

Arcadis Q1 2023 Results

Thursday, 4th May 2023

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Operator: Hello, and welcome to the Arcadis NV Q1 2023 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, Head of Investor Relations, to begin today's conference. Thank you.

Christine Disch: Thank you, Laura. Good morning, good afternoon, everyone, and welcome to our webcast. My name is Christine Disch. I'm Head of Investor Relations at Arcadis.

We are here to discuss Arcadis's first quarter results, which were released this morning. With us on the call are Peter Oosterveer, CEO; and Virginie Dupérat, CFO. We will start with a presentation, 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 any of these risks related to these statements, which are more fully described in the press release and on the company's website.

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

Peter Oosterveer: Thank you, Christine, and good morning, and good afternoon, everyone. Thanks very much for joining us, and welcome to our first quarter results call of 2023.

I am delighted to report that we've made a strong start to 2023, benefiting from continued growing client demand for our solution and our services, particularly in the North American market.

Our net revenue for the quarter is up 37% to €940 million, with accelerated organic growth of 12.3% and a very strong replenishment of that revenue with strong order intake of €1.62 billion, which resulted in an all-time high backlog of €3.2 billion. The growth has been supported by all four global business areas: Resilience, Places, Mobility and Intelligence with particularly strong developments in environmental restoration, anything related to the energy transition, new mobility and industrial manufacturing services and solutions.

Our operating EBITDA margin consequently improved to 9.8%, up from 9.4% in Q1 of 2022. These results confirm that the operating model we introduced at the beginning of 2022 and the strategic repositioning and focus on high-growth markets is delivering for us.

I will touch on some of this a bit later. But firstly, let's turn to our four global business areas to see what is driving the growth of each of them this quarter.

Our Resilience business has made a really strong start to 2023, with solid revenue and backlog growth across the entire solutions portfolio. We saw continued good client demand and environmental restoration, where we have a leading position in PFAS, radioactive and incident response.

We also continue to see strong growth for our Energy Transition solutions and Enviro-Social permitting, particularly helping clients who require manufacturing facilities to navigate the

complex planning and supply chain challenges, inclusive of, for example, permitting processes as well as higher costs due to inflationary pressure.

The one solution that continues to drive demand is environmental restoration, notably the clean-up of PFAS contamination. We have supported hundreds of PFAS projects around the world, in Australia, in Belgium, in the US, bringing advanced site characterisation and incident response techniques. We rapidly assess sites and move them [inaudible] clean up more quickly with our innovative products such as the FluoroFighter biodegradable cleaning application.

Our industry-leading expertise and use of digital tools, sensors and in immersive technology, were also instrumental in securing a large five-year commission to support the US Army National Guard with identifying sites, where PFAS may have found its way into the drinking water, evaluate the risk to people in the affected areas and provide a response to eliminate the threat.

The market outlook remains strong for our Resilience business. We see clients facing supply chain challenges and skill shortages, especially in the energy market, which does create opportunities for a more extensive role for their trusted business partners like Arcadis. And we obviously stand ready to provide them with the required support to address their growing demands.

Our Places business has also seen a strong start to 2023 with revenue growth of 8.7% and backlog growth at 1.3%. As I mentioned at our full year results publication back in February, the acquisitions of Arcadis IBI and Arcadis DPS groups in 2022 have enabled us to strategically reposition our portfolio, focusing on high-growth markets in North America and Europe and pivoting to support clients who develop and build industrial manufacturing and life sciences facilities.

In some specific industrial sectors, including automotive, semiconductor and pharmaceuticals, we see greenfield projects on our radar, and we are well positioned to seize these opportunities.

Furthermore, in addition to supporting our clients with the CapEx programmes, we now increasingly see them require asset management and asset optimisation help as they need to accelerate decarbonisation initiatives, and as a result, need to retrofit and upgrade their assets. This obviously creates an opportunity for Arcadis to provide asset management intelligence and digital tools to both help them to reduce cost as well as meet their net zero ambitions.

And an example of work in that space is a recent win for an energy and resources clients to provide overall planning, process engineering and construction management services for the construction of their new renewable energy facility.

The combination of our knowledge of the energy transition, combined with our experience in intelligent buildings, convince this client to select Arcadis.

In our Mobility business, we ended the quarter with continued strong net revenue growth of over 15% and a backlog growth of 1.8%, driven by strong performance in the US, Australia and the UK. As you are aware, the order intake of our Mobility business is lumpy, given the larger projects we pursue.

Electrification and decarbonisation solutions continue to be our clients' top priority, backed by, amongst others, federal investments. We also see an increasing demand for digital solutions to

solve complex mobility challenges, which does drive substantial synergy opportunities between our intelligence and our mobility global business area.

And speaking about cross-selling, we continue to identify revenue synergy opportunities with Arcadis IBI in North America and the UK. And these opportunities range from rapid bus transit projects, autonomous vehicles and traffic planning to advance air mobility solutions. The actual example on the slide is such a project, where in New York, we continue to build on our long-standing relationship with the city authorities by having been selected by New York's Metropolitan Transportation Authority to support the \$700 million historical capital investment programme in public transit.

