

Arcadis Q2 2023 Results

Thursday, 27th July 2023

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Operator: Hello, and welcome to the Arcadis Second Quarter and Half Year 2023 Results. My name is Carolyn, 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 mode. However, you'll 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 questions. If you require assistance at any point, please press star zero and you will be connected to an operator.

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

Christine Disch: Thank you, Carolyn, and good afternoon and good morning, everyone, on the call. Welcome to our webcast. My name is Christine Disch. I'm Investor Relations Director at Arcadis. We are here today to discuss Arcadis' second quarter and half year results, which were released this morning.

And with us on the call are Alan Brookes, our CEO; and Virginie Duperat, our CFO. We will start today with a presentation by Alan and Virginie, which will be followed by Q&A. And we would like to call to your attention to the fact that in today's session, management may reiterate forward-looking statements, which were made in the press release today. Please note, any of these risks related to these statements are more fully described in the press release on the company's website and at the end of today's presentation.

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

Alan Brookes: Thank you, Christine. Good morning, good afternoon, everybody, and a very warm welcome to you all joining the call today. I'm really delighted to be hosting my first investor call as CEO of Arcadis, and I look forward to taking your questions shortly.

My first few months as CEO have been incredibly busy and rewarding. Obviously, we've been focusing on our performance, whilst at the same time, I've taken the opportunity to visit our key clients and connect with our people. It's been enormously encouraging to see the opportunities and the scale of those opportunities and services that our clients are looking for us to address, and we see strong market need into the future.

Our people and our clients never cease to amaze me, whether it's in executing a project to prevent the rising sea levels in Lower Manhattan, or designing a new 33-kilometer underground multilevel system of highways and tunnels in Sydney. The ingenuity of our people is truly inspiring.

We are progressing well with the integration of Arcadis IBI and Arcadis DPS. And this provides us with further opportunities to broaden our services to a larger network of clients around the globe, as well as delivering more complex value-adding projects across multiple client programmes and geographies. Our new architecture and Urbanism business, which combines the architecture design expertise of IBI and CallisonRTKL, is now ranked in the top five largest architecture practices in the world, significantly increasing our ability to deliver mega projects from design to operation.

I've also strengthened our leadership team. The Executive Team includes now the three GBA precedents within that team. This underlines my ambition to bring our GBA leaders even closer

to the business and help better serve client needs. This also allows us to collaborate across the GBAs and get cross border efficiencies.

With less than six months until the end of our three-year strategic cycle, I am today confident we are on track to meet our targets that we set ourselves for the '21, '23 strategic cycle.

Now let me turn to the results of this last quarter. If we look across this, I'm delighted to report a solid set of results in our second quarter on the back of continued strong demand and operational discipline. We have achieved a record net revenue for the quarter of €945 million, which is up 30% year-on-year, with a strong organic growth of 9%.

Our net backlog has increased to €3.2 billion with an organic backlog growth of 5% year-to-date. These results are being driven by client demand for our expertise and services, particularly in the industrial manufacturing, environmental remediation and innovative mobility solutions.

Our operating margin improved to 9.8%. This is up from 9.3% in Q2 '22. These results confirm that the operating model we introduced last year and the strategic focus on high growth markets is now delivering. I'm also pleased to report that voluntary turnover is down from a high of 15.9% in 2022 to 12.6% of this quarter. These improvements reflect the changes to the talent and people processes we implemented over the last 12 months and show month-on-month progression.

I will touch on our four global business areas shortly. But first, I'd like to share with you some examples of our significant synergy wins this quarter, which showcased the successful integration of our acquisitions that we made last year.

One of the key drivers for the acquisition of Arcadis IBI and Arcadis DPS was the complementary nature of both businesses and the opportunity to combine our offering and provide clients with a full asset life cycle of services and solutions. By way of example, a recent appointment to provide full architectural and engineering design services is to support the creation of the largest solar ingot and wafer manufacturing facility in the US. This brings together capabilities from across Places GBA, including from the new businesses in the form of our expanded Architecture and Urbanism Group and our high-tech industry engineering and construction management expertise into this multimillion dollar project, which will create 1,500 new jobs and support the nationwide reduction of carbon emissions.

Likewise, Arcadis' projects and construction management expertise and Arcadis DPS knowledge in process engineering is generating synergy opportunities with new technology clients. A good example would be to support the new facilities to design, manufacture and test semiconductors for a global leader in embedded processing chips. This market is a huge market for us as we look to the future.

