

Arcadis Q4 & FY 2022 Results

Thursday, 16th February 2023

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Operator: Good day, and welcome to Arcadis NV Fourth Quarter and Full Year 2022 Results Call. Today's call is being recorded.

I would now like to hand the call over to Christine Disch, Investor Relations Director. Please go ahead.

Christine Disch: Thank you. Good morning and good afternoon, everyone, and welcome to this conference call. My name is Christine Disch, and I'm the Investor Relations Director at Arcadis. We are here to discuss Arcadis fourth quarter and full year results released this morning. With us here on the call are Peter Oosterveer, our CEO; and Virginie Duperat, our CFO.

We will start with a presentation by Virginie and Peter and that 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 any of these risks related to these statements, which are mostly described in the press release and on the company's website.

With this out of the way, Peter, over to you.

Peter Oosterveer: Yes. Thank you, Christine. And good morning, good afternoon also on my behalf and welcome to our full year and fourth quarter results call.

I'm pleased to report that 2022 has been another strong year for Arcadis both from the perspective of our performance as well as being a year, which I would describe as foundational and pivotable for the future success of our business. We have continued to see strong performance and profitable organic growth by our three existing Global Business Areas: Resilience, Places and Mobility.

Our net revenue for the full year is at a record high just over €3 billion, while we more than replenished this revenue through a historically high backlog of just over €3.1 billion. And this has been driven by a continued client demand in many areas, and specifically related to the energy transition, to new mobility and industrial manufacturing services and solutions.

Our operating EBITDA margin improved to 9.8%, up from 9.6% in 2021, evidence that our new operating model, which we put in place at the beginning of 2022 is working.

I'm also very pleased with the significant progress we've made in delivering on our strategic priorities: firstly, through the implementation of a new GBA structure; and secondly, to strategically repositioning the business with the acquisition of attractive new businesses: IBI, DPS, Giftge Consulting and HydroNET, as well as by divesting some of our non-core businesses.

And finally, what has also pleased me is the fact that we have achieved these strong results in the face of unprecedented geopolitical tension and increased economic uncertainty. It has been therefore quite encouraging to see that our clients, despite the uncertainty, and including our national governments, public agencies, and the private sector, continued to invest.

They do obviously recognise the need to tackle climate change and address biodiversity loss to enable healthier lives, driving nature, effortless transport and more enjoyable places. The recent US Inflation Reduction Act, US and European Chips Act and the REPowerEU Energy Plan in Europe are obviously examples of investment packages, which provide plentiful opportunities

for Arcadis to offer our expertise and to create sustainable results for our clients and the communities in which we operate.

Let's next zoom in on our Global Business Areas to see what is driving the growth. So next slide, please.

Our Resilience business has had a strong 2022 in which we continue to benefit from increased client demand for environmental restoration, water optimisation and energy transition solutions. The last quarter has, for example, delivered a few large water project wins in the US for which our digital products were a differentiator. We're also seeing significantly increased requests from clients for actionable plans on sustainability, often requiring in combination of our sustainability advisory services and our other Resilience solutions.

On environmental restoration, already a very strong business for us, we have identified revenue synergy opportunities as we include IBI fire protection engineering expertise with our PFAS foam products strengthening our leadership of the PFAS market.

The market outlook remains very solid for various solutions related to the energy transition, particularly in the UK and Europe. And the recent acquisition of Giftge Consulting in Germany has further strengthened our offering. Many energy clients are seeking secure and sustainable solutions with a growing focus on grid expansion, renewable energy generation on hydrogen, and the creation of local energy systems.

Staying for example close to home, in the Netherlands, we are supporting Gasunie on plans for the rollout of a €750 million high-pressure hydrogen network. And in Scotland, we're working with our key clients, Scottish and Southern Electricity Networks, and Scottish Power Energy Networks, to create the infrastructure to help generate 10 gigawatts of renewable energy by 2026.

On to the next slide. Our Places business has seen significant change in 2022 with the acquisitions of IBI and DPS, which has enabled us to strategically reposition our portfolio, amongst others with an entry into high growth markets. Part of this repositioning is moving away from the commercial and residential sectors towards industrial manufacturing and government agencies. And from a geographical perspective, this has led to reducing our footprint in smaller countries in Asia, and increasing our presence in North America.

In Q4, we also announced the creation of a new Architecture & Urbanism business that will be part of the Places GBA. The new business, which combines IBI's building business with CallisonRTKL, will strengthen our client offering and create one of the largest architectural design firms in the world. Markets in the US and Europe continues to be strong, fuelled by increased public and private funding for industrial manufacturing facilities, which thankfully offsets a downturn in the Chinese property market, which manifested itself in Q4 and the delay of some investment decisions with private clients, especially in big tech.

A really good example of these industrial manufacturing opportunities is the recent commission to support the planning and project management of one of Europe's largest gigafactories for electric vehicle battery cell production at the former Opel site in Kaiserslautern, Germany. The builder and operator will be automotive sales company, a joint venture between Stellantis, Mercedes Benz and TotalEnergies' subsidiary Saft.

