Arcadis N.V. Q2 & Half Year 2019 Results

Thursday, 25th July 2019

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

Organic Growth, Continued Solid Results and Sustained Cash Flow Improvement

Jurgen Pullens: Good morning, everyone. My name is Jurgen Pullens, Director of Investor Relations for Arcadis. I'd like to welcome you to the Arcadis Analyst Conference Call and Webcast for the first half year of 2019. With us are Peter Oosterveer, CEO, and Sarah Kuijlaars, CFO. Maybe we'll start with a short presentation and then we will open for a Q&A. You all received the presentation this morning and it is also available on our website. Just a few words about procedures before we start. We will begin with formal remarks. We call your attention to the fact that, in today's session, management may reiterate forward-looking statements which were made in the press release. We'd like to call your attention to the risks related to these statements, which are more fully described in the press release.

With these formalities out of the way, I'd like to hand over to Peter Oosterveer.

Peter Oosterveer: Thanks Jurgen. Good morning everyone, thanks for joining us during what could conceivably become the hottest day in recent Dutch history, so thanks for showing up, and I know that you probably also came because we have air conditioning in the building here, that does help. What we're going to do, obviously, is provide some brief comments on our performance, and I think, where we are right now, in the middle of 2019, is probably a good point in time, kind of halfway, our 2018-2020 strategy, to, sort of, measure again our performance against the goals which we did share with most of you during the Capital Markets Day in late November of 2017.

In general, just as a general comment, I think I can say that I'm actually pleased with the progress we've made so far, kind of halfway the journey from 2018 to 2020, and I'm pleased because I increasingly see more evidence that the strategy which we developed in late 2017 and which we shared with you during the Capital Markets Day is the right strategy, is sound, and is starting to yield more and more results. And also that the strategy which came with commitments we made in terms of our performance for 2020, that the strategy and the commitments we made also have commitments which are achievable, and, to an extent, you could argue that, even today, we're already meeting quite a number of the targets we had set for ourselves for 2020.

Before I go deeper into our performance, this first picture might not be the most appealing picture to all of you, but I think the picture actually does do justice to the type of work we do and the type of work we increasingly expect to do in the future. This is stormwater drain in Los Angeles, as you can see, and the project we were involved in and the project which has recently been competed – completed actually brings the creation of recreational space and protection, and adequate protection against stormwater, sort of, together. So the recreational space is not on the picture, obviously the stormwater drain is on the picture, but this project actually created, as part of the project, a lot of recreational space for the citizens of LA, while at the same time allowing the drain water, which ultimately flows to the ocean, to be of a quality which would allow it to flow safely into the ocean. So an example of a project, a project we see increasingly done by Arcadis, and also an example of what, right now, is about a nine years' engagement with the city of Los Angeles to do projects like this.

So back to where we are at the end of the second quarter, and then bringing it back to the commitments we made to all of you during the Capital Markets Day in late 2017 and the points

I made about increasingly seeing more evidence that our strategy is working. We will get into more of that evidence as we go through our presentation, but I'd like to highlight a couple of things which I really believe have started to get traction in Arcadis.

First and foremost, a much more stringent and disciplined focus on our financial performance, on cash collection, and that, I think, is reflected in the numbers. The focus we have on our key clients and the desire we expressed in – during the Capital Markets Day that we wanted to grow for our key clients at, at least, double the rate as we have – grow for our non-key clients, and you will see evidence that we have been able to achieve that as well. And then the focus which comes through our 'Make Every Project Count' programme, and that's probably a little more difficult to specifically measure, but I do sense a different culture in Arcadis, I do sense a higher selectivity on making sure we pick the right projects and I do sense a deeper understanding and a deeper discipline, as well, on making sure that the projects actually deliver in accordance with our expectation. That being said, that doesn't mean that that journey has been completed; also there we're kind of halfway, the journey, and more is still to come, but I am optimistic and positive about the changes I'm seeing in Arcadis.

So just going through the highlights of our performance in the first half year. For quite a number of quarters now we are seeing continued strong performance in – particularly in North America, strong performance in the top of – in terms of revenue growth but also in terms of profit growth, and that continues. So that is extremely positive, given the size of the North American market and the significance for Arcadis, and also given where, a few years ago, Arcadis was in North America. So a significant improvement and it does show that with the right focus, with the right management team and with disciplined execution of the plan, good results can be created.