We, together with our joint venture partners, will provide general engineering and consulting services, including programme management to support rail and bus transit upgrades with the aim to deliver more than 50 different infrastructure projects by 2024.

And finally, thanks to the creation last year of our fourth GBA, Intelligence, we are now much better positioned to serve our clients with innovative, sustainable and technology-enabled solutions, cementing our position as a digital leader in our industry.

As such, we are seizing - we are seeing and new products driving revenue growth across all of our global business areas. Notably, in Mobility, as I mentioned before, with solid demand from large clients such as Queensland Urban Utilities and Departments of Transportation of Florida, Nevada, New York State, North Carolina, Pennsylvania and Utah, all looking for traffic, transit and travel solutions.

In addition, we also support clients in modelling their asset behaviour and help them to prioritise complex decisions that are impacted by factors such as cost, reliability and safety. Our enterprise decision analytics solution is assisting them in delivering balanced investment plans that deliver high return on investment and sustainable outcomes.

The recent SMART, Strengthening Mobility And Revolutionising Transportation stimulus package, funded by the US Department of Transportation creates further opportunities for Arcadis and the intelligence DBA in particular, to exploit its experience with connected vehicle projects, sensor deployments, curb management and smart traffic signal technologies.

And also here, again, an example in Q1 where we have been selected by the North Carolina Department of Transport to procure, implement, operate and maintain the active vehicle applications for a pilot project across 31 signal intersections in the city of Raleigh.

The objective of the three-year pilot is to improve operations and safety for all road users with an emphasis on transit users and pedestrians. This is a very significant project that combines the advisory solutions and deployment capabilities of Arcadis IBI Group with our Intelligence and Mobility DBAs in advancing the future of mobility, while improving community and societal benefits.

As market and customers demand for digital solutions, advanced analytics and Software-as-a-Service model grow, our Intelligence DBA will be a clear differentiator for Arcadis. And I'm confident that this will translate into strong revenue streams over the coming quarters.

And with that, I'll hand it over to Virginie to talk through the financial results in a bit more detail.

Virginie Dupérat-Vergne: Thank you, Peter. Good morning and good afternoon, everyone. In the first quarter of 2023, Arcadis Group delivered a record net revenue of €940 million, corresponding to a very strong organic growth of 12.3%.

Our operating EBITDA was €92 million in the first quarter compared to €64 million in Q1 2022, and the operating EBITA margin was up at 9.8%. The negative free cash flow generation of €108 million during the quarter reflects the combination of two elements. First, a year-on-year increase in line with our usual seasonal net working capital pattern applied to a significantly larger business volume increasing around 40% year-on-year. And in addition, investments in net working capital from the very strong revenue growth, largely back-end loaded in the quarter. As a consequence, our net debt slightly increased to €1.72 billion from €1 billion at the end of the year.

And now let's move on to the next slide to talk about our debt maturity profile.

Late February, we issued our Eurobond of €500 million with five-year tenure to partly refinance the €750 million bridge loan. The senior unsecured fixed rate notes have an annual coupon of 4.875%, an investment-grade rating of BBB- with a stable outlook from Standard & Poor's. Apart from the remaining part of the bridge, we have no material upcoming debt maturity.

Now let's talk more about the trends on the following page. Our quarterly net revenues at €940 million show a very strong year-on-year organic growth of 12%. In Q1, growth was driven by all the GBA with an exceptionally strong performance in North America. During the quarter, the currency impact was 0.5%.

The strong net revenue generation was accompanied by a very solid order intake performance, reflecting the business momentum in the quarter. As of the end of March 2023, order intake was at a record high of €1.1 billion, with almost no cancellations in the quarter. This resulted in an organic backlog growth of 3.9% quarter-to-date with a positive contribution of all GBL.

The operating EBITA margin improved to 9.8% versus 9.4% one year ago. Days sales outstanding was 70 days at the end of the quarter. And our net working capital as a percentage of annualised gross revenue was at 12.9% on the back of our disciplined working capital management and absolutely in line with Q1 last year.

Turning now to the performances of our four global business areas. Our Resilience business first, goes on being very strong across its markets, including North America, the UK and Brazil. We tapped some opportunities to increase our cross-selling capacity on the existing clients of Arcadis IBI. An example to this would be a recent win we had for the existing IBI client, City of St. Thomas in Canada to perform planning and engineering of 1,500 acres of land combined with Resilience solutions.

Our focus remains to be very selective in our bidding strategy, facing such a strong market. With this in mind, we invest most time in further advancing the pipeline at Arcadis.

Our Places business then, delivered strong revenue, now making up 41% of the total portfolio, especially in our key markets, North America and Europe. During last quarter, we've seen some signs of gradual pickup in the Chinese market. We remain, however, highly selective, focusing on our repositioning towards project management for international key clients.

Furthermore, we launched our Architectural & Urbanism business, which is now up and running as part of the places GBA and see strong momentum as it launches its first commercial events.

