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# **Arcadis Q3 2023 Results**

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## Arcadis Q3 2023 Results

**Operator:** Hello, and welcome to the Arcadis NV Q3 Trading Update call. My name is Laura, and I will be your coordinator for today's event. Please note, this call is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Christine Disch, Investor Relations Director, to begin today's conference. Thank you.

**Christine Disch:** Thank you, Laura, and good morning, and good afternoon, everyone, and welcome to our audiocast. My name is Christine Disch, and I'm the Investor Relations Director at Arcadis.

We are here today to discuss Arcadis' third quarter trading update, which was released this morning. With us on the call are Alan Brookes, CEO; and Virginie Duperat, our CFO. We will start with the presentation by Alan and Virginie, which will be followed by Q&A.

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 that any of the risks related to these statements are more fully described in the press release, on the company's website and at the end of today's presentation.

Now with these formalities out of way, Alan, please over to you.

**Alan Brookes:** Thank you, Christine, and good morning, good afternoon, and a very warm welcome to everyone joining us on the call today.

Arcadis has delivered another strong quarter. This is driven by continued client demand, particularly in environmental remediation, energy transition and innovative mobility solutions. We have achieved record net revenue for the quarter of €932 million, up 26% year-on-year and with strong organic growth of 9%.

Growth was driven by increased use of digital solutions, serving our recurring client base and leveraging our global expertise. Our operating margin increased to 10.6% for the quarter. This is up from 10.3% in Q3 2022. On a year-to-date basis, our operating margin now stands at 10.1%. This fully meets our strategic target of above 10%. This target was set for ourselves in the current strategy cycle, which is to be delivered by the end of this year.

Our results confirm that the operating model we introduced last year and our strategic focus on high-growth markets is indeed delivering, and we are on track to achieve our financial strategic targets for the year.

In addition, voluntary turnover is down from 15.4% in 2022 to 12% this quarter. This continues to move in the right direction. We see the benefits of the measures we undertook a year ago across our talent and people processes, and this is starting to really bring the benefits that we hoped for.

If we then turn to our GBAs, we can start with Resilience. We continue to see strong momentum. Net revenues were up 11.2% organically, and our net backlog grew 12% organically. This

compared to Q3 last year. The market remains very strong with continued high demand for our solutions on climate adaptation, PFAS and energy transition.

Tightening regulations in wastewater treatment, both in the US and the UK are driving further demand in water optimisation with multiple opportunities in our pipeline. In environmental remediation, which is an area Arcadis has long had a successful history, client demand continues to soar and leveraging our leadership position is driving very strong growth across our portfolio.

We see multiple opportunities that play towards cleaning sites from PFAS, which are concentrated around PFAS manufacturers and firefighting for petrochemical industries, federal and aviation clients. And energy transition is an area we continue to grow our expertise, being ideally placed to support our clients in delivering complex and large scale projects. These include gas extraction site restoration, hydrogen and CO<sub>2</sub> transport lines, wind farms and power grids.

One such project, as an example, is our work for transmission system operator, Amprion in Germany, where we were recently commissioned to undertake the initial conceptual phases of route planning for the 500-kilometre long Rhein-Main-Link Energy route. This is one of Germany's key grid expansion projects and aims to supply the country with climate neutral energy by 2045.

Energy transition is a very important priority sector for Arcadis, and projects like this are game-changing when it comes to accelerating the transition to a net-zero future.

If we now turn to our Places business, here, we saw mixed market conditions with good performance in North America and across Continental Europe, offset by weaker conditions, mostly in China and in the UK, resulting in flat organic growth overall for the quarter.

We continue to shift our Places portfolio towards industrial manufacturing, where indeed we do see high demand with clients having to deal with increasing complexities. Our leading position in this market with a complementary offering and global expertise empowers us to capitalise on this opportunity.

For example, in the US, we recently supported a major educational institution in New York State, in completing the design build of a semiconductor fabrication complex. The facility will be used to train the next-generation of semiconductor technicians and experts for R&D for major semiconductor manufacturers and for pilot scale production. This draws on the IRA stimulus.

Our pipeline remains resilient with opportunities partly driven by government stimulus packages. However, visibility is somewhat lower of the timing of some awards, which we expect to see more of in 2024. We have already started to see the early benefits of the CHIPS Act in the US market. First round of funding from the US Department of Commerce has just been released, and is targeted at large investments of some of our key clients.