As I mentioned, we now have one of the top five largest architecture and Urbanism businesses within our Places GBA. This takes us from placemaking in major cities to supporting workplace and interior transformations for top retailers. The new business creates a wealth of opportunities to combine our expertise and services. A good example here is the project to expand the holiday village in the Caribbean, a \$5 million project is utilised in master planning, architecture and also our master planning side design skills from both IBI and CallisonRTKL in Los Angeles, Toronto, Boston, Miami and Salt Lake City. So a really strong project for us.

If we look at our Resilience business, we continue to see very strong momentum. Net revenues were up 13%, an order intake up 23% year-on-year, continuing to position us ahead of the competitors. In North America, client support for environmental restoration projects continue to soar. Innovative digital tools are also proving a real differentiator for us in this field.

A good example here is the Green Metrics Analytics Tool. This tool calculates the carbon emissions generated in each phase of a project. The results are then visualised in an interactive dashboard. The gaps are then identified and more suitable alternatives generated. This information can be used to drive a strategy that limits environmental impact and maximises socioeconomic benefits in any project.

In response also to the US Environment Protection Agency's new Lead and Copper Rule, we are seeing increased Federal funding for water infrastructure to improve the quality of clean water supply. This helps to drive the demand for our water optimisation solutions.

We also continue to see strong growth for our energy transition-related initiatives, highlighted by a win to support the National Grid in the UK to decarbonise its infrastructure. As the 1.5 degree Paris target draws closer, the energy transition market will increasingly become one of our greatest opportunities. To meet demand, we are launching an energy transition academy. This will create new talent, capacity and capability to address the future skills needed to advance this transition.

Whether it's restoring brownfield sites or helping to increase the supply of renewable energy, we are committed to improving quality of life for communities where we operate. In the Netherlands, one area that highlights this commitment is biodiversity. Our 150 strong team, the largest in the Netherlands is supporting a variety of clients, including the Dutch Water Authority and municipal governments to restore flora and fauna in the waterways.

One such project in Zuidpolder Park, south of Rotterdam, where we have our landscape architects designing the master plan for a new 130-hectare park, which has just been awarded a European Garden Award.

If we next look to our Places business, we see excellent results with both net revenues and order intake up over 50%. This is being driven by growth in the industrial manufacturing sector as well as increased investments in carbon management and the need to meet net zero targets. As we continue to focus on the strategic repositioning of our portfolio following last year's acquisitions and the integration of the new businesses, we see high growth markets in North America and Europe, and these remain key drivers for our success.

Government stimulus packages have also presented an emerging mix of both new business opportunities and entrance to the market. Legislation, including the US Inflation Reduction Act have created a favourable investment market. And increasingly, we are working with newcomers to capitalise on opportunities for profitable growth.

The need to reduce carbon emissions also remains an ongoing concern for all our clients. Across the entire value chain, we are now looking for ways to improve what we do. This started recently with an ecosystem partnership with Honeywell. We – together, we provide the tools and services that help optimise energy use and carbon emissions in commercial buildings. These are highly geared towards supporting clients on their journey to net zero. This will remain a priority as we

continue to develop intelligent digital solutions, we will help our clients accelerate their efforts to reduce carbon impact across their portfolios.

Next, if we look at Mobility. Order intake is up 16% for the quarter, with net revenue growth of 9%. New technologies and digital innovations have been critical for the growth. Within our connected highways and intelligent rail solutions, we see us particularly underpinning the growing demand that we have.

New government stimulus packages are also contributing to the strength of our Mobility business, notably, in the US and Australia, where federal funding has been key for supporting clients looking to advance the capabilities in new mobility services, such as electric vehicle infrastructure.

We are developing new solutions in emerging growth areas such as Advanced Air Mobility or AAM. Highly automated and electric aircraft are used for transporting both people and goods. AAM can mean a faster, more affordable and a emission-free way of getting around. But to become commercially viable, it must be integrated with existing mobility options and other emerging technologies.

As a result, we are seeing urban air mobility ecosystems being formed in several major global cities. Thanks to our local knowledge and global expertise across technology, planning, engineering and sustainability, we are ideally positioned to take advantage of the opportunities this new area presents.

A good example of this is our work with San Diego Association of Governments. We have been appointed to develop policy and technical resources to help shape their AAM strategy. We will be combining our expertise in the traditional aviation sector with digital tools to support policy and market analysis as well as educational and public outreach to identify locations for AAM facilities that are accessible to all. The work has the potential to transform future transportation systems, and I am excited that Arcadis is at the cutting edge of these new developments.

