to bring it on an accounting standpoint when you have this sort of captive [inaudible].

Martijn den Drijver: Okay. And then on the Unallocated cost, I get the mechanism. I understood you mentioned automation. Can you maybe perhaps mention other elements that caused that Unallocated to go up? And if so, maybe put a number on it? So automation for example –

Virginie Duperat: Digital transformation, we've not been allocating that to the regions because that can be used by everyone. So we could either have divided that and spread that on the regions or leave it where it is. It is what has been decided to be done.

Martijn den Drijver: And what should I think about – and just to get a sense, these are applications that you've bought? These are staff engineers that have developed applications that support the service portfolio of Arcadis.

Virginie Duperat: Yes. Yes.

Martijn den Drijver: And because they are not yet available yet in the market during the development phase, you keep them in Unallocated. That's the explanation?

Virginie Duperat: Yes. And also, there is a new accounting pronouncement that this has, and that companies will have to apply for this year, where we will have quite difficulties to capitalise some of the cloud[?] developments that we make. And that will rather change and have an impact for a lot of companies probably towards year-end. That's something that has been issued quite recently and that companies are studying[?]. But that also made us quite prudent in what we capitalise and not.

Martijn den Drijver: Got it. Thank you for the clarifications. Those were my questions. Thank you.

Jurgen Pullens: So, I look to the... Are there any more questions? I don't see that in the queue and in the chat room. Please, if you have another question, please let us know.

Quirijn Mulder: Yeah, I have a question. Quirijn here.

Jurgen Pullens: Quirijn, yeah, please go ahead.

Quirijn Mulder: Yeah. So, we see net organic revenue 5.7% in the second quarter, up 0.5%. So Peter, what do you think about the second half? Is that sustainable, that number? Or is that the easy comparison with the second quarter of 2020, which plays a role here?

Peter Oosterveer: Good question, Quirijn. Obviously, you do know our commitment, our goal, if you like, which is mid-single-digit growth. And that is a goal which we still stand by.

Quirijn Mulder: I understand, but – okay, so that's the 3.5% to 6.5% net revenue growth, organically?

Peter Oosterveer: Yeah. That was the definition indeed. Yeah.

Quirijn Mulder: But let me say, is this 5.7% repeatable in the second half?

Peter Oosterveer: Well, it depends, of course, on circumstances, which we – to an extent, that are under control, which look favourable, such as growth of backlog, the ability to retain people and hire additional people. And then there's factors which we obviously do not have under control. And that is, is there going to be another wave of infections? Will there be an impact from the virus variant which we haven't recognised yet? So we are going to continue

to be on the prudent side. I think that it is safe to assume that the 3.5%, 6.5%, the mid-single digit is the bracket we will be within.

Quirijn Mulder: Okay. Thank you.

Jurgen Pullens: Thank you, Quirijn. I don't think there are other questions. I don't see them anymore in the chat. And by doing so, if there are no other questions, I will hand back to Peter for some closing remarks.

Peter Oosterveer: Yeah. Thank you, Jurgen. And thanks again for everyone to join us, particularly if you are on vacation, really appreciate the interest in Arcadis. Needless to say that I'm sitting here being really pleased with our performance. And that performance and that pleasure comes when looking pretty much at all our metrics.

Pleased with our backlog development, in particular, because performance we delivered this quarter without growth of backlog would provide a bit of a shaky foundation for future growth. But the fact that we continue to win a more than fair share of opportunities adds to the confidence I have in where we are as a company. We are in an attractive market that comes with a lot of opportunities, that comes with a lot of positive implications. But it also, as you rightfully mentioned, comes with some other consequences, which includes focus needed on retaining people. And that focus is clearly there.

We do see that, as we've commented throughout the whole pandemic, that making sure that we don't lose our people is probably our best ticket and our best guarantee for future success.

But all in all, looking at our performance, the status of the company, the outlook and opportunities gives me, as we said in our press release, confidence that we will be able to deliver on the goals we are committed to deliver on when we launched them in November of last year during the Capital Markets Day.

So with that, thanks again for your interest and for your active participation today. And hope that soon, sooner rather than later, we will see you again in person. Thanks, everyone.

[END OF TRANSCRIPT]