The new gigafactory will be built on a 34-hectare site adjacent to the Opel plant. When fully completed in 2030, it will include three production lines with the capacity to reach 40 gigawatts, enough to supply batteries to over 600,000 electric vehicles every year. On to the next slide, please.

Our Mobility business benefited from significant rail and smart mobility wins in the Netherlands and North America, where we've been asked to provide solutions for public transport clients, which created the organic revenue growth in 2022. The Mobility markets obviously also benefits from committed infrastructure stimulus funding in North America from the need to replace ageing rail and highways infrastructure in Australia and the UK and a revival in the aviation and airports market. This is presenting itself with a very healthy pipeline of activity for 2023 and beyond.

The increased use of data to improve infrastructure investments and improve the passenger experience continues to grow. Arcadis IBI's experience in developing digital mobility tools, including airport taxi dispatch software and hotspots, a suite of integrated solutions for parking and transit payments, will further help to strengthen our offering to mobility clients, particularly in North America.

Like our other business areas, the commitment to sustainability and reduction of carbon emissions continues to remain key priorities for many mobility clients. A good example is in Los Angeles, where we are working with longstanding clients, LA Metro, to provide construction management support services for the East San Fernando Valley Light Rail Transit projects. With 35% of the people in the area being reliant on public transport, the \$3 billion, 11 kilometres long light rail project will deliver multimodal transport options to stimulate the local economy and obviously will reduce carbon emissions across the busy San Fernando Valley transit corridor.

Next, I'm excited to now, for the first time, turning to our fourth GBA, Intelligence, and update you on the progress to-date. The Intelligence GBA was established late in Q4 to advance our digital value propositions. It does signal a further transformational step in the development of new digital services, Software-as-a-Service products, and software solutions at Arcadis.

The new GBA combines Arcadis Gen and IBI's intelligence products and digital capabilities and represents about 900 people. Our existing and new clients as well as our other three GBAs will benefit from services and solutions across the full lifecycle of the assets. These capabilities give us an opportunity to provide our clients with software solutions, including support and maintenance, and, where possible, combine this with engineering services and solutions.

And the combination of IBI's and Arcadis Gen capabilities also provides us with an attractive suite of solutions and products which are already applied in the markets, including traffic management products and asset management tools.

In addition, as I mentioned, we've also set up the Intelligence GBA to act as a growth enabler for the other GBAs, supporting existing clients with enhanced digital solutions.

As market demands for digital solutions, advanced analytics and SaaS grows, our Intelligence GBA will be a clear differentiator. It will be the cornerstone of our ability to accelerate growth and to expand margins.

A good example of such a solution is CurbIQ, which is a SaaS product being sold to various cities in the US to enable the mapping of curbside data, which helps cities take control over the use of curb space, when, for example, deliveries need to be made and to also manage traffic more efficiently and obviously reduce congestion.

The creation of the intelligent GBA will furthermore allow us to more directly respond to emerging client and market needs, and, where appropriate, work closely with startups and ecosystem partners to develop new products and solutions, really an important and exciting development for Arcadis.

Let me now hand it over to Virginie to talk you through the financial results in more detail.

Virginie Duperat: Thank you, Peter. And good morning, good afternoon, everyone. So maybe before we go through our financial results, I would like to highlight that our P&L includes one quarter of IBI performance, reflecting the closing of the acquisition of IBI, which happened on 27th September 2022, and one month of DPS for which the closing was on 1st December 2022.

In 2022, Arcadis Group delivered a strong performance in all metrics. First, our net revenue organically increased full year by 8.9% to a record revenue of more than €3 billion, driven by all GBAs. The currency impact on that revenue was 6.3%.

Our operating EBITDA increased by 20% year-on-year to €295 million versus €246 million for full year 2021. The operating EBITDA margin improved to 9.8% versus 9.6% last year, mainly driven by a year-on-year improvement in Places, mostly in the UK and in the US. Our free cash flow generation during the quarter was very strong at €146 million, bringing full year free cash flow to €173 million versus €234 million last year, in line with our usual seasonality. That led us to deliver a leverage ratio of 2.2 times at year-end, well in our policy range of 1.5 to 2.5 times.

Then moving to our quarterly results on the next slide. We delivered record net revenues for the quarter of €861 million and accelerated our revenue growth with an organic growth of 11.2%. Moreover, our recent acquisitions added €128 million of net revenues to our quarterly performance. Growth was particularly strong in the North America, UK, and Australia, while the protective lockdowns in China resulted in a slight hampering of growth.

Our operating EBITDA was 10% versus 10.7% in Q4 2021, with improved performance year-on-year not fully offsetting the impact of fewer working days in the quarter, and some additional integration costs. Operating EBITDA was €116 million in Q4 2022, increasing 20% year-on-year, bringing our year-end leverage to 2.2 times.

Net working capital as a percentage of annualised growth revenues and days sales outstanding were strong and in line with last year, with respectively 10.7% and 63 days demonstrating our discipline in working capital management.