And so to our fourth and newest global business area, Intelligence. This will support the growth of our innovation capabilities, particularly the way in which we embed smart digital solutions across our whole business. Demand is being driven particularly by traffic, transit and travel solutions, notably in North America, where synergies between Mobility and Intelligence business areas are translating into exciting new wins and opportunities for further revenue growth.

A very good example here is where we have combined the two leading intelligence products, HotSpot and CurbIQ. This new application means that important mobility clients can look at CurbIQ, digitising the curbside data to help cities monitor their curb parking and logistics. While HotSpot is integrating the mobility platform that users can easily track travel expenses and make parking and public transport payments all in one place.

Now by bringing both CurbIQ inventory of the curb space, together with the payment aspects of HotSpot, we can give users real-time payment information as well as direct customers to available parking spots. Combining these tools has been central to new opportunities in cities across Canada and the US. We now have approximately one million users in 2023.

Our Enterprise Decision Analytics tool, also part of Intelligence, helps clients better understand their asset portfolios. It predicts and models assets, prioritises complex decisions. And we've

seen this really working already in Infrastructure Ontario in Canada to access their public building portfolio.

In addition, we're seeing new growth opportunities emerge for our Mobility and Resilience businesses in Amtrak, a long-standing client of Intelligence who use the EDA tool.

With that, I'd like to hand you over to Virginie to talk through in more detail our financial results.

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

Our net revenue increased by 10.6% organically to €1,886 million with strong growth at Arcadis IBI and Arcadis DPS. The currency impact on revenue growth was minus 1.1%. Our operating EBITDA was €185 million in the first half compared to €133 million in H1 2022, up 40% year-on-year.

Operating EBITA margin improved to 9.8% relative to 9.3% last year. We maintained our disciplined net working capital management while reducing DSO to 66 days versus 69 days end of Q2 2022. We also successfully placed a €225 million sustainability-linked Schuldschein loans in July and completed refinancing process of our 2022 bridge loan.

Now let's move to the next slide to talk about our order intake trend. In this first half, we delivered record net revenue with strong organic growth. Our order intake increased by 36% year-on-year to record level of €2,039 million, outperforming total revenue growth of 33% and resulting in a book-to-bill ratio of 1.08%. This resulted in a net revenue backlog of €3.2 billion with organic growth of 5% year-to-date, well above last year's 3.4% in Q2.

Let us now turn to the performance of each GBA and let's start first with Resilience. In Resilience, we delivered an excellent performance across the board. We experienced continued strong momentum in client demand, particularly in environmental restoration, water optimisation and energy transition. This led to strong revenue and backlog growth, driven by public and private clients in all large markets and with backlog development in the quarter, beating the seasonal patterns.

We delivered a strong margin in the [inaudible] at 11.2% and strong improvement from 10.1% in the first half of 2022, driven by good performance in North America.

Finally, we continued to invest in digital products and partnerships to tap the wide range of opportunities in growing markets such as water optimisation.

If we turn now to Places. The good revenue and backlog growth was driven by North America, the UK and Continental Europe, while we increased selectivity in order intake at Arcadis DPS and continued to refocus from cost management to value-added project management in China.

The operating EBITA margin increased to 9.2%, driven by Arcadis IBI's strong position in North America and Industrial Manufacturing performance in Continental Europe. Excluding Middle East, our operating EBITA margin was at 9.9% for the first half.

Moving now to Mobility. Here, we continue to see very strong revenue growth in North America and Continental Europe. We see increased public and private investments for upgrading of infrastructure assets, especially in the US and in Australia, driven by the stimulus.

Positive order intake momentum was maintained, leading to a much stronger quarter-to-date backlog development of 2.1% in Q2 '23 compared to 0.3% of the previous year.

The margins were strong in North America and Continental Europe and in Australia. Middle East performance was €3 million negatively affected by the arbitration outcome on a rail project that was rendered in H1. Excluding the Middle East, operating EBITA margin was at 10.3% for the first half of 2023.

And finally, our fourth TBA, Intelligence, delivered €45 million of net revenues in the first half and had a strong order backlog of €150 million. Good revenue growth was complemented by new order intake from key clients, mostly in North America and in the UK. Building on the recent synergy wins outlined by Alan earlier, we see a good pipeline of opportunities for Intelligence on the back of continued cross GBA collaboration.