We have already quantified substantial synergy opportunities in the pipeline and have booked first sizable synergy projects in our order intake, which Peter will elaborate on in a bit.

Now turning to Mobility. A very strong net organic growth, mainly driven by the large project backlog we need to execute in the US, in the UK and in Australia. As Peter highlighted, we are happy to see some project wins to be materialised that would have been out of reach before. The increased collaboration with Arcadis IBI and Intelligence GBA strengthens our market positioning, and we can now compete for more sizable projects together. It gives us comfort to have a high revenue visibility for Mobility for the remainder of the year.

And finally, our new GBA, Intelligence, delivered €21 million revenues in the first quarter, while recording the same amount of order intake and collaborating to several bids in the GBA. The Intelligence management team is set up and works to set a fit-for-purpose organisation, consolidating the various organisations and fostering innovation.

And with this, I would like to thank you and hand on back to Peter.

Peter Oosterveer: Yes. Thank you, Virginie, for taking us through a more detailed review of our financial progress in the first quarter.

As I mentioned to you, when we released our Q3 results back in October of last year, one of the key priorities in my last seven months at Arcadis was to ensure a seamless integration process for both Arcadis IBI and Arcadis DPS. And I'm pleased to report that we are well on track with the integration. And while doing so, we didn't lose our focus on our clients and even more specifically, our focus on synergy opportunities.

As Virginie noted a minute ago, the architecture and urbanism business is now up and running as part of the Places GBA and is attracting strong interest in which we expect to further grow as we launch our first commercial event in Toronto later this month, promoting the enhanced range of architectural design services and solutions.

The Intelligence GBA management team has been appointed and is underway integrating organisations, products and services.

In Arcadis DPS, work is continuing to progressively embed the business into the Places GBA, creating additional strength in the industrial manufacturing and life sciences sectors.

Our sales pipeline is looking incredibly promising with over 250 synergy opportunities identified, opportunities we individually would have not pursued and a number of them already converted into order intake during the first quarter. This includes, for example, the design and construction management for a semiconductor facility in Europe with Arcadis DPS and a new industrial manufacturing plant expansion with Arcadis IBI for Bridgestone Americas.

We're also seeing the benefits of bringing Arcadis IBI and Arcadis DBS clients into our already successful key clients programme. And one such example is QuadReal Property Group, a Canadian real estate company operating on a global scale. Arcadis IBI currently works for QuadReal as programme managers and designers on the Vaughan Metropolitan Centre project, one of their flagship developments in Toronto.

But as QuadReal owns and manages assets in 25 global cities, this relationship holds the potential to develop into a true Arcadis global key client relationship, providing more synergy

opportunities. And I want to take this opportunity to thank those Arcadians who have been actively involved in the acquisition and integration process over the last 12 months.

As presumably many CEOs will agree, the integration of a new business, [inaudible] can be intense. It can be challenging, and fourth with structural and cultural hurdles. But I'm delighted to see how all Arcadians, inclusive of those who joined us through these acquisitions, have risen to the challenge and delivered strong progress.

So to wrap up our Q1 trading update, let me please summarise. Despite the ongoing global geopolitical challenges, we are blessed with continued strong client demand, resulting in good revenue and order intake growth, especially across the North American markets. These strong conditions have also had a positive impact on our operating EBITDA of €92 million for the quarter and an improvement of our operating margin from 9.4% last year to 9.8% this year.

The integration of Arcadis IBI, Arcadis DPS and the two smaller acquisitions is progressing well with synergy wins materialising and a growing number of further opportunities in the pipeline.

That all gives me confidence to confirm that we are well on track to deliver our strategic priorities at the close of 2023, those we committed to you during our 2020 Capital Markets Day.

I close the book on my six-year tenure as CEO of Arcadis, an extraordinarily rewarding and fulfilling journey. But I don't want to do that without reflecting on a few of the major chapters. I believe that our organisation is now very different from the one I joined in 2017. Together, we have invested in our people and our culture, are a much more diverse and inclusive company now and brought back the pride and engagement of the Arcadians.

We prioritise the very important relationships with our clients and enjoy the results of our key client programme. We significantly improved our focus on successful project execution through the launch of the Make Every Project Count programme and a broader use of the Global Excellence Centres.

We did endure the pain of the Oracle implementation across the company but now see that running a large enterprise without it would be impossible. We lead the way with our Net Zero Commitment, and increasingly we see that our clients trust us and ask us to assist with their sustainability strategies and solutions.

We transformed our operating model with the introduction of the global business areas, and we and our clients benefit from a much improved global sharing of experiences, capabilities and knowledge.

And last but not least, we changed and optimised our portfolio with exciting new acquisitions while divesting non-core areas. All of this has resulted in improved and much more predictable performance and crucially earned us the trust and confidence of our shareholders.

So I'm sitting here, reminiscing about the fact that we have achieved a lot through the past two strategy cycles and can collectively take pride in our results. But there's also still so much more Arcadis can accomplish in the future. And I believe that I speak on behalf of all Arcadians when I say we feel a responsibility to do more to create a more livable and sustainable world for all citizens and to safeguard the future for the next generation and those to come thereafter.