If we turn now to the performance of the GBA, and start first with Resilience. In Resilience, market conditions continue to be strong, especially in North America and Europe, with the energy transition, demand for sustainable solutions and climate adaptation high on the agenda. We invested in growth areas such as digital water optimisation solutions and energy transition through the acquisitions of HydroNET, a provider of digital water solutions, and Giftge Consulting, a leading player in the German energy transition market.

Furthermore, Arcadis invested in its nature-based and biodiversity solution, expanding its already leading global position in this high growth market.

One example that brings this to life is the Living Murray project in Australia, one of the Australia's largest river restoration projects. Our team of ecologists have helped restore balance to this wetland region by collecting detailed botanical data across 72 monitoring sites over a two-year period. The data was incorporated into a final report with recommendations to establish environmental policy to better the river water to 37,000 hectares of forest, wetlands, and lakes.

The operating EBITDA margin was strong at 10.8% in line with 2021 performance, driven by North America and Europe. The Resilience business closed the quarter with a backlog of €895 million, representing a year-over-year organic growth of 7.6% and which is now 29% of total Arcadis backlog.

Turning now to Places. Revenue growth was driven from good demand for sustainable and intelligent buildings, including the development of data centres and gigafactories for electric vehicle battery production. One example to showcase is a project we undertook at the University of Maastricht. Our team designed the first university building to be accredited with the WELL building standards, which promotes most high levels of health and wellbeing in building design.

The operating EBITDA margin improved to 9.1% as operating performance improved year-on-year, as Places GBA started to really benefit in Q4 from its geographic repositioning. Order intake and growth from European and US clients, particularly for investments in industrial manufacturing facilities, was strong. This was offset by delayed investment decisions from several property investment sector clients in Asia, validating our decision to strategically reposition the portfolio.

The total backlog of the Places increased by 67% year-on-year to €1,573 million, representing 50% of Arcadis total backlog and inclusive of €308 billion of backlog from IBI Group and €460 million of backlog coming from DPS Group. IBI and DPS both showed very strong order intake over 2022. And Places' organic backlog growth pro forma of IBI and DPS grew by 10.9%.

Moving now to Mobility. There, market conditions remain strong in this mobility and infrastructure sector, with ongoing programmes and stimulus packages continuing to drive a solid revenue and backlog growth. Decarbonisation and climate change remain a high priority, as shown by our recent work to support Shell with a world-first transition from fuel stations to electrical vehicle charging hub in London.

Airports investments are picking up with operators investing in net-zero goals, and developers investing in greenfield airports in Europe. Continued strong revenue growth is driven mostly by public large transport clients in US and in UK. With IBI in, we see further rail opportunities in Canada, where we can now take a combined offering to clients, including special station design and programme management.

The operating EBITDA margin was slightly lower than last year, driven by increased investments in digital solutions and talent attraction and development. Committed funding in the US, ageing infrastructure in Australia and UK investment in rail and road upgrades have led to significant order intake on large projects. The backlog at the Mobility amounted to €538 million, increasing

by 9% year-on-year and representing 17% of Arcadis total backlog, including a contribution of IBI for €41 million.

If we move now to Intelligence. Finally, as Peter mentioned, our new GBA, Intelligence, was set up in the fourth quarter of 2022. And this new GBA combines Arcadis Gen, IBI's intelligence business, as well as Arcadis other digital solutions.

The performance of the Intelligence GBA in the fourth quarter is slightly dilutive to Arcadis Group, reflecting the combination of organisations before any cost synergy. A digital product going from strength to strength is called Travel IQ, a Software-as-a-Service provider information platform to seamlessly plan trips.

In Q4, we secured a commission to expand the product into the US states of New Hampshire, Maine and Vermont. Residents and visitors can now travel interstate using multimodal trip planning and real-time information about incidents, traffic and weather conditions. Throughout 2022, six US states and six Canadian province were added to the Travel IQ platform.

Backlog and order intake were strong with continued good order intake in tolling solutions and several wins in major cities for our smart city platforms. Total backlog at the end of the year is €130 million with a strong Q4 order intake at €31 million.

Overall, turning to the P&L, we delivered €233 million of EBITDA due to non-operating costs of €62 million versus €9 million last year. This non-operating cost includes transaction costs relating to the acquisitions, net non-cash losses on the divestments of our operations in Singapore, Malaysia, Hong Kong Design & Engineering business, Vietnam, Thailand, Switzerland, Czech Republic, Slovakia and our Environmental Restoration business in France, as well as restructuring costs.

Our underlying income tax rate was 31.3% and was impacted by, amongst other things, non-deductible acquisition-related costs and non-deductible losses on divestments. The net finance expenses increased to €24 million. The interest expense on loans and borrowing of €40 million increased due to higher average gross debt to finance the acquisition of IBI and DPS Group and higher interest rates.

And finally, net income from operations increased by 20 – by 15%, sorry, to €202 million or €2.26 per share.