For Intelligence, our priority remains investing in product development, integration of Arcadis IBI and organisational setup. Integration efforts and good momentum resulted in an improved margin of 9.6% in H1 2023 versus 9.1% for full year 2022.

Overall, turning to the P&L. We delivered a strong operational performance with €169 million of EBITA compared to €130 million last year, which was at 30%. Our net finance expenses were €27 million, driven by a higher debt position. The effective income tax rate of 35% compared to 28% of last year was impacted by non-deductible items and the recognition of deferred tax assets. The weighted average annual income tax for the full financial year is expected to be between 28% and 30%.

Our earnings per share increased by 10%, with net income from operations increasing to €103 million or €1.15 per share.

Looking now to our free cash flow generation for the first half. Year-on-year, our seasonality pattern remains the same, and the variance year-on-year comes from an additional cash outflow on taxes following a US changing law, limiting impacts coming from increased financing costs, some integration costs, IBI and DPS contributions, as well as an increased need in working capital to finance our strong growth. With cash flow in the quarter of minus €26 million was in line with our seasonality pattern and fully in line with last year €41 million when excluding the US tax impact.

Finally, I would like to update you on our progress with the identification and the delivery of cost synergies resulting from both our acquisitions. End of H1 2023, we have identified cost synergies for a total amount of €20 million, above our initial target of €18 million. Synergy implementation is ongoing and expected to be fully delivered by the end of 2024. They are to be generated through integration and rationalisation in workplace, IT integration and platform improvement within technology, as well as through rationalisation for overhead, insurance and support driving operational synergies.

In 2023 already, we expect a positive impact of €4 million in our full year P&L to come from those synergies. The synergy exercise is still ongoing, and we will go on extracting additional efficiencies as we progress in the integration process, such as GEC contribution, for example.

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

Alan Brookes: Thank you, Virginie. So to wrap up our Q2 and first half year trading results, let me summarise.

We had delivered another quarter of strong performance, reflecting continued high client demand and our global operating model continues to drive revenue growth and margin improvements. The integration of Arcadis IBI and Arcadis DPS is progressing well and is to be completed by the year-end.

Synergy wins are materialising and cost savings that we have identified exceed our initial target. The company's focus on digital innovation and operational discipline has led to a significant order intake and opportunities to further scale and standardise, ensuring we remain fully on track to meet our 2021 to 2023 strategic targets by the end of this year. The need for sustainable and digitally enabled solutions remains high on our clients' agenda. I am convinced that with the talent and expertise within the organisation, we are well-positioned to capitalise on these future growth opportunities.

Now with that, I hand back to Christine for any questions that you may have.

Christine Disch: Thank you, Alan. We will now open up the line for Q&A. Kindly get to a maximum of two questions at a time. Carolyn, over to you.

Questions and Answers

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line Hans Pluijgers from Kepler Cheuvreux. The line is open now. Please go ahead.

Hans Pluijgers (Kepler Cheuvreux): Yes. Good afternoon, ladies and gentlemen. Two questions to start with from my side. First of all, on wage inflation. Could you give maybe some feeling what - let's say, how significant wage inflation was. So maybe some flavour on wage inflation and volume? And especially also, how did you, let's say, perform compared to last year, as last year there was some issues expected to pass on that wage inflation. How did you do that, let's say, this year? Do you believe that you have performed slightly better, also looking at the margins? Maybe some background on that.

And secondly, on personnel. Yeah, could you give maybe the number how strong your total number of employees grew organically? And also, let's say, on the staff turnout which came down quite materially, could you give me some flavour. Is there any impact from mix or any specific reasons for that or, let's say, regions which drove that improvement? Thank you.

Virginie Duperat-Vergne: Thank you, Hans. And thank you for your questions. If you go - yeah, I will take the first question, and I will turn to the boss for the second question on the personnel elements.

So on wage inflation, what have we been seeing for the first half of this year, really something really different, I think, from one year ago, obviously. There is still some pressure obviously. But as we stated earlier, the big catch-up that we've done very early in the start of this inflation moment has allowed us to remain fully in what we had assigned for ourselves in the budget. So that's definitely something that we've been seeing.

And obviously, as we are not getting into the same type of salary increase that we did the year before, even if there are still some discussion with clients when you wanted to go back and

such, it's not at all the same magnitude that we've been seeing compared to one year ago. And there is no specific effect, I would say, in the P&L of the half year to try to catch up.