I am absolutely convinced that the future of Arcadis is bright, and I'm very comfortable handing over the reins to Allen Brooks, who supported by the rest of the organisation will absolutely do

a stellar job in attracting and retaining talent in delivering profitable revenue growth and future success for the business.

Our shareholders will meet next week at our Annual General Meeting to vote on Alan's appointment, and I wish him, Virginia and the rest of the Arcadis team, my very best for the future.

It's been both an honour and a privilege to lead Arcadis over the past six years. I do owe my fellow Arcadians, my debt of gratitude. They have been immensely supportive from the moment I joined Arcadis, and I will forever remember their sincere passion and drive to improve quality of life.

I'm equally excited to now start to devote more time to my wife and our three daughters as payback time has arrived, providing me with an opportunity to work on the overdue debt I racked up with them over the many years.

I want to thank you all for your support over the years for the many great interactions, for your challenging questions, but most of all, for your continued interest in Arcadis. Thank you for letting me indulge a little.

Now over to Christine for questions.

Questions and Answers

Operator: Thank you very much. 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'll now take our first question from Martijn den Drijver at ABN AMRO. Your line is open. Please go ahead.

Martijn den Drijver (ABN AMRO): Thank you, operator. Good morning, afternoon, gentlemen and ladies. My first question relates to the annual salary increases that you've implemented in April. What type of increase should we assume, should we take into account? And will you be able to match that with rate increases in the course of the second quarter and third quarter? And in relation to that, can you tell us a little bit about attrition and recruitment levels in the quarter? That's question one.

Peter Oosterveer: Yes, I'll take the second part and may catch also the first part. Martijn, thanks for the question. So our attrition continues to come down, which, of course, is positive. We have always combined any feedback on attrition with another important KPI, which we measure quarterly, which is the engagement. We did see a significant improvement of our engagement in 2022. And I'm happy to report that since we have the score of the first quarter this year that our engagement or the engagement of our people, I should say, continues to go up.

So those two together, the still downward trends on the attrition and the improving and continuously improving engagement gives us a lot of comfort that people enjoy working for Arcadis.

On the salary increases, from a competitive perspective, we are not disclosing the exact percentages, but assume to be on the safe side that, of course, we pay market rates. We keep a close eye on what's happening in the world. And we will be able to pass it on to clients. We

have been quite successful to do that in 2022. And with the buoyant market we have, we expect to continue to be able to do that.

Martijn den Drijver: Perfect. Thank you. Then moving on to the second question, which relates to DPS and IBI. I know you probably don't want to share actual growth rates or EBITDA margin. But has the trend been any different at GPS and IBI relative to what they reported prior to the acquisition, which was for IBI EBITDA margins between 11% and 12% and DPS, 7% to 8% with high double-digit growth. Any colour you can give on the performance of DPS and IBI in the quarter?

Virginie Dupérat-Vergne: Hi, Martijn. This is Virginie. On DPS and IBI, I think that we can recognise quite a nice quarter. They are contributing in line with what we expected. So more or less, one of them just being just a little bit relative. The other one being just a little bit dilutive, which has almost no impact at the end of the day on the average margin of Arcadis as a whole.

We see strong momentum going on in terms of activity, but there is definitely in the, let's say, so-called historical business of Arcadis, a strong momentum also, which is pushing, which you can see largely in Mobility and Resilience, which are not absolutely pure original business is coming from Arcadis. But at the end of the day, I think that the vast majority is historical business on that side.

Martijn den Drijver: Okay. And then if I could sneak in one more. Can you elaborate a little bit on the backlog growth in the quarter year-to-date, that seems somewhat muted relative to the reported organic growth in the quarter, but also the statements about strong/robust demand in all GBAs. Perhaps you could share why those numbers differ so much.

Virginie Dupérat-Vergne: I'm not sure. I think that the numbers differ so much. I think that for me, what is important is that – the size of the company has particularly been changed in one year to the other. So I don't really – and that's the reason why we would not disclose the more or less organic backlog year-on-year because it doesn't mean a lot. And where would I put the synergetic projects, in or out and progressively that will become quite a burden.

So I think that the very important thing is to realise at the end of the year, we have included these two acquisitions in. And then commercially, we now start the year on an inclusive front where everything is together. And then we see that in a single quarter, we've been able to grow the backlog by 3.9% in a moment where we deliver a record revenue growth, meaning that we have used quite a large part of our backlog in the same quarter. And in the meantime, we've been refinishing it even more than what we've been using.

And you also know that quite a number of the things that we generally get as order intake and also including in our backlog does not add significant amount. I think that Peter has been disclosing a few examples of projects today which are important projects we wanted to highlight. Let's think about the [inaudible]. I think it's probably nothing in the backlog as we speak because this is by designing the way it works.

It will come through service orders over the five-year period, as Peter mentioned. And I think that if we think about the Intelligence project in the North Carolina one, which is quite a sizeable and large project. It's obviously not included in the €20 million order intake because same thing, you will get additional service orders are getting in.