It will also have material impact in European markets starting from next year. We are well positioned to benefit from the tailwinds in semiconductor markets with the combined capabilities of Arcadis and Arcadis DPS.

We continue to expand and leverage our global service offering with additional capabilities and skills from within architecture and urbanism and Arcadis DPS, which proves very successful with clients, particularly those with facilities and projects in multiple geographies. We have a healthy backlog for architecture and urbanism.

The public sector is looking positive across health, education and housing. I'd like to highlight our recent work in smart sustainable buildings in Cornwall, UK, where we are named the council sole provider for multidisciplinary services driving their development and regeneration of assets by delivering new infrastructure and urban planning, which includes housing, environmental projects and educational buildings.

Through the provision of an embedded program management office in the council, we will support them in achieving their objective of a carbon-neutral Cornwall. This new contract aligns with our Places strategy to obtain more strategic partnerships with local governments and builds on our work across the Southwest.

If next, we look towards Mobility. Organic growth was very strong in the quarter at 14.6% year-on-year, while we managed to increase the net backlog by 4.8%, driven by the US and Europe and in particular, Germany. Increasing complexities and demand for electrification and decarbonisation solutions continue to drive growth for our connected highways and intelligent rail solutions, where our digital innovations represent a clear differentiator.

A notable example is Bridge Health, a new digital tool for bridge inspections, which we launched in this quarter. Our solution for inspection and monitoring will make the maintenance process far more efficient, safer and less disruptive. Through this, we are bringing an innovative and scalable solution to many asset management challenges worldwide.

Record immigrants in Canada this year drive need for updated infrastructure, which results in numerous projects for which our Mobility and architecture and urbanism teams work closely together to provide master planning.

One good example for Mobility and Intelligence collaboration is our work with Atlanta Regional Commission in the US. We were appointed to provide programme management services for Georgia Commute options programme. This aims to reduce the number of single occupant vehicles and improve air quality in the Atlanta region.

To achieve this, we are drawing on our global experience in transportation demand management and leveraging the digital dashboarding capabilities of Intelligence GBA using their data software product to analyse the journeys.

So now if we turn to the Intelligence GBA, our newest and fourth area of business. Here again, we saw strong performance across regions, in particular in North America and the UK, with pro forma organic growth of 22.8% year-on-year, and net backlog growth of 14.2%.

Enterprise software spend is expected to accelerate and indeed be it at peak next year in 2024, and our strong market proposition positions us well. Strong GBA collaboration supports our comprehensive digital solution offering. And through our client partnerships, we develop new solutions. Through this, we have already delivered numerous key client wins.

In North America, for example, our collaboration with Mobility led to important wins in enterprise decision analytics, or as we call it EDA. We also have multiple opportunities in our pipeline for digital water solutions. Our clients are increasingly turning to data and digital tools to build efficiencies and improve the performance of their asset portfolios.

We work in partnership with them to embed these tools, which include our EDA tool that is already being successfully utilised by clients globally. I am really delighted by the success of

EDA, which only recently was recognised as one of the market leaders in an asset investment planning space by Verdantix and received top scores for its technical and functional capabilities.

This quarter, we were awarded a five-year EDA contract with Infrastructure Ontario to support their asset management goals. The project commenced in September, and we look forward to building on our industry-leading expertise in this area to support Infrastructure Ontario with this innovative solution.

This is a great example of how Arcadis is combining digital and human intelligence to consistently deliver value to our clients.

With this, I will now hand over to Virginie to talk through the financial results in a little more detail.

**Virginie Duperat-Vergne:** Thank you, Alan, and good morning, good afternoon, everyone. In the third quarter of 2023, Arcadis delivered a strong set of results with improved performance across key metrics.

Our net revenue increased 26% year-on-year to €932 million in Q3, with 9% organic growth. The currency impact on revenue growth stood at minus 5% for the quarter, mainly driven by weaker dollar in the United States and in Australia.

Our operating EBITDA was €99 million in the third quarter compared to €76 million in the third quarter 2022, up 30% year-on-year. Operating EBITDA margin improved to 10.6% relative to 10.3% last year and with year-to-date margin of 10.1%, we already met our 2023 strategic target.