In Europe, the Middle East, we have seen strong performance, continued strong performance in the Netherlands, maybe not surprising given our position in the Netherlands, but the performance there has been very, very solid. We've seen performance in the UK which might actually surprise some people because, by and large, it is quite similar to what it was in the first half year of 2018, and in fact we were able, albeit at a really small percentage, but to create some organic growth in the first half year as well. And given all the uncertainty around Brexit, I think that is not a small achievement.

We also shared with you, in prior quarters, that we were not satisfied with the performance in Asia, that we were not satisfied with the performance in the Middle East and in Latin America, and I'm happy to report that all three of these regions have positively contributed to Arcadis in the first half year. The actions are starting to yield results. There's more to come, because we're not resting on our laurels to say we've done everything, but at least it is pleasing to see that all three regions show an improved performance and contribute positively.

It's probably also appropriate to not just speak about what we have done but also where we expect to go next, and with the sort of businesses we cover and the global presence we have, I think we are extremely well equipped and prepared for an opportunity to capitalise on the opportunities which the world is going to provide to us. And as you've seen from the press release, we increasingly expect to see these improvements and these opportunities to come from cities, no surprise with the number of people who are planning to move to cities and, in fact, are already moving to cities as we speak; every week about three million people across the globe move to cities, and that pace is going to continue at least, if not increase. So, increasingly, our expectation is that we will get more work from cities' mobility. But not just cities, at the same time we also are increasingly working to future proof the industries which we work, and in fact most of the environmental work we do in North America is an example of future proofing industries. Environmental consultancy is a logical example of that as well. And the last but not least, water management, and just to be sure that everyone gets the full picture, water management is not just providing water to citizens but is actually also, increasingly, protecting citizens against the impact of climate change and, specifically, the rise of seawater levels and flooding. So our priorities are still very clear. Our strategy, the one we rolled out in late 2017, is working and we are therefore on track to deliver on the targets for 2020.

I'm not going to steal Sarah's thunder, but I just want to highlight a couple of the financial metrics which are part of the first half year results. A margin improvement, which is, obviously, positive, and I'm more than happy to also say that margin improvement came, to an extent, from the focus on 'Make Every Project Count'; the more disciplined approach towards making sure that we pick the right projects and that we execute them in the right manner. So margin improvement is positive, EBITDA up significantly and that's positive, and definitely, in terms of our financial performance, our financial hygiene if you like, significant improvements to the point that net working capital is down, DSO is down, as you will see on subsequent slides, sustained free cash flow improvement and then, last but not least, in terms of our leverage we are in a much better position than we have been in a long time and definitely out of what some people might have considered the danger zone. And the organic backlog is still growing. We're interested in quality, we're not necessarily interested in high numbers without the quality, so the quality of the backlog is more important to us than the absolute number. And I think we are taking working backlog which now has higher quality and a better chance to deliver in accordance with our financial expectations in the future.

I will also speak briefly about ALEN. We are making progress in Brazil. The progress is always slower than what people expect, but if I just highlight a couple of the changes compared to the last time we spoke with you. In the operational side we now have 70% of the gas which comes out of the Gas Verde plant under contract, with the expectation that the remaining 30% will be under contract in a not too distant future; 70% is under contract with two customers and that is our preferred option, to stay with the two customers. We have ramped up the delivery of the gas, so that is – we'll continue to ramp up through the next couple of months to the 70% level.

In terms of the gas to power plants, the largest gas to power plant, which is the picture on the left top side of this slide, has been operational now, in full capacity, for a couple of months, is delivering to the grid. I was actually in Brazil three weeks ago to look at all the facilities and I'm not sure the picture does the real justice to the facility, but it's a really nice looking facility now and, again, delivering 100% of the capacity we'd expect it to deliver to the grid.

In terms of the divestment process, the information memorandum is being prepared and has actually – we've started to share that with potential buyers. We're still securing additional NDAs with additional buyers, so that is in process, and we're expecting the first non-binding offers here in the not too distant future. So on progress, we're making progress, on track, and the intent, as we've said for quite some time now, is to still divest of the assets by the end of this year.

So with that brief overview, I'm turning it over to Sarah.