Our operating EBITDA increased by 20 – by 15%. The non-operating costs were €62 billion, but these were partially related to divestment losses offset in resulting in a non-cash impact. The outflow in other working capital relates mainly to M&A costs paid related to the acquisition. Our CapEx increased to €40 million, driven by increased investments in digital and in our GEC.

As discussed during our H1 results, we had a strong cash generation in the second half of the year in line with our normal seasonal pattern. Higher CapEx of €40 million in line with our annual commitment, M&A related costs, cash outflows, financing costs, and normalisation of working capital levels contributed to a lower free cash generation year-on-year and brings 2022 free cash flow to a more standard cash conversion rate.

Turning now to our balance sheet to illustrate the impact of acquisitions, mostly reflected here in intangible assets, obviously, working capital in – and in our net debt. Our net debt increased to €1 billion, mainly driven by the bridge loan of €600 million loan end of September, and its

accordion option of €150 million exercised early December to finance the acquisition of IBI and DPS.

The pro forma net debt to EBITDA ratio at year-end was 2.2, again, well within our range of 1.5 to 2.5.

Then confident in our ability to sustain strong cash flow generation, and in accordance with our disciplined balance sheet management policy, we will propose a cash dividend of €0.74 per share, representing an increase year-on-year of 6%. In parallel, in 2023, we will continue our investments in organic growth with an annual CapEx between our brackets of €40 million to €60 million, and we will focus on refinancing our balance sheet and further deleveraging for IBI and DPS acquisitions.

Finally, just to have a big view on our backlog. On the back of our strategic decisions, repositioning the composition of our backlog are significantly improved towards region and market that are key to Arcadis. Our organic backlog growth increased by 8.9% to €3.1 billion of backlog. If we treat IBI and DPS 2022 contribution pro forma, a testimony of the strong growth market we invested in.

So called Arcadis standalone, which means we exclude IBI and DPS obviously, then divestments and wound downs increased by €140 million being the net result of a strong order intake replenishment in the year, while backlog outflow was significant, driven by the high net revenue. IBI and DPS, respectively added €494 million and €460 million to our backlog, representing double-digit backlog growth.

We achieved a significant geographical backlog repositioning, with Americas now representing almost half of our €3.1 billion backlog, and with a growing contribution of Europe, especially in the UK. All in all, a rebalanced backlog and pipeline tailored to high growth geographies and business.

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

Peter Oosterveer: Thank you, Virginie, for the review of our financial progress in Q4 and the whole of 2022. I will come back to our non-financial targets shortly. But I think it will be good to first update you on the progress of the integration of both IBI and DPS, which are now known in the market as Arcadis IBI and Arcadis DPS, respectively.

I'm pleased to report that we are well on track and that approximately 70% of the revenues of IBI have been addressed and integrated into Arcadis. The Architecture & Urbanism business unit has been stood up, which reflects about 50% of IBI's net revenues and is now serving the clients in its new form.

The fourth GBA, Intelligence, already mentioned a few times, reflecting another 20% of IBI's revenues was, as I also said before, launched in early December with key management of clients being served in collaboration with the other GBAs started. As of this month, we have begun the integration of IBI's infrastructure business, whereby existing services and solutions will be dispersed across our existing GBAs. And lastly, it goes without saying that the back office integration is obviously progressing in parallel.

For DPS, which only closed on 1st December last year, we have integration milestones in place and the execution is following the same rigour as we used on IBI. In both cases, we already started to see joint project wins and the pipeline of client opportunities for 2023. And I'm

pleased to announce that Arcadis IBI already won a project to design a 12-storey residential building with sustainable mass timber in North America.

And for DPS, a successful commission to support a semiconductor client with a new facility in Germany was secured.

Our pipeline of opportunities is growing. We're currently working on joint pursuits ranging from major transport authorities and global automotive manufacturers in the US, to large education and pharma facilities in the UK and Europe. We do expect the integration of both IBI and DPS to be completed before the end of this year.

Turn to the next slide to kind of recap our strategic progress in 2022. Mentioned already few times the creation of our fourth GBA, Intelligence, is a transformational step in the development of new digital services, SaaS products and solutions at Arcadis. And I'm confident that the breadth of the offering will delight clients and enable us to be a true digital leader in our industry.

We continue to see a growing demand for sustainable solutions and advisory from clients highlighted by strong results in a record backlog last year. And the acquisition of Giftge Consulting and HydroNET will only further strengthen our position in the energy transition and water markets. And the addition of DPS capabilities will allow for much more cross-selling of sustainable solutions, including sustainability advisory, and virtual social planning and permitting for industrial manufacturing facilities.

By focusing and scaling our business across 2022, we have driven operational efficiencies through the new GBA model and greater use of the GECs. As Virginie also mentioned, we continue to focus on high growth markets and move out of countries in Southeast Asia and Europe that are considered non-core from a geographical or service point of view.

In 2023, we see greater opportunities to further scale our operations and focus on the buoyant North American markets, bringing the best Arcadis has to offer to address our clients' needs.