So for us, it's a very, very positive momentum, and that's why we want to insist and highlight that what matters is our capability of being selective.

Martijn den Drijver: Okay. Thank you. And Peter, big thanks from my side as well. Has been a pleasure. Absolutely. Thank you.

Peter Oosterveer: Thank you, Martijn.

Operator: Thank you. We'll now move on to our next question from Quirijn Mulder at ING. Your line is open. Please go ahead. Quirijn, maybe you would want to unmute your audio please.

Quirijn Mulder (ING): Yes. Quirijn Mulder from ING in Amsterdam. Hello. Thanks for picking up my questions. Peter, thanks for everything. My question is for you. You mentioned 250 initiatives or opportunities. So can you give me an idea about what you expect the size of these opportunities is in total to give an idea about, let me say, the cross-selling effects?

My second question is on the acquisitions of IBI and DPS. It looks to me that the order book is somewhat smaller than it was at the end of the year. But maybe that's partly FX, but maybe there's also some organic impact there. Can you maybe elaborate on that? Those are my first two questions.

Peter Oosterveer: Yes. Thanks, Quirijn. I'll take the first one. Obviously, we're not, for competitive reason, wanting to necessarily disclose the exact number on those 250 synergy opportunities, which we expect to actually go. To suffice it to say that it is a sizable number with three digit before the comma.

Virginie Dupérat-Vergne: And sorry to jump because the question is profit, but I will take it, whatever on the backlog side, Quirijn. But I think that on the IBI side, we are still absolutely growing. On DPS side, we had a growth of 35% last year in terms of order intake. So it's very solid at the moment, and we go on getting a large number of projects. Then if we would calculate or compare the order intake year-on-year, but I'm mentioning it in Q1.

I suspect that we are not going to grow about by 35%, again from one year to the other, potentially for two reasons also. It's also that they now are largely part of the Arcadis family. So the selectivity also applies to everyone as we can imagine. And we want really to focus on those projects that helps us get where we want to go and get into the higher part of the value chain also.

Quirijn Mulder: Okay. Thank you. And then with regard to the raise in profitability, 40 basis points, can you give an indication whether this – all the GBAs were up in terms of organic growth of the EBITA margins?

Virginie Dupérat-Vergne: I think it's – there is no major difference. We do not report by segment, as you know, on Q1. But there is nothing to significantly highlight that would be a problem anywhere. I don't see any point. We grow fast. We will grow a lot. So that's also supporting the operating EBITDA performance, as you can imagine.

Quirijn Mulder: No, but you can imagine that Resilience with its growth and let me say, also the better order intake, etc., and the inflation being passed on that it is certainly supportive to the higher – let me say, higher EBITA margins, and that's probably also the case on Mobility. So at least the places where that is also joining this 40 basis point increase. That was my question.

Virginie Dupérat-Vergne: Everyone is contributing to it. I think it's okay, obviously, Resilience is not depends on what it has been in the past quarters. But we have a very nice performance of our architecture and urbanism business, if that is your question.

Quirijn Mulder: Okay. Thank you.

Peter Oosterveer: And, Quirijn, maybe to add to it, we're holding everyone to the same consistent standard within Arcadis. There's no distinction between the GBAs.

Quirijn Mulder: Okay. No. But let me say there's a big acquisition in place. So that has a major impact there.

Virginie Dupérat-Vergne: Yes. But it's – frankly, the performance is really okay everywhere. Maybe the only one which is still – I'm not sure that there is anything to really – it's quite comparable to last quarter I would say?

Quirijn Mulder: Sorry?

Virginie Dupérat-Vergne: Quite comparable to last quarter.

Quirijn Mulder: Yes. I compare – let me say, I see the improvement of the 40 basis points in EBITDA margin. And that is whether this – let me say also, but we have seen a massive improvement last year with Places, especially somewhat suffering from the other two divisions because of, let me say, investing in people, as you might know. So that's interesting to know whether these trends continue. And let me say that now or that it is changing somewhat because of this – the change in, let me say, if you look at the numbers of Resilience, for example, that is growing quite fast, that is given the leverage, operational levers that should be higher than for example. And that's the reason that I want to have some feeling on, let me say, the different divisions, whether the markets are going up.

Virginie Dupérat-Vergne: The reason why I'm referring you to Q4 '22, because then you have the entire parameter. And I say it's not really different from what we've been doing in Q4 '22.

Quirijn Mulder: Okay. Thank you. That's clear.

Operator: Thank you. We'll now take our next question from Anthony Manning of Bank of America. Your line is open. Please go ahead.

Anthony Manning (Bank of America): Good afternoon. Thanks for taking my questions, and congratulations, Peter. First of all, could I just get an update? You said that North America has been particularly strong. Could you kind of give us some insights on how Europe is performing as well across the board and certain end markets. There's obviously been growing concerns around real estate. How has that been doing from your opinion?