Sarah Kuijlaars: Clicker. Thank you, Peter. Good morning. I'm pleased to share a solid set of financial results for quarter two and the first half of 2019. Before doing so, I'll start with a project example from the UK. This may look futuristic, but cities and governments are already recognising a new disruptive frontier in transport, infrastructure and urban living. Connected and autonomous vehicles will radically transform urban mobility and how we, as consumers, experience this. Arcadis is working as part of a consortium on a UK government funded project to create a high-fidelity, simulation environment, including A.I. trained models of road users to test connected and autonomous vehicles. We will be drawing on our extensive experience in traffic modelling to deliver a certification tool that can be used by regulatory bodies to accelerate the safe development of connected and autonomous vehicles. Our future daily commute may look and feel very different.

But let's now return to the here and now with some Q2 financials. So before talking through the details here on slide eight, it's worth highlighting that these figures are presented in a consistent basis to previous years, in line with IAS 17. Our interim statement, also released this morning, provides full details in line with both IAS 17 and IFRS 16.

So, starting with net revenue for the quarter, we report €647 million, a 4% improvement year-on-year. We have delivered an organic growth of 2%, which is the eighth consecutive quarter of organic growth. This translates to a net revenue for H1 of €1.3 billion. We have delivered an improved EBITDA of €56 million for the quarter and an operating EBIDA of €49 million, an improvement year-on-year of 10%. This resulted in an improved margin of 7.6%, up from 7.2% last year, and absorbing the impact of one less working day. So for H1 we report EBITDA of €112, operating EBITDA of €97 million, an improvement year-on-year of, also, 10%.

Walking further down the income statement, our financing charges are flat at €14 million. We have a lower interest expense on a lower average gross debt, but this is offset by a lower interest income from loans to associates. The year-to-date tax rate was 35%. This is higher than the H1 rate last year at 26% and is impacted by timing effects, and also the global mix of non-deductible expenses and unrecognised losses. We expect our full year rate to be approximately 29%, in line with our normalised rate of 2018. Our net income for – net income of €38 million included an operating loss relating to ALEN of €5 million for the first half. Finally looking at net revenue backlog, we report €2.1 billion with organic growth of 3%, with strong contributions from North America and continental Europe.

So moving to slide nine, I would like to highlight our growing track record of quarter-on-quarter performance. Our revenue growth this quarter led by North America, with strong contributions from the environment and water businesses. An improved operating margin with the strongest quarter two performance since 2015 and continued tight working capital management, delivering a sustained improvement to 16.2%, our strongest performance for quarter two for at least five years and contributing to our sustained strengthened balance sheet.

Now turning to cash on slide ten. From an EBITDA of €112 million, we have normal seasonal working capital movements, tax and interest in line with last year, so we delivered a cash flow from operations of €28. We continue to manage CAPEX carefully and so deliver a positive free cash flow of €8 million and a positive for the first half year, which is a first for many years.

So on to slide 11. Our improved revenue, margin, working capital management, a positive cash flow of €8 million leads to a net debt position for the end of June of €378 million. This is our lowest mid-year position for five years and significantly below our peak debt position of €623 million back in June 2015. With an EBITDA of €112 million, this gives a net debt/EBITDA total leverage ratio of 1.6; well below historic peaks and fully in line with our strategic framework. We will continue to safeguard our now strengthened balance sheet and the flexibility this now brings us.

So turning to the regions. Our performance is led by a strong, 11% organic growth in North America for Q2 and a 10% organic growth in North America for H1. North America, of course, continues to be an important region for us, with 30% of our business. Our environment business, now more than half our North American business, continues to be very strong, covering both the public and the private sector. It achieved, year-to-date, both double-digit percentage growth and percentage EBITDA margin. Water, our second largest business, also continues to contribute strongly to these excellent North America results.

Now turning to our example. Arcadis is working with the Los Angeles Transportation Authority as they embark on a multibillion capital programme to provide a world-class transportation system to more than 9.6 million people. Arcadis is working here under a long-term construction claims support services contract.