We maintained our disciplined net working capital management while reducing days sales outstanding to 68 days versus 72 days one year ago. Free cash flow was strong, up to €117 million versus €38 million one year ago, reflecting our strong billing performance and the increased size of the business, combined with our usual seasonality pattern. Our net working capital reduced to 12.9% from 13.8% one year ago.

Moving now to our next slide to talk about organic growth trends in our GBA. Our strong 9% organic net revenue growth in the third quarter was driven by continued solid momentum in Resilience, Mobility and Intelligence, offsetting the flat performance at Places.

In the third quarter, Resilience saw significant organic revenue growth, as a result of positive trends in energy transition and environmental remediation. All in all, tailwinds are promising, and we are well-positioned to benefit from this.

Places showed flat organic growth with solid growth in North America and Europe, especially in Germany, offsetting softness in some markets like China and the UK. We continue shifting our portfolio towards geographies like North America, while focusing more on growth areas such as industrial manufacturing.

In Mobility, we registered 15% organic growth for the quarter, with strong performance recorded across all markets, particularly in North America and Europe. Our joint wins with architecture and urbanism continued to contribute to growth in new markets.

And finally, in Intelligence, we see strong growth of 23%, driven by North America and UK. Our market proposition remains strong with an expected acceleration in enterprise software spend

in the market. Pipeline is promising with significant opportunities stemming from cross GBA collaboration.

Overall, our well diversified portfolio with complementary activities enables us to leverage our capabilities to provide global offerings to our clients with increased collaboration from cross GBA.

And now let's move to the next slide to talk about our backlog.

We closed the third quarter with a total net revenue backlog of €3.1 billion, reflecting an organic backlog growth of 5% - 5.4% year-on-year as of this quarter, inclusive of Arcadis IBI, which demonstrates another quarter of solid growth. The backlog development is reflecting continued high market demand for Resilience offsetting softer market conditions in some of our geographies in Places.

Looking at the trends, we successfully increased our backlog organically during the course of our last strategy cycle. Our well diversified portfolio helps us to maintain the momentum in our organic growth. We are well positioned to benefit from increased global government spending and stimulus on onshoring of industrial manufacturing, climate adaptation and environmental remediation, energy transition and investments in aged infrastructure.

We have seen the early benefits of funds being allocated and awarded but the larger amount is expected to hit our order books in 2024 and beyond, being announced but not yet allocated or not yet spent at the moment. All in all, order intake and backlog development reflect our disciplined project and portfolio approach to drive profitable growth, and our pipeline continues to grow and is reflecting the ample opportunities that we see for 2024 and beyond.

And with that, I will now hand you back to Alan.

**Alan Brookes:** Thank you, Virginie. So to wrap up our Q3 trading update, let me summarise.

Our portfolio management and our focus serve us well. We have delivered another strong quarter with a positive outlook for the rest of this year. We are on track to deliver across all our financial targets this year with strong margin improvements and our year-to-date margin at 10.1%, in line with the strategic targets of being greater than 10%.

We saw excellent performance in the quarter with solid order intake, good pipeline developments and strong cash generation, and we remain well positioned to capitalise on the significant market opportunities across all our end markets.

And I would like to close with a reminder that we will be holding our Capital Markets Day event in London on 16<sup>th</sup> November, where we will present our three-year business strategy.

And with that, I'll now hand back to Laura for any questions that you may have.

## Questions and Answers

**Operator:** Thank you, Alan. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. And in the interest of time, we kindly ask you to limit yourselves to two questions only. Thank you. We'll now take our first question from Martijn den Drijver at ODDO ABN AMRO. Your line is open. Please go ahead.

**Martijn den Drijver (ABM AMRO):** Yes, thank you, operator. My first question is with regards to Places. If you look at the organic growth, if you look at the backlog growth, there's clearly headwinds. How do you - how long do you think that weakness will last? And what will you do? Or what can you do to maintain those solid margins that you reported in the first half of 2023? That would be my first question.

**Alan Brookes:** Okay. Martijn, thank you for the question. I think we've seen, to be clear, some challenges in the real estate sector and what we have been doing is looking to reposition Places, and we think that in looking at this, we are positioned well for the future.

We've aligned ourselves to the stimulus packages, particularly around the semiconductor market but also other areas that we see that we can benefit from with our architecture and urbanism. So we have now been more selective. And what we're trying to do here is balance the growth that we want to see in the future with the selectivity to maintain the margins.