And then secondly, just on kind of the working capital and how we should think about that going forward. It seems like a good performance, again, no change year-on-year, but incorporating the two large acquisitions you've done, I would expect a lot of an impact there. So could you just kind of give us an idea of where we should model [inaudible] going forward?

Peter Oosterveer: Yeah. Thanks, Anthony. I'll take the first question, then Virginie will take the second question.

You're obviously picked up well on the fact that we mentioned North America a couple of times as particularly good for us. That doesn't mean to signal or it didn't imply to signal that we're not happy with the performance in Europe because the performance in Europe is actually pretty strong as well.

Part of what has helped us and not just this quarter, but I think what increasing help is the fact that we refocused ourselves and have over the last two years actually shut down a few of the smaller non-core operations in Europe. So we are now safely say that the countries in Europe, and that is on Continental Europe, in addition to the UK, of course, predominantly the Netherlands, Belgium, France, Poland and Germany, that they have all contributed quite nicely to the good performance as well.

In addition to and I should also mention Australia, which has been a really good market for us as well. So the focus on lesser markets, but markets with significant growth potential is definitely paying off for us, and hence, the significant growth. But it is clearly led by North America.

Virginie Dupérat-Vergne: Maybe I will jump on the net working capital question, Anthony, and thanks for this one. I think that if we have a look of what we've been doing last year, based on where we are today and based on our discipline on working cap, I think that quarter-on-quarter, we are more or less standing around this 12-point something, 13%-ish, which is to be where we are at the moment, with definitely a first part of the year where we go a little bit above or we are at 12.9% Q1.

If you go back to last year, you will see that it was absolutely the same percentage, and I expect us to go again a little bit that we've been last year, a bit above in Q2 again. That might be a little bit increased this year by the fact that we are changing now in the US in terms of taxes. So we'll have to push additional cash tax out. This has no impact at all in terms of P&L. It's just a timing difference in things that you could immediately deduct in the past and that you would progressively deduct over five years now.

So then that creates obviously, a strong impact in the first year, which is happening. I suspect that tech companies are [inaudible] than we will be, but hence, for the small Arcadis, I think that it's meaningful enough to be mentioned, and that will hit Q2. So Q2, I expect that we go back again to the 30-ish-plus percent that we'll be having last year. And then progressively, Q3 and Q4 are getting down again because the pattern of our cash generation is such that our net working capital go there.

Our business has been increasing 40% quite mechanically with the acquisition of these two companies. So obviously, the volume on the face of our balance sheet have been increasing correspondingly.

And then as we can expect the magnitude and the absolute value of the figures we are pushing in front of us, whatever they are, are as such. And then we see that weaker, which is touching down Q1 and then Q2 and then getting up again, which is just a little bit larger this year due to the fact that our figures are changed.

Anthony Manning: Really useful. Thank you.

Virginie Dupérat-Vergne: Thank you, Anthony.

Operator: Thank you very much. We'll now move on to our next question from Hans Pluijgers of Kepler Cheuvreux. Your line is open. Please go ahead.

Hans Pluijgers: Yes. Good afternoon, ladies and gentlemen. Few questions from my side. First, coming back on the acquisitions, DPS and IBI. Of course, last year, you have shown quite strong growth. Could you give me – give some feeling on the organic growth of those two operations in Q1? And more important also in the seasonality with respect to cash flow and margins, is there relatively comparable to Arcadis. And IBI, let's say, always has a weaker Q4, but is there any other, let's say, seasonal impact to mention for the other quarters for those two acquisitions?

And then on the integration of those two, you already mentioned revenue synergies that you have identified. But looking at the cost synergies, of course, you have given some numbers at the moment of the acquisitions, but if let's say the enterprise additional cost synergies or saving potential, or is it even less than you expected? Could you give me some feeling on that?

And then my second question is on the growth you're showing. Is there any difference between growth from the private sector compared to the public sector. You can maybe some feeling on that?

And my third question is on increase in the number of employees. Could you give me some feeling of last year it was about 5%. Is that still that level? Or is it even increasing can you give us some feeling on that?

Peter Oosterveer: We'll take them in a reverse order, Hans, if you don't mind. And I'll start with the last one, and then I'll ask Virginie to answer the other three. On other people's site, generally speaking, our business model, of course, is one whereby the growth of employees, generally speaking, again, keeps pace with the growth of the company because fundamentally, what we do is we sell services. And there is a strong correlation between revenue growth and people growth.

That being said, part of the reasons for changing the operating model has been in addition to being able to serve our clients better with the global knowledge of Arcadis. But part of it is also to ultimately be able to use the pool of global Arcadians for the benefit of global Arcadis. And that means that there is potential for optimisation across the countries, which we didn't have really in the past.

So I'm not saying that, that will all of a sudden be a change of the trend, whereby revenue growth keeps pace with people growth or vice versa, if you like. But clearly, one of the reasons why we moved to the operating model was to be able to more efficiently use the resources we have across the globe.

And I think that could also be further enhanced by an even deeper use of the Global Excellence Centres, because they typically have a higher utilisation compared to the non-Global Excellence Centre. So we have opportunity to further improve that.