We do show a higher gross revenue increase in North America. We are becoming more involved in larger programmes, and where we are lead consultant on projects we use third-party subcontracting. For example, in our successful environmental FieldTech Solutions we provide the consultancy services and use third-party blue collar workers to execute the work on the ground. Latin America, with 3% of our business, also showed strong growth for the third quarter in a row, led by Brazil. EBITDA margins were positive, showing a marked year-on-year improvement, and across the Americas backlog growth is strong.

Turning now to Europe and the Middle East, representing 45% of our net revenues. Continental Europe net revenue development was flat, however order intake continued to be strong. The UK growth is now beginning to see some dampened dynamics given the ongoing Brexit uncertainties, however we have a very well diversified portfolio; our buildings, particularly in the private sector, and environment business are proving to be very robust to date. An example of this is the recently announced renewed framework agreement with the UK Environment Agency. This covers climate-resilient infrastructure, including flood and coastal management. The Middle East showed lower revenues year-on-year as a result of our continued disciplined approach with respect to selective bidding. The Middle East continues to focus on stabilising its footprint.

As Peter mentioned, margin delivery continued to be strong in the Netherlands, and here is a Dutch project example. Arcadis is participating in the upgrading of the Twentekanaal; Arcadis provides consulting services on the condition of the canal, cables and pipes, flora and fauna, utilising our experience in both water and maintenance.

Elsewhere, EBITA was impacted by the number of working days in quarter two, when compared to last year, and a weaker performance in Southern Europe, namely France. But it's worth highlighting that half year operating margin is broadly in line with last year. DSO is down, positively influenced by the sustained discipline on cash collection, particularly in the Middle

East. Backlog growth is positive, with year-on-year backlog growth for UK and continental Europe, offset by decline in the Middle East in line with our strategic review in the second half of 2018.

Turning now to Asia and Australia Pacific, representing 13% of total net revenues. Australia showed positive growth for Q2, although a slight year-on-year decline for H1 which is due to the timing of the ramp up of the large projects. H1 backlog continues to be healthy, operating EBITDA margin continues to be excellent. Asia showed slight positive growth for H1, led by China, and an improved operating EBITDA margin for both Q2 and H1 compared to last year.

For our project example here, Arcadis designs, procures and supervises the management operations and maintenance services on the Hong Kong side of the 55 kilometre Hong Kong-Macau Bridge. We continue to focus on our portfolio of footprint and have divested a small part of our D&E portfolio.

And finally to Callison. CallisonRTKL delivered a revenue of €111 million of H1, representing a slight revenue decline and a still solid operating EBTIDA margin of 8.1%, with important contributions from US and China. On a recent award-winning project, CallisonRTKL, we revamped the headquarters of a federal government building to reinforce their collaborative and cultural transformation. This project achieved LEED Gold certification; this means leadership in energy and environmental design and is the most widely used green or sustainably-focused building rating system. We welcome Kelly Farrell as the new CEO, a very experienced architect and a promotion from within. Kelly and the team are very focused on winning work, building an energised team with lower attrition and stronger business results back to historic margins.

So, to conclude, this is a solid set of results with a particularly strong contribution from North America, contributing to a sustained improvement on all key financial metrics, a strong free cash flow and a sustained strengthened balance sheet with healthy leverage ratios. We have a healthy business outlook for the second half of 2019 and we remain committed to build on these results quarter-on-quarter.

And I'd now like to pass back to Peter.

Peter Oosterveer: Thank you. Okay, thanks Sarah. Just put a couple of closing comments in front of you. First of all, an interesting project. For those of you who've been in Shanghai before, you probably recognise the skyline. And China, in spite of uncertainties such as the looming trade war between China and North America, continues to be a significant market for Arcadis, a market which will change. The services we provide, most of the services we provide in China, are quantity surveying or cost and project management. And we do see a change, and, in fact, we are trying to be on the forefront of that change in terms of how that's being delivered and that will, no surprise to you, probably be largely digital or completely digital. But the database and the information we have on cost of buildings, such as the buildings you see in China, will probably put us in a very favourable position to be on the forefront of that innovation.

So I already told you, in my opening comments, that I'm actually pleased with the progress we're making. I'm also pleased with the balance, which I think we have been able to demonstrate, between focusing on the short term, the need to get the house in order, whilst, at the same time, focusing on the – if I say long term it's probably too way – too far out, but at least continue to make investments which will get us ready for the future, and that the future will look different than the past looks is obvious. And I think a couple of proof points I'd like to highlight to you, which give me the confidence that, indeed, we're making the progress I suggested to you. If I look at the culture, and I know that that's probably sometimes difficult to measure but I surely believe that culture does provide an important foundation and tends to be an important contributor to improved performance, I really see the signs which suggest that the culture is not only changing but they're really embedding the changing culture into Arcadis.