And this we've done by very much a focus on industrial manufacturing of data centres, gigafactories. And what we expect to see is the stimulus packages start to come through towards the start of next year.

I mentioned in the presentation, we've seen our first release of monies around 22% by the US Department of Commerce, and we expect more to follow. So that's what we're aligned to. And indeed, the first release is perfectly aligned to some of our clients in the US already. So we expect now to just be more focused and more selective into the future, and we expect to see a pickup through next year.

**Martijn den Drijver:** Got it. Okay. Then my second question is on the 9% organic growth. Can you perhaps elaborate a little bit on how much was price or rate increases? And how much was volume? And related to that, how many FTEs did you add in the quarter?

**Virginie Duperat-Vergne:** Thank you, Martijn. Maybe I'll take this one. 9% organic growth, let's say, that without saying something very different from the previous quarter. Probably what we see currently is half of it is about inflation, and then the rest is about volume, definitely. That's absolutely visible in the Resilience element because the Resilience is a lot of recent backlog on what comes from Mobility. It might be a bit different from - than our big chunks, which are still being executed from the past.

But definitely, what we see in terms of new order intake in Resilience in particular, and in the recent order intake we are taking in Mobility and Places is a half-half split.

**Alan Brookes:** Maybe just to add to that, Martijn, I think we see about 3% to 4% underlying growth in FTEs. But what we're really pleased about is the vast majority of that is in our GEC, which is something we want to see going forward.

**Virginie Duperat-Vergne:** Yeah.,

**Martijn den Drijver:** Absolutely. Thank you.

**Operator:** We will now move on to our next question from Hans at Kepler Cheuvreux. Your line is open. Please go ahead.

**Hans Pluijgers (Kepler Cheuvreux):** Yes. Good morning, all. Good afternoon, all. Going - looking at the acquisitions, IBI and DPS, can you give maybe give some feeling on the organic

growth of those two operations? Are they still just showing solid growth in line with, let's say, the company average, or maybe you can tell a little bit how to depreciate from that?

And secondly, on architectural. Could you give me some feeling on how that, let's say, combined business now is developing and especially also looking at the margin side, previous quarter, you said indicated that it was, let's say, broadly in line with that of Places. Do you still see clear improvements there? Could you maybe some more background on that part of the business?

**Alan Brookes:** Okay. So just what we're seeing with the organic growth side of things is DPS, we are being much more selective. So I think with DPS, we saw the growth towards the end of last year. This year, we've been far more selective to try and get into much more focus on the margin and the opportunity, and that's been relatively flat for this year.

I think with IBI, again, we have seen some good selectivity and some good growth there. We've seen a very good improvement year-on-year and through the quarter. So we're very pleased with the architecture - with the, sorry, IBI. And then just to focus on architecture and urbanism, we see this really very, very strong.

We've got about 15 months backlog there, and we're already 70% secure when we come into 2024. And I think that aligns to, again, the markets that we focused on with climate design, net-zero design, etc. So very pleasing to see in that area. So a good position for us, I think, looking to the future.

**Hans Pluijgers:** And on the profitability of that business?

**Alan Brookes:** The profitability of the business has been pretty consistent. Actually, it's no longer dilutionary if that's what you're asking overall as we've combined it. We expect to see profitability though, going forward.

**Hans Pluijgers:** Okay, thanks.

**Operator:** Thank you. Once again, ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will now move on to our next question from Anthony Manning at Bank of America. Your line is open. Please go ahead.

**Anthony Manning (Bank of America):** Hi. Good afternoon. Thanks for taking my questions. First one would just be on the picture in Europe. It seems like you're seeing different trends in different regions and across different end markets. So I was just hoping for a bit more colour there. What's the strongest areas and what may be the weakest? And how is that impacting your backlog?

And then the second one would just be on what is the current kind of underlying wage growth that you're seeing in labour cost inflation? And how do you expect that to trend going through into next year? I would say your comment on kind of the retention rate going down? Is that less competition from peers across the market? And so, yeah, how are you seeing the labour market at present?

**Alan Brookes:** Thanks, Anthony. Maybe if I just start off. I think you're right to say, I mean, Europe, for us, we've seen some, I guess, the strongest growth, I would say, is Germany across all three GBAs. We've really got a position there where we see huge opportunity in Germany and be that from the energy transition, be it from, for instance, the sort of semiconductor type

markets, and we're seeing opportunity in rail, mobility and so on. So I think in Germany, I would probably call out. I said on the presentation, we've just seen the energy wind in the North Sea with Amprion come through for the new connector there. So some really good opportunities coming through.