Virginie Dupérat-Vergne: Hi, Hans.

Hans Pluijgers: Yes, hi.

Virginie Dupérat-Vergne: Thanks a lot for your questions. So in terms of organic growth of DPS and IBI versus the credit portfolio of Arcadis. If organically we do 12%, then as you can

imagine, based on the fact that they've been growing faster their backlog than as last year, but they are above in terms of our organic growth respectively to the initial portfolio, I think that's a given. So that is part of the pace of the strong revenue that we see.

Obviously, the dollar is less supporting that in terms of absolute value. So there is a little bit of dilution in the absolute value numbers compared to what we would have had one year ago with the translation rate that we had at that time.

In terms of private versus public, no real major change. I would say we are still going with this pattern where we see mobility being 70-30 public versus private. Places being more or less the reverse. And then Resilience being 50-50. Maybe there as we've been growing fast and such, we have 60% private. But I would remain cautious there because this is also where we have had such large projects like the one that we referred earlier for the US Army, which is almost zero in backlog. But at the end of the day, it's a large number that is going to fall through and that we are fully aware of, and we need to take into our – secure the revenue that we understand we are going to have to deliver in the future months.

So no big change there and rather a strong growth almost in both side, public versus private.

In terms of –

Hans Pluijgers: Sorry, go ahead.

Virginie Dupérat-Vergne: I think that another one was around cost synergies. And on cost synergies, obviously, a few of them. We are starting to extract that support a little bit of the performance in some cases. But as you can imagine, at the moment, we go on pushing more integration cost than getting cost synergies out. Whatever we are on track to deliver what we want to achieve, and it's rather going pretty well. And as I expected, we have quite a large opportunity to work for a while going on, expecting what we can extract to what really pickup for organisation that we want to have.

So nothing major to report in terms of impact at the moment. But on track, and I'm having a team tracking on a daily basis, a very detailed plan, knowing what's going to be out at what moment what a number of people of contract, it represents, how we have been negotiating that type of contract and things like this and making sure that we do not recreate an additional cost somewhere else. So that's under control.

Hans Pluijgers: Okay. Thank you. Peter, of course, I want to thank you very much for your cooperation over the last few years, and I wish you all the best and special to your family, of course.

Peter Oosterveer: Well, thank you very much, Hans. Really appreciate it.

Operator: Thank you so much. We'll now take our next question from Luuk Van Beek of Degroof Petercam. Your line is open. Please go ahead.

Luuk Van Beek (Degroof Petercam): Yes. Two questions left. One is on Intelligence, which was last year, still a bit – the margin was still a bit lower because you were still in the integration process. So can you explain where you are now and if we should expect normal margins going forward? So where are you in that integration process and preparation.

And the second is on the seasonal pattern of DPS and IBI. That's a bit different from your own business? Was there any particular impact on the margin in this quarter?

Virginie Dupérat-Vergne: Thank you for your questions, Luuk. In terms of Intelligence margin, obviously, we do not disclose the margin per sector this quarter. So nothing. But as I said earlier to Quirijn, you can go back to Q4 and more or less rely on something not greatly different from what's been done there.

We are setting up this organisation. It's still at the moment, the sum of two different organisations. So it will take a bit of time just to be optimised and that we expect the right cost synergies. And obviously, for the moment, it's probably weighing on them a little bit while I made also that the growth is helping them. But definitely, that is a given.

Then we are not going to guide on that one, just to say that it's – as we expected, it's not worse and it – yes, it doesn't take more time than we thought. So that I think is probably the key element.

Luuk Van Beek: Okay.

Virginie Dupérat-Vergne: And yes, in terms of seasonal pattern, we've not seen a lot of difference in Q1 versus what we had in the rest of the call. It's been quite aligned.

Luuk Van Beek: Okay. That's clear. Thank you for the answers. And also thank you, Peter, for the contribution you made last years and the discussions we had.

Operator: Thank you. And we'll now take our last question from Andy Murphy at Edison. Your line is open. Please go ahead.

Andy Murphy (Edison Group): Good afternoon, and thank you for taking my questions. I've got three, if I may. First of all, in the UK, just wanted to understand a little bit about why the UK was so strong in Mobility, but much more you called out in in the Places division, somewhat weaker growth. Just wondering whether that's government versus private funding or some other aspects in there?

Secondly, on your key client programme Make Every Project Count programmes, can you perhaps update us on those a little bit and talk us through how that is contributing to the margin?

And then finally, on the order intake. I was just curious on your comments that cancellations were very low, I think you might have said almost zero. I was wondering if you can give us a little bit of colour around why the cancellations might have been so low in the quarter. Thank you.

Peter Oosterveer: Yes. Well, thanks, Andy. We'll take them backwards as well. I'll start with the cancellations. Yes, we think it is important to in addition to mentioning that we see a buoyant market that there's very few cancellations because that is what sometimes happens in our business. But it is a strong market, and we simply felt that it was important to also illustrate that strong market is evidenced also by the fact that we see very little cancellations. So hence the comment.