As I mentioned before, now I'd like to focus on our non-financial targets, which obviously includes our people and ESG targets, reflected on the next slide. At Arcadis, our people-first approach is a key ingredient in ensuring we have an engaged workforce, excited and inspired to execute our strategy. Prioritising our people and culture initiatives and investing in capability building for both our employees and managers is allowing us to accelerate our impact. In 2022, we've made significant progress, increasing our people headcount by 21%, mostly through the acquisitions to close to 36,000 Arcadians.

Our voluntary turnover thankfully continues to improve, albeit that there is further necessity for improvement. But it is, in that context, very reassuring to see that our employee engagement scores have improved significantly in 2022, up from 30%, at the end of 2021 to 39% at the end of 2022.

Within Arcadis, we've also made further strides to embed diversity, equity, inclusion and belonging into our operations, creating a renewed commitment to hybrid working and the launch of global affinity groups to champion inclusion and diversity. Our percentage of females in the workplace stands at 39%, which is 1% of our targets of 40%.

Our progress has also been recognised by Forbes Magazine, which not only ranked Arcadis as one of the best management consultancy firms but also as one of the world's top female-friendly companies in 2022, great achievements that we obviously plan to expand on in 2023.

Regarding our sustainability ESG metrics, I'm pleased by the progress we've made on our commitment to transition to net-zero. Last year, our carbon reduction target was approved by the Science Based Targets initiative. And we've seen a 7% reduction across our Scope 1, 2, and 3 carbon emission towards a baseline of 2019.

Furthermore, the recent number one position in our industry by ratings agency, Sustainalytics, and the platinum grading from EcoVadis show that our commitment around sustainability continues to be absolutely world-leading.

So next slide. All of this what you just heard results in the following brief status update on our consolidated commitments for this current strategy cycle. And the update you're seeing on this slide reflects the very solid progress we've made on all our targets, with the financial ones all on track, and some additional work to do throughout 2023 on a few of the non-financial targets, most notably our turnover and the necessity to further increase the female representation across our workforce.

I do hope that this scorecard allows you to support our view that we are well on track to deliver on the commitments we made in late 2020.

So on the last slide to wrap it all up, and before we open it up for Q&A, and let me summarise. First of all, we continue to see very robust market conditions despite geopolitical tensions and economic uncertainty. We've made great strides last year with the strategic repositioning of Arcadis, specifically, through the introduction of our new GBA-led operating model, the divestitures of non-core operations and the additional capabilities we added.

We delivered a very solid set of results in a year with challenging external conditions, profitable growth, very solid cash flow and a robust backlog, which provides confidence for the future. The integration of IBI and DPS is well underway, and follows a discipline and time-efficient approach.

So in summary, we're on track to deliver on our 2023 strategic targets, and get ready to prepare for our next 2024-2026 strategic plan.

Thank you so far. And over to Kevin, who will open it up for Q&A.

Questions and Answers

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. And please limit yourselves to one question with one follow-up to allow all our participants the opportunity to ask a question. Again, it is star one to ask a question. And the first question today comes from Hans Pluijgers of Kepler Cheuvreux.

Hans Pluijgers (Kepler Cheuvreux): Yes. Good morning, all. Yeah, I will stick to then to one question that's one follow up and the one. Then on the IBI and DPS contribution in Q4.

Would you give maybe us the numbers on the top line and on the margin level? What was the contribution from those maybe combined if you don't want to split it out?

And a follow-up on that. IBI tends to have lower margins in Q4. Seasonally, could you give me some background why they have lower margin? Why should expect more within Q4 results have a higher margin. Could you give me some feeling on that?

Virginie Duperat: Okay. Thank you, Hans, and good afternoon. On IBI, DPS contribution. As I mentioned earlier, they delivered together €128 billion of revenue in the quarter, and together the margin contribution, it's been splitting in the GBA so difficult for me to have all that in mind. But I would say that it's dilutive as you can see a little bit for two reasons. Main reason is number one, we had significant impacts coming from fewer working days in the quarter with the shift towards America and the two working days missing year-on-year in Canada, something we've not fully potentially completely anticipated.

We see an impact on IBI. The seasonality pattern is also termed probably with more holidays in that season. And on the DPS side, it's only one month of performance, so it's a bit less difficult to – less easy to analyse, sorry. But it's in line based on what we've seen with their historical data. So, more or less, I would say that this is probably some things like 1, 2 points on average below what we are delivering on Arcadis side for that quarter.

Hans Pluijgers: Okay, thanks.

Operator: The next question today comes from Martijn den Drijver of ABN AMRO-ODDO BHF?

Martijn den Drijver (ABN AMRO-ODDO BHF): Yes, good afternoon, everybody. I'd like to come back with my first question on that EBITDA margin in the fourth quarter. Exceptionally good organic growth but the dropdown to EBITDA margin wasn't quite what was expected. Now you've given some reasons and the working days, a bit of China, there may be some other elements. But how should we think about that dropdown rate going forward? Do you assume that it will improve in the coming quarters? Or are there some elements that will hold you back? That's question one.