Just use a couple of examples there to focus on 'Make Every Project Count.' The focus on making sure that we do not select each and every project, but that we select the right projects, projects for the right clients, as also evidenced by the focus we now have on our top 250 clients. And the evidence is pretty compelling, in that focusing on the top 250 and then looking at the growth we have been able to create for the top 250 clients is, indeed, the right focus. I'm also pleased to report that in terms of People First, which is a value we added two years ago, or almost two years ago, that we're now finally seeing an improvement in our voluntary turnover across Arcadis, so that's positive. We're not where we want to be, but at least we're seeing an improvement.

We will continue with our investments in digital, obviously. You also saw, on the press release, that we are in the stages of forming a separate organisation in Arcadis which brings together the asset knowledge we already had in the company, with the recent asset knowledge and digital capabilities we acquired through the likes SEAMS and EAMS. More to come in the future, but I wanted to demonstrate to you that we are taking the steps not only to focus on today but also the steps which are needed to make us ready for tomorrow. Another one which I think is evidence that the strategy is working is the strong growth we have seen in Arcadis FieldTech Solutions in North America; most definitely an important contributor to the growth we have enjoyed in environment in North America.

In terms of our financial performance, Sarah already spoke about the highlights so I'm not going to repeat it, but most of the financial metrics we are demonstrating today are well within the brackets we had committed to you and to ourselves to be achieved in 2020, so gives us reason to be positive about the progress we've made so far.

I want to give you a bit of an insight, and actually, in a way, maybe also take you back to where we were in November of 2017 when we launched our new strategy, and those where the trends which we explained to you would impact Arcadis. And we can now safely say, no surprise, that these trends continue to impact what we do. Urbanisation, the move of people to cities, the mobility which comes with it, and then definitely also the focus on sustainability, the impact of climate change, resilience and so forth. And then globalisation, of course, is kind of in the middle of all of this, and digitization, as it impacts all of us, but digitization as we will let it impact our work, is in the midst of all of this as well.

And just to show a couple of titbits which came out of the public domain, to show that that's where the opportunities are, and then trying to make the connection with where we see the opportunities, as we also said in our press release. We definitely see our opportunities increasingly in delivering solutions which create sustainable cities and provide smart mobility to the people who live in these cities. That being said, as I mentioned before we're not just focusing alone on cities. We do see an opportunity and a responsibility to also help our industrial customers to future-proof their facilities, and we see plenty of examples of that as well.

Environmental consultancy, most definitely the backbone of what we do in North America, but we see opportunities to actually do that in other places as well. In fact, we just won our first significant environmental consultancy contract in China for an international customer, so it does show that, increasingly, even developing countries are, and rightfully so, starting to focus on the need to be environmentally responsible.

And last but not least water management and resilience. Plenty of examples of opportunities already in our current backlog as well.

So, in closing, I think that our strategic priorities for the rest of the year are very clear; we have the right focus on the strategic priorities. First and foremost, our focus is on further improving our margin to ultimately arrive at the bracket which we have committed to you, which is between 8.5 and 9.5 by the end of next year, so our focus is definitely on improving the margin. We still have the same levers to achieve that and that comes through the continued focus on 'Make Every Project Count,' that comes through increasing the billability and that comes through the use of the Global Excellence Centres. This year we've seen some encouraging increase in the use of Global Excellence Centres in the first half year. We did, as part of our plan for this year, committed to increase the number of billable hours in the Global Excellence Centres by the end of year, with about 15%, and we're nicely on track to actually get to that 15% increase of the Global Excellence Centres.

Revenue growth, but it will be measured because quality of revenue and quality of earnings is the most important characteristic to create that revenue growth, but no doubt that we expect to create revenue growth in order to meet our commitment. And what we're seeing is that the focus we now have, as I mentioned before, on the right clients, and particularly the focus we have on our top 250 clients, who are, together, responsible for between 55% and 60% of our revenue, that that focus is starting to pay off. We will look for opportunities to further optimise our cost, particularly as you think about real estate and the way we procure goods and services. It is definitely still our intention to divest of the non-core clean energy assets in Brazil by the end of this year. And I want to finish this presentation by saying that we will continue to focus on strengthening the balance sheet and we'll continue to make sure that everyone focuses on collecting our cash as well.