On the key client programme and Make Every Project Count, maybe a bit of history, and I'll not try to make it too much of a historic journey. But both of these programmes were initiated back in 2018 when it became apparent that we had quite something to gain. From both a more stronger commercial mindset and a better discipline on project execution as well as focusing on less clients and trying to do more for less clients.

So the improvement we've seen over the last couple of years is coming from those programmes. In addition, there's a couple of other things, which we did, including the Global Excellence Centres, which is also a contributor to the margin improvement.

And to make it a bit more specific on the key client programme, when we started the programme back in 2018, we had about 250 key clients. And we have, of course, criteria, which makes a key client, a key client. And out of the 250 million, at that time, we had about 25 global key clients, and the rest is simply local or regional key clients.

Over time, we've actually reduced the number of – and I should say that the 250 key clients we initially had were responsible for about just over 50% of the revenue and a disproportional percentage of the profit. And disproportion, of course, should be interpreted as higher.

Over time, we have tweaked it further, fine-tuned it further, and we ended with 150 or so in 2022. Still responsible for over 50% of the revenue and still responsible for a disproportional percentage of the profit. So the focus on lesser clients with stronger relationships and the ability to do more for these clients has clearly worked.

Now with the acquisitions and actually already before the acquisitions, we felt that we needed to broaden the funnel and had already before the acquisition, decided that we would actually add a category to the, let's say, indigenous Arcadis clients, about 20, which were added. So that – and those were particularly clients where we felt that we had an opportunity to further grow that account even though they wouldn't necessarily meet all the criteria, particularly the criteria of revenue, but it has potential for growth.

And now, of course, with the acquisitions, we're actually bringing clients which DPS and IBI brought to Arcadis into the key client programme as well. Some of them were same. Some of them we already had in our key client programme, but others are being added to it. And that could easily be another 30 or 40 clients will add to the key client programme. And again, the focus and the goal will remain the same, trying to do more for the same clients, benefiting from the leverage, benefiting from the relationships and support.

So it's been a significant contributor to our improved margin. And I think it will continue to be a significant contributor to further improve margin. And the same is true for the Make Every Project Count programme. Both of them, I can safely say we have not exhausted the potential of both of them. Virginie, do you want to take the first question?

Virginie Dupérat-Vergne: On the UK?

Peter Oosterveer: On the UK, yes.

Virginie Dupérat-Vergne: Yes. On the UK, I think that maybe just to give a kind of helicopter tour, what is important to keep in mind is that it's been a very strong quarter on the Resilience side, absolutely, definitely. It's not different from some other regions in the world, but I think it's important to note.

On the Mobility business, we have quite a number of large projects in backlog, which are currently under execution. So this comes with the generation of revenue, obviously. And that goes also generally additional service order and such that we are generally expected and go on feeding the order intake and the backlog.

On - by comparison, I would say that - and by comparison on the strong demand on the US side, then on the Places we thought that we qualified that as other softer demand, might also come from the fact that we are quite more selective. We have decreased our exposure to some sectors as we said earlier, like commercial real estate. But hence, we have quite a number of large projects. And we also, in industrial manufacturing, do execute some large projects from the UK, while in fact, the plans are going to be delivered somewhere else in Europe or even in the world, because we have quite a large competence centre over there.

So that, I think, is the thing to keep in mind. So the fact that the local demand is not exactly so big as it is in the other sectors, has not a lot of impact on us because we are globalised now and then we use our competent centre to rather solve the project where they are.

Andy Murphy: Okay. Thank you very much.

Virginie Dupérat-Vergne: Thank you.

Operator: Thank you. That's all the time we have for Q&A. I will now hand it back to your host, Peter Oosterveer for closing remarks. Thank you.

Peter Oosterveer: Thank you, operator. Yes, just going to quickly summarise, I know we're at the top of the hour. I will start with reinforcing what we have said a couple of times is that we are enjoying very strong markets despite the geopolitical challenges. And that, of course, is quite helpful to put it mildly.

Secondly, it is also really encouraging to see that the focus we have on our clients, and Andy, you raised the question about the key client programme that our clients do know how to find us. I'm really, really pleased with the progress we've made in the relationship with the clients and how the key client programme has helped to fuel the growth.

So I am turning the reigns over to Alan with the absolute conviction that our foundation is extremely solid. And as a result, I look at the future, and I will continue to follow Arcadis, obviously, with a very, very – a view of a very bright future, let's put it that way.

I'm also extremely thankful, and I'm extremely proud as well. I'm proud of the results we have created, and I'm also proud of the growth we have created. And last not least, I'm extremely proud of the support I have enjoyed from my fellow Arcadians. They are a pretty unique bunch of people with a lot of passion and a lot of engagement as well. And all of that gives me tremendous confidence that Arcadis will continue to do very well in the future.

So thanks again for all of your support, for your interest. And stay safe and healthy. Thanks, everyone.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Continue to stay safe. You may now disconnect.

[END OF TRANSCRIPT]