Virginie Duperat: Thank you, Martijn, and good afternoon. I think that, obviously, part of it might continue in the next quarter. We probably have to had on top of that a small handful, I would say, of integration costs. Obviously, we started aligning some of the reporting elements. I'm not pretending that on IBI today exactly the same reporting system I have on Arcadis, but at least based on what I see, the data has been merged so that I can have already the capability of seeing together, the data coming from Arcadis and IBI in a single platform.

So these sorts of things will absolutely continue in the quarters to come, and that goes with the integration of such two big companies. In parallel of that, we come back, for example, on the performance on Intelligence, obviously 9.1% can look a bit low compared to what is Intelligence and what we expected. But it's a very, very good performance in my view, when you add the fact that, in some respects, that is a GBA which is starting and finding itself with more or less to structure as we speak, one coming from us with a Gen structure with what we have in digital solution as structure we have and also the structure that IBI has on its side.

So as we will go on optimising and delivering on the integration, we will extract cost synergies, obviously, and then that will definitely benefit first to Intelligence and to Places GBA, which are the most impacted by the integration process.

Martijn den Drijver: Okay. And then following up on Places. If I look at the organic backlog growth for Arcadis, 4.2%. That's lower than what it was in the third quarter. It's probably caused or it is caused by Places with organic backlog growth of zero. What caused that zero? Because on one hand, you say robust markets, but 0% for Places seems a bit meagre. So perhaps you can shed some light on what drove that 0%?

Virginie Duperat: I would encourage you to go back to the slide that Peter commented on Places, where you really have the shift of the backlog, which is something that we've been discussing quite a while across the year, and that based on these pie charts, you really see being achieved and deliver and coming to growth. And obviously, more or less, if you think about Places, this digital has been a little bit posing to absolutely redirect itself. And we've seen quite a decrease in some areas like a product and development and a shift through industrial manufacturing.

And you can see that the share of industrial manufacturing in our new backlog is now 30%. And the 30% obviously comes partly from DPS acquisition, but also in a large part from all the new projects that the team of Mark Cowlard and Martijn Karrenbeld has been getting all year along in terms of industrial project.

And that has also created a little bit of sort of optical view, view of repose, because this project do not come in with the same pattern traditionally, and that also goes with the backlog that we used to have coming from the elements we have divested. We also had long tails of project that can last for longer in Southeast Asia, notably in property development, and we replaced that by very big industrial manufacturing project. But this project doesn't – do not come in our backlog as a single element.

They rather come slice and dice. And if we think about Automotive project that we've been announcing, which is quite a large project, what I have in the backlog as we speak, is only phase one. So it's not the entire element because the – we recognise only what is absolutely firm and signed, and what is firm and signed is only the service order of the phase one. So that is what is in backlog, and the rest will be taken progressively.

So, in our view, the 4.2% organic growth of Arcadis backlog this year is really a very good achievement, because we've been managing to have this big shift of positioning while moving on growing our backlog.

Martijn den Drijver: Okay, thank you.

Virginie Duperat: Thanks, Martijn.

Operator: Our next question comes from Luuk van Beek of Degroof Petercam.

Luuk van Beek (Degroof Petercam): Yes. Good morning. Thank you. Good afternoon. Thank you for taking my question. I have a question about the contribution from price increases in your organic growth and also related to the probably rising salaries. So how are you keeping up with those salary increase? And how does that look for 2023?

Peter Oosterveer: Hi, Luuk. Good afternoon, and thank you so much. Definitely, I think that's something that we've been focusing all year on. I would like to pretend that everything has been achieved but I go on with the same question end of Q3. We still have a few bigger commercial negotiations ongoing. And maybe in particular, in some key big projects in Mobility. Obviously, when we negotiate on this price increase, reflecting inflation on salaries, we are not

the only one being concerned, especially in these big projects, which are about joint ventures and partnerships, where everyone needs to align before we get to an end.

And that can be true for us, but potentially also for our clients, the client itself being a client – a supplier of final clients. So that takes quite a quite a long time. We are quite positive of what we've been able to achieve. And the – I would say that the dialogue is there, the negotiations are open. We are not pretending it's an easy game. And I think that the competition is also saying that. But definitely as these conversations are ongoing, and we still have a few significant milestones to achieve on that part.

Luuk van Beek: Okay. And were price increase an important part of your organic growth in the last couple of quarters?

Virginie Duperat: I think in the last figure I talked, they're probably more Q2, Q3 and it still goes on a little bit in Q4. But Q4 is also about quite – some delivery in the sight of Resilience converting part of its backlog in execution, with all the people that have been also joining the forces all year along. And this huge effort delivered by Resilience in terms of industrialisation of their onboarding process, so that when someone joins the team, and start being productive and deliver, we are really changed the game there and are now far more efficient.

Luuk van Beek: Okay, thank you.