We still have, by the way, one or two large contracts here and there, where we still are into negotiation and discussion on the catch backs of the previous year.

Alan Brookes: Thanks, Virginie. Maybe to your second question. We've seen about 3% organic growth in our personnel, which I think year-on-year is looking at where we've seen the growth markets. I mentioned energy transition. Obviously, we're very focused on developing there.

I think we see – pleasing for us is that the turnover in people in our new companies that have joined us through the acquisitions is either as good or better than in the rest of Arcadis. So people are excited in joining Arcadis, and a lot of work has been done in that. We've put a lot of effort into analysing our staff survey in terms of the areas to address around onboarding people, and that really helps us in terms of recruitment, a better onboarding process, better recruitment process and then development and career process.

And really, that's resulted in us achieving, at the end of June, our survey engagement score of 49, which actually puts us in the top 25 percentile of our industry. So some pleasing results on the people front.

Hans Pluijgers: Okay. Thanks.

Operator: Thank you. We will take the next question from line Martijn Den Drijver from ABN AMRO. The line is open now. Please go ahead.

Martijn Den Drijver (ABN AMRO): Yes. Thank you, operator. My first question is slightly different from the one from Hans, but on the same subject. If the attrition is trending down, would it be fair to assume that there will be a better conversion of organic growth into EBITA margins in the second half of the year and into 2024?

And my second question is the wind down of the Middle East, is now popping up not only in Places but also in Mobility. When is this effect going to disappear? Is that going to be in the course of 2024 or perhaps already at the end of 2023? Just a bit more colour on that.

And I'm going to sneak in a third question. Can you shed a bit of light on the performance of the merged entity IBI architects with CallisonRTKL? Just to get a bit of a flavour how that merged entity is doing relative to the sum of the individual parts. Thank you.

Virginie Duperat-Vergne: Okay. Maybe I'll take a little bit of the beginning of each of the questions, and will let Alan complement on the business standpoint because there are quite a number of different angles that you are addressing there, Martijn.

So in terms attrition and better conversion of EBITA margin, you definitely have a point. And I think that if we look at Resilience performance in H1 and the improved margin in Resilience, that is really already there. Let's go back to one year ago. And one year ago, that was absolutely a moment where we had a very high attrition in that part of the business and also mainly in the US. And that's the moment where the team has been putting in place some efforts on recruitment, but also on how we manage the onboarding process and how it's being run.

And all that working, let's say, pretty, pretty well, we see the results definitely in the margin in H1 '23. So that's some things that might or should, let's say, impact, I would say, the other GBAs. Then we have contrasted results from one GBA to the other. And definitely, attrition is

absolutely down in - sorry, in Resilience. And it's a bit higher, for example, in Places for several reasons. It's not the same countries, obviously, and we have the Chinese effect, which is merely impacting China and Places, right?

And obviously, we also have some sort of sell down in some areas and namely a little bit in the UK at the moment. And we've seen some people getting out a little bit, which is either – that's something happening in these sort of circumstances. So that's a little bit the picture on that front.

Alan Brookes: I think just to add to that one quickly. I touched on before the onboarding. So actually the route to fee earnings. So as we've improved this, we're getting people into billable work faster. So I think you're right, we should [inaudible] and then that should continue, as you say, into 2024.

It's also about the work we're doing on the selection of projects as well. But yeah, I think it's a good point. Do you want to start off on Middle East or should I start off?

Virginie Duperat-Vergne: Well, you can go on.

Alan Brookes: Okay. So in the Middle East, you make a point there. Obviously, we're at the end really of the period, where we're moving down in the Middle East now winding down, [inaudible] aiming to do is be really quite a small business. By the end of this year, we will just be winding out of a few projects. We're trying to accelerate that as we speak. And we are hopeful that by '24, the end of '24, we will be out of the Middle East altogether. So that's our aim, and that's what we are working to [inaudible].

Virginie Duperat-Vergne: And maybe to complement that, one of the reason also to exclude that is that in some respect, because we are in the queue of the project, the impact of Middle East is smaller in terms of volume of activity, obviously. But as close the entities and we wind down in terms of business licenses and such, we have some costs, I would say, of administrative infrastructure on the ground, and that's weighing and that's the reason why we thought we might need to single it.