Across Europe, we do see opportunities. We're expecting to see more consistency with obviously the European CHIPS Act. We're seeing inquiry levels coming in, and we want to just see now that these turn to fruition.

In terms of - we don't see particularly tough markets in Europe in terms of huge downturn or risk in that sort of sense from the countries in which we operate. But I would say the benefit that we're seeing is actually getting the whole of Europe connected with more flexibility around our resources to support where the opportunities are landing. And maybe do you want to touch on wage inflation?

**Virginie Duperat-Vergne:** Yes. Obviously. Thank you. Hi, Anthony. On wage inflation, Q3 is not particularly a quarter which is impacted by that. So nothing different this quarter on the previous one. But we more or less see less pressure maybe than we have seen in previous years, and we expect that to continue. Nothing has changed on our side. We do an increase in H1 and that happened in April as always.

And that's what we've seen up to now. What we see even coming from some specific markets where we've seen a lot of pressure last year and the year before is that next year, we might get a bit less pressure, and that I think are the positive signs that we see on that aspect.

**Anthony Manning:** Okay. That's great. Thank you very much for the colour.

**Operator:** Thank you. We'll now move on to a follow-up question from Martijn den Drijver at ABN AMRO. Your line is open. Please go ahead.

**Martijn den Drijver:** Yes, thank you. I just wanted to touch base on the Middle East because you exclude that from your organic growth but it's still included in operating EBITDA. So just to understand the underlying performance, would you be able to share with us what the - even in rough numbers, what the EBITDA loss was for the Middle East this year relatively to last year? So we have a better understanding of that improvement in margins. And perhaps can you also share on the same subject what we should expect going forward? Will the Middle East be completely wind down in 2024? Or is that still something that may linger on more? That would be question one.

And the second question is, you have €8 million in non-operating costs. Obviously, there's still some restructuring integration costs. But are there also savings coming from those non-operating costs? Or would that be too positive to assume?

**Virginie Duperat-Vergne:** So let's start with the non-operating cost. Non-operating cost this quarter is largely about, obviously, the integration costs that are still happening. And vast majority of that is on euros contracts in leases. We have emptied some offices, but we still have those offices at the moment, either because we have not let them back to the landlord or that the sublet has not started yet. And then that's what you find in the cost beyond.

We've been having a little bit of restructuring, but I would say that the biggest chunk of restructuring is not yet in and might rather happen in 2024.

**Anthony Manning:** Got it.

**Alan Brookes:** If we look at the Middle East, we would say the - in the quarter, we saw an impact of about 0.3% on margin from the Middle East. So I think that's probably the level it's at.

In terms of the position for the Middle East going forward, we are aiming to be out of the Middle East by the end of next year. There may be some wind-down costs associated with coming out of the - if you like, the bank accounts and some people just to wind the final end of that, but actually our rates will be out from a trading position by the end of next year, and that's what we're working on now.

So that's just to complete the contracts that we committed to and said that we would not walk away from. I think what we are looking to though is make sure we can do this as quickly as we can and as effectively as we can. But it will be more of a cost next year as we stop the projects, but obviously wind down the final position there.

We are significantly smaller now. We are literally probably, I would say, maybe 10% to 15% of the size we were when we started the exercise. So there's been a significant reduction already.

**Martijn den Drijver:** And just a small follow-up, that 0.3% impact. What was that roughly in the year before? Virginia, maybe you know that?

**Virginie Duperat-Vergne:** Well, I would say the same, but let me check because I have a small range. Sorry for that.

**Martijn den Drijver:** No problem. Thank you very much.

**Alan Brookes:** Thank you.

**Operator:** Thank you. There are no further questions in queue. As a final reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will now take our next question from Kristof Samoy at KBC Securities. Your line is open. Please go ahead.

**Kristof Samoy (KBC Securities):** Hello. Good afternoon. It's Kristof Samoy here. I have a question on the integration of IBI and DPS. Can you shed some light on potential update of the synergy potential and the involvement of the global centres of excellence?

And secondly, when do you plan to start the Oracle rollout at these two entities? And then final question, can you give some more colour on the attrition rate in the third quarter?