Operator: Our next question comes from Quirijn Mulder of ING.

Peter Oosterveer: You might be on mute.

Quirijn Mulder (ING): Yes, good morning those in America. And good afternoon, everyone. On – my question on the midterm targets. So you're still progressing with your attrition? It looks like it is 70 basis points lower, but your target is 420 basis points lower. So what are you doing about it?

And my second question about the tax rate. Maybe you can give me an idea about the tax rate in 2023, given the fact that it is in 2022, which was quite relatively high.

Peter Oosterveer: Yeah, let me take the first question, Quirijn, on the attrition and then Virginie can take your second question.

The good news is, indeed, that we've seen a decrease. You're also right in pointing out that that we're still focusing off the goal. I don't think realistically speaking that by the end of the year, we will have reached that goal. We have to be honest and realistic. I think if you look at what has all changed in the last couple of years in the market and with the market, which is of course still quite attractive for people, then you probably have to reconsider whether 10% or below 10% eventually is the right goal.

I'm not saying that we are adjusting it as we speak, because we're still pushing hard to make sure that we retain the right talent. But the fact of the matter is that a lot of people's view on the job – the dynamic on staying with their company has changed quite a bit, and not just for Arcadis, but for many other companies as well. So going forward, we'll have to reassess what we consider to be a healthy attrition.

But our focus, and that focus has not changed, and that started already late in 2021 when we assembled the tiger team to identify actions we could take in different places to bring down the

retention is working. We see it in the engagement, which has gone up significantly in 2022 from 30% to 39%. The attrition is coming down, but it's quite gradual.

Quirijn Mulder: But maybe there is it – so what – can you give me an idea about your geographical differences there?

Peter Oosterveer: No surprise, I guess that where most people see the higher percentages, let's take China as a good example, is where we see the higher percentage as well. Where most people see high percentage, and we do is in India and in the Philippines. And if you then compare that with the, let's say, more mature Western countries, particularly the UK, Europe, and the US, it is either just above 10% or just under 10%.

Quirijn Mulder: Okay, thank you.

Operator: And our next question comes from –

Peter Oosterveer: No, wait.

Virginie Duperat: All right. There was a last question of Quirijn. I think I owe him an answer. I guess that we probably can identify the effect of the non-deductible elements around impact of 2%. So there's absolutely no reason we shouldn't be back next year to the regular 28%, which we consider as being our normalised rate, assuming, obviously, we don't see a strong changes in law happening here or there. And probably now that our, let's say, business has shifted a bit. The most impacting for us would be a trend in the US, in Canada or in the UK.

Operator: Next question is from Henk Veerman of Van Lanschot Kempen.

Henk Veerman (Van Lanschot Kempen): Hi, Peter, Virginie, and the rest of the team. Thank you for presentation and the spirit to ask questions. I also have two. So firstly, on working capital. You report now 10.7% in line with the end of last year. But I remember at the end of last year, you told us that the low percentage was due to some one-off, let's say, contractual effects. And now you seem to indicate in the text or the press release that the lower working capital seems somewhat more sustainable. So – and I remember from the CMD that the target I think officially still is below 15%. So how should we think about working capital in the course of 2023? That's my first question. Thank you.

Virginie Duperat: Thank you, Henk, for the question. And I think it's an absolutely valid question. And obviously, as we go across the year, we know it's not exactly the same thing, also because of the pattern and the seasonality of our free cash flow generation, which obviously brings us to the most favourable potentially working cap position at year-end based on the fact that we generate so much in the very latest weeks of the year.

So that's probably number one thing. Number two and the reason why we do not really comment on this year-end working cap is because in terms of balance sheet, I obviously have the consolidation of Arcadis balance sheet with the entire DPS balance sheet and the entire IBI balance sheet. So then we absolutely need to understand how they are behaving in the future to see how it works. But it's quite reassuring that when we add those big elephants to our balance sheet, we manage to go on delivering the same type of profile, even if when you go to the balance sheet, you can see that potentially it's not exactly classified the same way between the various components. And that's something that we might, let's say, refine as we understand more in the future.

I think that it's quite important to send – to think in terms of cash conversion of annual EBITDA. And that's probably the way I tried to figure out how it can be now, and I'm quite convinced that 60% to 70% of regular cash conversion of our EBITDA is absolutely something that we can achieve on a regular basis.

If you calculate that, you will see that we are just a little bit lower than that this year, which is absolutely understandable due to the fact that we have some sort of exceptionals in terms of M&A costs that we've been bearing to deliver those two acquisitions. So, apart from that, if you take that out, we are still very well in that range. And that I think is quite the goal we should have around that.

Then working capital percentage, I think is a bit of a difficult one just because there's a pattern between the four quarters. It's so different than, yes, it's quite a good performance to be 10.7%, end of this year, but you're right, it's probably, let's say, quite something that we should be able to achieve around the start of the year, while a mid-year we're probably getting back again to something a bit higher because of the different pattern of the component of working capital.