Martijn Den Drijver: Just a short follow-up on the Middle East. So losses are probably - this is my assumption in the mid-single-digit range for 2023. Will that be close to breakeven in 2024? Or will it remain at that level just until really the complete organisation or at least that part that you want to is completely dismantled? Is that the way we should think about it?

Virginie Duperat-Vergne: The way we should think about it, I think is the more we progress, the less revenue we have, but we still have cost to close the entities. So then you rather don't go back to breakeven but going - getting some cost while you have no projects anymore, so then you don't have profits to put on the other side.

Martijn Den Drijver: Okay. Thanks for the clarification.

Virginie Duperat-Vergne: Thank you. And then I think the last question was about Architecture and Urbanism on the performance that we can observe there. And then maybe just a few facts, but I will let, be interestingly, Alan talk about it because he made them recently, while I didn't.

So on the performance of the first half, what we can observe is that, obviously, a super strong performance on the commercial side. If you calculate a sort of pro forma organic growth of their

backlog and order intake year-on-year, it's a very strong double-digit number. So it's absolutely stellar. You take CRTKL and IBI, where they were last year and what they are delivering separately in terms of order intake, and you compare that to the first half, and this is what you get.

And in terms of P&L performance, we still have a lot to improve an extract in terms of synergies and efficiencies, but they are already at the average margin of the rest of the Group.

Martijn Den Drijver: Thank you very much, Virginie.

Alan Brookes: Just to add to that, I'll just say I visited offices often where we've now combined the teams. I think the really positive news for us is working in those offices. The work is being done across both the teams, if you like, to put it that way. And actually, you can't tell who is from which team. And what we've done is look to maximise the people and the capabilities.

We're particularly seeing strong US, Canadian performance in this regard and health in the UK. So we're looking to leverage the key clients of both organisations and really maximise the opportunity. And that's what's given us the results that Virginie has mentioned.

Martijn Den Drijver: And the attrition trend is the same in that combined entity as it is for Arcadis as a whole?

Alan Brookes: It is indeed and actually if anything lower, yeah.

Virginie Duperat-Vergne: Very, very [inaudible].

Martijn Den Drijver: I have two more questions, but I'll go into queue way back right now. Thank you.

Virginie Duperat-Vergne: Yeah. Thank you, Martijn.

Operator: We will take the next question from line Anthony Manning from Bank of America. The line is open now. Please go ahead.

Anthony Manning (Bank of America): Good afternoon, everyone. Thanks for taking my questions. Could you just give us an indication on the main moving parts of the cash flow for the rest of the year? Where do you think that will come out and what that means for net debt?

And then secondly, I think you just touched on it. But could you give us a bit more colour in terms of the end market demands that you're seeing in the kind of new Places division? You've kind of given us regionally, but kind of on a business line level, where you're seeing in that Places and the indications you're getting? Thank you.

Virginie Duperat-Vergne: Thank you, Anthony, and good afternoon. I will take the cash flow part, if you agree.

So then cash flow for rest of the year, we see the usual seasonal pattern coming back with cash generation expected to really happen on the second part of the year, aligning DPS and IBI on our processes, where salary reviews happened in the first half of the year, bonuses are being distributed there. We bring them in the same type of pattern that we have to Arcadis, and this is what you see if you exclude this history of US tax.

So definitely, we see for the rest of the year, the usual way of generating cash. The cash generation is starting also on a bigger base because we have a bigger volume of activities and such. So that is something that we should find also in our ability to generate cash. We definitely

also see, let's say, some small administrative impact and been really mentioning that in the slide or in the PR because it's a little bit anecdotal, sorry for that. But in fact, it happens for the moment.

We have been integrating quite a number of different entities, getting IBI and DPS former groups in. And then obviously, these legal entities are changing their names and changing their names, we've seen a little bit of time to get the right papers and such so that clients can go on bringing their cash in. So that I expect might go on affecting a little bit the Q3. So it might very well be that it's back-end load part of our cash generation in Q4 because of that administrative process, which is happening at the moment. But this is what we see.

The tax impact was €74 million in H1, but we still expect €20 million more and that's in the press release to come from the rest of the year on that additional element, except if there is an additional change in law because that's also a question around that famous element. So that's what I would, let's say, give as an overview.

Alan Brookes: And then perhaps just on the Places, the markets that we're seeing. There's quite a few. We – one of the big markets for us right now is the Industrial Manufacturing, so the high-tech manufacturing businesses. And we're seeing that in terms of demand for Gigafactories. Also combining the skills in Arcadis DPS with the traditional Arcadis skills now looking at the semiconductor market, which we've got some very big client opportunities and projects underway, such as in Germany, where you're seeing these very large significant semiconductor factories as countries such as America, Germany start to in-source, if you like, the production.