**Alan Brookes:** Okay. In terms of where we're up to, to start with. So integration with both entities will be complete by the end of the year. We will stand the final DPS business next month in November. And this will be the end of the cycle because we will then say both businesses are fully integrated as part of Places and Intelligence. So I think we've got a good position there.

We continue to see good synergies. We've said on the cost synergies, we would be over €4 million. We're still on track for that this year and over €100 million in our revenue synergies. And again, that continues to grow. We are currently with DPS looking at the move of their centralised support - technical support teams into the GECs, and that's an action that we're currently taking through Q4 and into next year. So that will continue to see benefits as we move into 2024.

And on Oracle, we are looking at that now. But Virginie, anything you else you want to add to that?

**Virginie Duperat-Vergne:** So on Oracle, we have now several large ERPs with the acquisition. So then our - also ERP strategy might be different depending on what we are seeing, especially as we have now with BSC[?] something which is well tailored for architecture and urbanism. So that's something which we are observing and what we have built in between is the interfaces that we need to have the people work collectively in different systems and for us also to repatriate all the data that we need. And for the central team present that they are working in a single tool and that works well.

**Alan Brookes:** And then on your people question, if I may, Kristof. We said the turnover was down to 12%, which we're really pleased with. Indeed, we see even lower in some parts of our business, such as Europe. And I think we're really pleased to see that in terms of retaining our core capability.

At the same time, our engagement score from our staff survey has risen to an all-time high of 51, which we're really pleased to see that our people are very much engaged and really seeing that as positive. And we will continue to take note of what they tell us so that we continue to move forward there. So again, some good work out.

And in terms of the acquisitions, we don't see anything different than the rest of Arcadis when we look at the underlying performance in terms of attrition.

**Kristof Samoy:** Okay. Thank you.

**Operator:** Thank you. And we'll now move on to our next question from Sabahat Khan at RBC Capital Markets. Your line is open. Please go ahead.

**Sabahat Khan (RBC):** Great. Thanks very much, and good morning. Just a question, I guess, we've been seeing across kind of the broader renewable space, some of the specific renewables focused firms have seen a bit of a pullback. I'm just curious from your perspective, what are you seeing amongst your renewables related customers in the kind of that silo?

**Alan Brookes:** Yeah. I think we've seen good pipeline inquiries there. I mean I mentioned the one in Germany in terms of renewables, and we're seeing a level of inquiry coming through for our energy transition. It's been one of our strongest areas as we move forward. In fact, we've set up an energy transition academy internally to develop more people and capability in this area because we're seeing pulls on this, not only from wind but also solar and looking at grid improvements.

So I think we've seen quite significant opportunity coming through. So not only pull back, I would say, I think people are looking at what the best answers are in terms of what they can do. There is some talk still in Europe, do we need to look at nuclear - the latest nuclear as part of any transition or can we get renewable energy to move as fast as people needed.

But overall, I would say, no, this is probably one of our strongest growth markets and one that we definitely see more opportunity coming through that we want to make sure we can staff up. So no, it's very good for us.

**Sabahat Khan:** Okay. Great. And then I guess talked a little bit about the CHIPS Act. Just curious as you kind of look out to the IIJA, just hoping for an update on kind of the funding

expectation, how you expect that rollout to be through kind of calendar Q4 and into 2024? Is it in line with your expectations? How is that trending? There's been a bunch of a bit of a political kind of gridlock-type situation in the US. Just wondering if that's affected in any way.

**Alan Brookes:** Yes, it's a good question because I think what we were expecting is the movement of funds a little quicker. Hence why, to some extent, why Places was a little flat because we have major opportunities in the pipeline. It's good to see the release in sort of Texas, New York, Arizona, Ohio, but this represents around 20%, 22% of funding.

So what we're expecting through the rest of Q4 and into early - into early 2024 is to see the remainder of the allocation. I think we're well set up there. And we - it's the same, to be honest, in Europe, it's just been a bit slower when you look at the CHIPS Act there in the same way. But we're expecting to see quite a significant rollout of the funding into early 2024.

What I can say is there's quite a few pilot schemes being commissioned now as in starting to see the early signs of let's put the plans together. And I'm hoping this will then generate fairly quickly into the main schemes to follow in 2024. So that's what we're tracking very carefully right now.