Henk Veerman: Okay, thank you. That's very clear. And then on the – a question on the backlog of DPS. You reported 34% there. Can you give us some more colour on how that 34% translates into organic growth within DPS in the next year? So order book, how much that's spread out in the next years? And what is driving that on any specific projects? And then maybe also on DPS, I remember that during the call around the transaction, you mentioned that you actually are managing that business a bit more on profitability rather than growth after significant growth in the last couple of years. And so how do we square that, let's say, with this very strong backlog growth? How do you expect to manage it in the next years? Thank you.

Virginie Duperat: Okay. Thank you, Henk. I will start and maybe let Peter compliment on some operational points. I think that number one, we have a very strong backlog on that side that we need to execute.

We have a strong backlog, it's to execute within this year. But I think that what's absolutely true is that there is also a very strong momentum around the client, their position in the business which is really getting well where the demand is very high. And as we said earlier, we have already kind of revenue synergy project, if we want to clarify that this way, that we have embarked of a significant semiconductor manufacturing plant to be delivered in Germany.

And that's something that has been the result of combined team of IBI – sorry, DPS capabilities and Arcadis Places capabilities, showing that even if we are closed only in 1st December, in some cases, clients are so much demanding that they are expecting us at the door, which is quite rare and we need to benefit from that which we are doing. So that I think is the momentum we see.

They are all very excited by the existence of our GEC. So definitely there is a very strong opportunity. We are creating that first contact in Q1 in '23 in January, and that's something which is mentioned in the presentation. And we really expect also that that will help them, number one, recouping that profitability, but number two also help them in the delivery of their huge backlog. And in some respect being ready for all the potential revenue synergies that we see together.

Peter Oosterveer: Henk, maybe if I can add to it, because you made reference to the discussion we had when we announced the acquisition. And I think, if I heard you correctly, you mentioned that we said at that time that they tended to focus more on profitability than on top line. And we actually set the opposite.

So if I miss – if I didn't hear you correctly, then apologise. But if I did hear you correctly, then there maybe there's something lost in translation, because what we did find is that they focus more on top line than on the bottom line. And in fact, that is a comment we made at the time. And the growth they have seen over the last couple of years has been quite significant, definitely double-digit plus, if I could describe it that way.

So they tended to focus more on revenue and less on profitability. And we'd like to actually balance that a little better.

Henk Veerman: Yeah, I was actually referring to your comments on how you expect to manage it in the next years. And how you squared that, let's say, with the high backlog growth? But yeah, I think the question – the answers were quite clear on that. Maybe if I can squeeze in one more question since I'm probably one of the last in the call. In 2022, yeah, both, let's say the whole Chinese property market, as well as I think the depressing – continued depressing situations – situation in CallisonRTKL remains quite significant headwinds for your business and for organic growth.

Do you expect these two end markets, these two businesses, do you expect them to turn into tailwinds in the course of 2023? Are you really still quite negative on the near-term outlook in both these businesses? Thank you.

Peter Oosterveer: Yeah, I think the – you raised a good point. And I think when people talk or think about places and/or buildings, they tend to think about exactly the sort of what you just described. And as we tried to explain, we have repositioned our Places business to be much less, depending on real estate and housing, but much more on other opportunities.

If I look at what the IBI buildings performance was, and that is largely architecture as well, inclusive of the last couple of years during corona, then it has been really, really steady and steady being good growth and really good profitability as well.

Now, granted their focus was not exclusively but largely on Canada, where they, of course, have a strong market. But we're actually quite confident that with the combination, and the leadership we have in place, we will be able to see a better performance going forward, despite the fact that there is still challenges in some countries on that real estate market. So we're still optimistic that with the new leadership and the combination we will be able to improve the performance which you might remember at CallisonRTKL.

Henk Veerman: Okay, perfect. Thank you.

Operator: And that is all the time we have for question and answers today. I'd like to hand the call back to Peter Oosterveer for closing or additional remarks.

Peter Oosterveer: Yeah. Thank you very much, Kevin. Thank you all for your participation and for your active question and your interest in Arcadis, of course. When we look at 2022, we sit here with pride, if we consider the external circumstances, which we had very little, if any influence on. If we then consider what we did to ready the company for the future, and particularly the change to the global business area, and operating model and then to pull up

two acquisitions, sizeable acquisitions same year plus two smaller acquisitions and then to deliver the strong performance which we have delivered, certainly gives us a reason to be proud of what we have accomplished.

We are not ignorant to the ongoing challenges in the market. We keep, of course, a very close eye on the developments. At the same time when we listen to what we hear from our clients and we should listen to what we hear from our clients and we combine that with the facts we see, in particular the growth in our backlog, then we are confident that we will be able to deliver on the targets we've set for ourselves with potentially the exception of the attrition as Quirijn rightfully pointed out. But all in all, we say it with pride and we say it with confidence and trust in the future.

So thank you again, and we'll see you again in the next quarter.

Operator: And that does conclude today's conference call. We thank you all for your participation. And you may now disconnect.

[END OF TRANSCRIPT]