This is a really significant Places growth markets. In additional to that, pharmaceutical market, Arcadis DPS has 19 out of the top 20 pharmaceutical life science clients, and we're looking at the combined offerings there.

And then governments. We've seen quite a bit in governments such as the UK asking us to help with the decarbonisation in the transportation area. So these are growth markets for us there. The UK is acting as a centre of excellence in the Industrial Manufacturing. And then the growth in the other markets as well in US, Europe, and some of this supported through the Green Deal, particularly where we're seeing funding released through that sort of incentive.

Finally, maybe just to touch on what was talked about before, Architecture and Urbanism. There is quite a lot of demand now linked to lowering carbon. So projects such as the work that we've been doing on changing a concrete core for a residential tower into a timber core, and these are setting some real standards, if you like, for us in the future.

So what we've done in Places is moved to a flat sort of position for the commercial real estate and stabilising it and really focusing on the shift into these new growth areas, and that's what you're starting to see pay off in the backlog developments.

Virginie Duperat-Vergne: And sorry, Anthony, because my slow brain for one part of your question, about the leverage. We are 2.44 if you calculate end of H1 2023. That's the worst moment of the year for us, as we all know. So we expect to be very well in our range of 1.5 to 2.5 times at the very end of the year.

Anthony Manning: Very clear. Thank you, both.

Alan Brookes: Thank you.

Operator: Thank you. We will take the next question from line Quirijn Mulder from ING. The line is open now. Please go ahead .

Quirijn Mulder (ING): Yeah. Good afternoon, everyone. Good morning maybe for the Americas. Can you hear me?

Virginie Duperat-Vergne: Yeah, Quirijn. Loud and clear.

Quirijn Mulder: My questions are, especially with regards to DPS, IBI. The question is here about the synergy effects. You have raised the guidance from €18 million to €20 million. Do you think there's more of a possibility there? Is that everything? And is this still the planning 2025 for that?

And with regard to the cross-selling of that IBI, DPS, as I understand, DPS, you are going to become more selective in picking up work. Is that more in the non-core business, I would say the staffing part or the contract management? And what about the cross-selling impact of that the synergies? What is that - I know that Peter Oosterveer about a very serious amount in terms of revenues, in terms of opportunities in that market. Can you maybe update us on that? Those are my questions.

Virginie Duperat-Vergne: Yes. Good morning. I will start with the synergy part and then switch on the rest, and Alan will complement.

On the synergy, you're right, that's something we expected, but it happens a little bit earlier potentially than we could have expected to be in a capability of raising the guidance in terms of cost synergies. This is definitely a synergetic deal in every respect, this acquisition of IBI and this acquisition DPS.

And what we are showing today is the synergies that we have already identified. And if you go back on that slide, you will see that they are quite focused on the elements of integration we are touching at the moment. And there is a huge part, which has not been touched at all and it's not part of this evaluation at the moment, which is the GEC element and the fact that we expect to progressively embed more usage of our Global Excellence Centres for our project in Arcadis IBI, but a large part for our project in Arcadis DPS.

And on that part, that was the part that we said, okay, this is why we absolutely need to say that the synergies will be fully on track by the end of 2025 because it takes time to do that, you need to convince the clients to create a relationship with the team and that generally is more difficult to embed in existing projects. It's more in the new projects that are coming in our order intake and then you don't get that in the P&L immediately.

So as of today, this €20 million, we think that we have them in P&L in 2024 because that does not relate to the Global Excellence Centres. And then we expect to be able to come back to you with additional elements about what we think is the final amount that will come in addition to that and will rather come from the operations bucket. So that varies definitely more from the deal.

In terms of revenue synergies, definitely, there is a large number of revenue synergies projects that come from DPS. And then, on their side, obviously, when we say we are more selective, is that we focus so much on this synergistic project and this revenue wins. So that's – the traditional thing that they are doing by themselves in some respects, is a bit lower and the super strong order intake, where they've been getting almost everything that was on the market

last year is a bit lower this year because we expect part of it, which is really on the synergetic projects that we are signalling.