**Sabahat Khan:** Okay. Thanks very much for the time.

**Alan Brookes:** Okay.

**Operator:** Thank you. And we will now move on to our next question from Quirijn - follow-up question from Quirijn at ING. Your line is open. Please go ahead.

**Quirijn Mulder (ING):** Yeah. Good morning, everyone. Question from my side on the Australian part. So what are your expectations for Australia at this moment? And how is Mobility going forward? And how is the government continue to speed up its investments in infrastructure?

**Alan Brookes:** I will start off and maybe Virginie can add. So for Australia, I would say, we just stick with Australia part of Mobility first, we see huge opportunities there, but they are quite binary. And we haven't seen any particular slowing in the sort of sense of that opportunity. But as I say, they are quite binary, really quite big opportunities. Some of the biggest opportunities we've actually seen. And we look at that in terms of the work now. There are sort of the Northeast link in Australia is coming through, for example, but also some really big opportunities.

We need to track these and make sure that they land and we're hoping to see that they will convert. It's not particularly affecting our Mobility overall because we've seen significant work really coming through elsewhere in the world. So Canada, funny enough in the US with some significant opportunities there. The work that we're winning in France, for example, on the rail lines there. And just so as we're clear on the UK, which is probably worth just touching on, if we look at HS2, our work will continue there because we were only in phase one and the work for HS2 we feel will continue through next year.

We're also involved in the Birmingham Curzon Street Station, which will obviously continue as part of phase one and looking at the Washwood Heath depot. We have no backlog in phase two, that has been cancelled/postponed. And that was only an opportunity.

What we are doing with Mobility as well, though, is we're very well connected in the UK with the Northern Powerhouse. I was with the CEO two weeks ago, and we're following the money there. So I think no impact for us in that sort of sense from the HS2 commission. So that maintains a strong position for us.

And then when you combine that with Germany, with France, and the opportunities that I mentioned in Australia, we feel very confident about Mobility into the future.

**Quirijn Mulder:** Okay. So you have no feeling that are - let me say, limitations on the Bridge Health yet or is anywhere for Mobility?

**Alan Brookes:** No. Not seen it, yes.

**Quirijn Mulder:** Okay. The other question I had was, are you moving - allocating source out of Places to Mobility at this moment?

**Alan Brookes:** Yeah. We make sure that we move any people around the world that make sure that we can get maximum utilisation of our people. So if we see some people, for example, rolling off any commissions, then we will use them elsewhere. So we have a very strong workforce planning capability that looks to maximise our people's use.

But also, first and foremost, I would say the reason we set up our global business areas is to make sure we maximise people within the business areas that they're in across the world for our client delivery. So improved use there, which I think I mentioned why I used the word portfolio management is this is exactly what we're doing. We're managing across our portfolios to maximise the opportunities available to us.

**Quirijn Mulder:** But there must be some limitations to it, given, let me say, knowledge people hasn't experience. You cannot make someone who is an architect making someone who is a specialist in war.

**Alan Brookes:** No. I don't mean if they're specialists and we can't utilise them, then obviously, we will right-size. There's no doubt about that because that would be opportunity we would take. So if there is a specialist there, then yes. But I mean, you've got to remember that some of our capabilities like project management are commutable into other areas. And I think what we have seen is in the same way that we've seen people moving into energy transition we have training schemes to move people.

So it would only be true specialists if we sort of had those sort of people, and we can't see anything coming into the future, then, of course, we will let people go because we don't want to have a cost with no revenue.

**Virginie Duperat-Vergne:** And also, Quirijn, if I may, we do that from one country to the other. So then as we said earlier, Canada is quite strong. So then we are currently also having some things moving from the UK to Canada because that is helpful for a few projects.

**Quirijn Mulder:** Okay. Thank you.

**Operator:** Thank you. We'll take our next question from Maarten Verbeek at The Idea. Your line is open. Please go ahead.

**Maarten Verbeek (The IDEA):** Good afternoon. It's Maarten Verbeek at The Idea. Two questions from my side, please. Firstly, could you more or less provide a breakdown - a rough

breakdown of your client portfolio? So into private clients, public and utilities. And does that differ over the global business areas?

And secondly, if I recall well, IBI and DPS had been awarded a project in Israel. First of all, is it a large project? And is that now being endangered by the current situation there?

**Virginie Duperat-Vergne:** Thank you, Maarten. On our client portfolio in terms of public versus private, more or less, the split has not been changing. And then we are still across 50-50. Obviously, that is different from one GBA to another. You are far more private if you go to Places GBA, probably 70-30 and the other way around, you have more public if you are in Mobility domain, 70-30, and Resilience is a nice mix of both of us or - of both of them, sorry. So that gives you a view on the portfolio.

And on Israel, maybe, Alan, you want to take that one.

**Alan Brookes:** Yes. Thank you, Maarten. We have about 60, 70 people in Israel across both the acquired businesses. For IBI, it is the metro. And that is largely coming towards the end of the project. And we are looking at this in terms of probably just seeing it will slow whilst the - is the activity there, but it's not significant.

On DPS, it is a semiconductor factory, one of the first to be commissioned. And that's one they've told us is one that they want to continue to proceed with. What we've done is initiated our crisis response team to make sure our people are safe, first and foremost, looking at our people.

So it's not a significant part of our business. But first, we'll look after our people. And second, we are likely depending on what happens in the country, but likely to see the semiconductor plants go ahead on the metro while although near the end, probably pause just to complete.

**Virginie Duperat-Vergne:** And just maybe to mention, you know that the total amount of backlog, which is at stake is below €10 million.

**Maarten Verbeek:** Thank you very much.

**Operator:** And we'll now take our follow-up question from Hans at Kepler Cheuvreux. Your line is open. Please go ahead.

**Hans Pluijgers:** Yes. Thanks again. Two questions from my side. First on China. That actually has been already - was somewhat longer few quarters, that's more difficulty there. Could you maybe give some feeling what - which sector, especially there the issues are? And how do you, let's say, position that activity also going forward? Are you making any changes there?

And secondly, on the free cash flow. Very strong performance in Q3. I understand mainly, that's a clear focus on DSO. What do you see still there possible going forward? Do you still see a good further decline in DSO? So give maybe some feeling on the outlook there?

**Alan Brookes:** Thanks, Hans. I'll take the first part there on China. China represents now around less than 3%, I think, of our total revenues. We've continued and will continue to be selective.

So on the first part, what we've been doing is only working for the Tier 1 China clients, and they will be the international clients who have recognised funding. So clients like Alphabet, for example, are the ones that we're looking at.

We've also been shifting our work in China from exclusively doing cost management to more project management, which is higher margin. And we've been continuing, you will see a continued reduction in our sort of backlog there because we will continue the journey of being more and more selective so we reduce our exposure. And as I say, this will only link to the globally active clients from China.

So we will continue the journey we've been on and make sure that we don't expose ourselves. And as I say, it is a relatively small part of our business now. But maybe I'll hand to Virginie for the free cash flow comment.

**Virginie Duperat-Vergne:** Thank you, Alan. On the free cash flow, Hans, definitely very good performance and expected for Q3. To highlight some of the key things, the billing performance is strong and it's strong all across the board, meaning that including the acquisitions, everyone is working on the same reason to convert a work in process into billing. And that's one of the main, let's say, accelerator factor on the cash flow generation of the quarter.

In terms of what can still be done? Okay. As a CFO, I'm still not yet satisfied with the level of overdues and what we can do there. We have ample opportunity to go on working on the working capital of the two companies we integrated and further reduce the level of overdues on that front. And that's something that we can go on working on Q4 and further. So no, that's not the end of improvement of cash flow.

**Maarten Verbeek:** Okay, thanks.

**Operator:** Thank you. There are no further questions in queue. I will now hand it back to Alan Brookes for closing remarks. Thank you.

**Alan Brookes:** Thanks, Laura. Well, thank you all for joining the call today. This is our last quarterly update before our Capital Markets Day, and we're very proud to have delivered a consistent improvement in all our strategic financial metrics, as we promised three years ago.

We are excited by the significant opportunities to come and we continue to be very well positioned to address the ever more complex needs of our clients. We are staying very close to them to track their needs and align our futures with them. Our focus will remain on leveraging our leadership positions globally with the help of increased collaboration across our teams from all our global business areas.

All the strategic steps that we have been taking over the last few years further build our confidence in the future of Arcadis. I'm looking forward to talking more about our strategy for the next three years during our Capital Markets Day on 16<sup>th</sup> November in London. And I hope many of you, if not all of you will be able to join us.

So thank you again, and goodbye for now.

**Operator:** Thank you. This concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]