And on the synergetic projects that we have already in the bag, IBI, DPS, altogether, it's already almost figures with three numbers in it. So that's definitely something which is super strong. And we see the same pattern in Q1. Q1 was absolutely very strong on that respect. Maybe I'm a pessimistic person. So I was thinking maybe we'll see Q2 being a little bit different, but that momentum is definitely still there.

And the project in semiconductor, we were signalling and that Alan has been talking about earlier in the presentation, is with another client in the semiconductor space, not one of the usual big ones we clearly work with, not an unknown one, but a new one that comes on the table. So that's really some of the key things that we see happening and that we are focusing on.

Alan Brookes: Yeah. And I think maybe just to complement that quickly, I would say that we are seeing probably more connectivity and traction. We just had a workshop. That workshop has been with the sales directors of each of the GBAs, cross-selling into the new business areas with Arcadis IBI and Arcadis DPS. And we expect to see more connectivity in building more understanding.

So if you look at what Virginie just touched on, the semiconductor market is huge. Those clients are now asking us not only to do the traditional work that Arcadis DPS would have done, but bringing in all aspects of Arcadis because these sites can typically be €20 billion to €40 billion as a project cost. They can be huge and need infrastructure, residential, water, energy as well as the core production plants themselves. So there is a huge pipeline ahead for the major sort of clients in this area.

And then I touched on before the Zuidpolder Park, where actually that was something that we wouldn't have done traditionally without the Arcadis IBI Architecture and Urbanism team, but also this is a large water management project for us. So this is where this we build the understanding, we're expecting to see even more opportunity through collaborating across clients and providing a more holistic solution to the projects.

Quirijn Mulder: Thanks a lot.

Alan Brookes: Okay.

Operator: Thank you. We will take the last question from line Maarten Verbeek from the IDEA!. The line is open now. Please go ahead.

Maarten Verbeek (the IDEA): Good afternoon. It's Maarten Verbeek from the IDEA. Two questions from my side, please. You already stated that the combination of IBI and CallisonRTKL is already at segment average. In the good years, CallisonRTKL outperformed Arcadis by 25% to 30% in profitability. Is that a target which is also set for this entity? Or is it possible?

Virginie Duperat-Vergne: Thank you, Maarten. In fact, in a few months, because if we are honest, Arcadis Architecture and Urbanism entity is fully up and running since the middle of H1, something like this, and they are already back to the average margins. So I think that we can absolutely expect them to be relative to the rest of the Group. In which magnitude and such, it is not something that we've been guiding and it's something that is now - will be fully part of our Places, obviously. But definitely, this is what we expect them to be.

IBI architecture was definitely something quite strong and better performing than us on average in terms of margin, and that has no reason in some respect to see.

Maarten Verbeek: Okay. And then concerning Intelligence. I'm a bit more or less disappointed that I don't see the order book of this segment growing. What's holding it back?

Virginie Duperat-Vergne: So let's remember that a large part of what we do in Intelligence is very rarely intelligence by itself. So quite a number of these projects that we have can also projects that happen to be in Mobility or in Places or Resilience more or less, depending on who the project manager is or who the client is and then where we record it.

It's very, very – that it's not a cross GBA collaboration. So then we have some clients which are absolutely there or product managers that are there and that end up there. But a large part of also some of the projects that I think we highlighted in Q1, if you revert to our Q1 presentation, quite a number of those can be with Department of Transportation in the US and depending whether it is historical client of former Arcadis Mobility or former Arcadis IBI Intelligence, then that happens falling in one or the other, because you have mixed competencies.

So I know it's not ideal, but at the end of the day, respecting the way this cross collaboration work on a spontaneous basis also helps enhancing it and makes things happen.

Alan Brookes: I think just one small point to that. I touched on the fact that we've got the GBA sales directors working with Intelligence as well as DPS, IBI architecture, then I think we will see the targeting of clients for product development. Because obviously, what we're trying to do is get the recurring revenue into our key clients. And we're also targeting things like the US, as just as a grant system in place for curb digitisation. We are one of the very few organisations now with our CurbIQ product, where we have proof points that can actually directly link to the grants being offered.

So in H2, we're looking to see both direct in terms of what you're talking about sales, but also indirect through our GBAs as Virginie said.

Maarten Verbeek: Thank you very much.

Operator: Thank you. This comes to the end of the question and answer session. I'll hand it back over to your host for closing remarks.

Christine Disch: Thank you, Carolyn. This concludes today's conference call, and we'd like to thank you for your participation and your interest. And we definitely look forward to meeting you again.

Operator: Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]