So with that, I hope that this insight was useful, and we're now ready to take your questions.

Q&A

Bart Cuypers (KBC Securities): Good morning Peter, Sarah. Bart Cuypers, KBC Securities here. Two questions from me to start off. Perhaps starting with the outstanding results in the quarter, North America, both in terms of, yeah, organic revenue developments as well as margin. On the margin front, that really high number, is that really only on the back of, yeah, the very high organic growth economies of scale, or are there also extraordinary effects that have played so far and that will disappear going into the second half of the year? Then…. Yeah, maybe start on that.

Peter Oosterveer: [Inaudible]. Finish your question first, Bart.

Bart Cuypers: Okay. And then, yeah, on the other side, to Callison. Yeah, the margin a little lacking in this quarter. So if you could, maybe, perhaps give some more colour on what has happened there and then – and how is looking into the second half of the year? Maybe also touching upon the voluntary turnover of personnel that you talked about in the Group, has that stabilised in Callison in particular?

Peter Oosterveer: Yeah, okay. So let me take the first question first on the margin in North America, and I think the question was is it from the continued operations or are there any extraordinary items in there which would disappear? The answer is the first. It is the result of the focus the team has, it is also the result of volume. We've hired about 800 people in North America, so that's a significant number of additional people, and that's where, in our business model, volume does come into play because your fixed cost then, you know, get divided over a larger population and that does help with your margin as well. So there's no extraordinary item in the performance in North America which would, potentially, disappear in subsequent quarters.

Bart Cuypers: Okay.

Peter Oosterveer: In terms of CallisonRTKL, that is definitely one of the areas which will get more attention going forward because we are not, with CallisonRTKL, where we want to be; we want CallisonRTKL to restore to levels we've seen in the recent past and they are typically double-digit profit margin percentages. Where we are, though, with CallisonRTKL, to be fully transparent, is still dealing with the remaining issues which came out of the strategic review, and not so much the strategic review per se but more the uncertainty and the ambiguity it created for the employees. In addition to that, as you heard Sarah say, we did make a management change. We selected a CEO from within CallisonRTKL to take the reins and restore Callison back to the performance we've seen in the past. And needless to say that all of this has come with a degree of uncertainty. I can say, though, at the same time that the appointment of Kelly, as someone who came from within, as is most always the case, has been extremely well received within CallisonRTKL. Kelly has been with the organisation for 20 years, is a registered architect, and not only a registered architect but I think was well respected, was part of the management team. So the expectation is that, following the rest of this year, we will start to see an improvement.

The retention was another question you asked, the voluntary turnover. It's going up and down a little bit, but by and large the trend is that it's stabilised now and that we have the worst behind us in terms of voluntary turnover. But we will still use the rest of 2019 to further improve the foundation and get CallisonRTKL ready for growth thereafter.

Bart Cuypers: Okay, thank you.

Henk Veerman (Kempen): Oh, okay. It's Hank Veerman from Kempen. I've a couple of questions and I will run through them one by one. So, firstly, on your margin in Q2, 7.7% EBITDA margin. Last year, in quarter two, it was 7.2% and, from what I've understood, last year there were some project impairments in there. Could you, maybe, share with us what would be the underlying margin last year, excluding the one-offs?

Peter Oosterveer: Second quarter of last year? I think it was the first quarter of last year that we had some project impairments. You're speaking about project impairments in China?

Henk Veerman: Yeah. I'm not exactly sure where they stem from, but….

Sarah Kuijlaars: In quarter two –

Peter Oosterveer: In Asia.

Sarah Kuijlaars: – indeed, there were some impairments in some of the Asia projects last year.

Henk Veerman: Okay.

Sarah Kuijlaars: But I think it reinforces that this year, as part of the improvement to 7.6%, we see the overall Asia portfolio delivering at a higher margin than last year.

Henk Veerman: Okay. And then, secondly, if I look to your half-year results in a bit more detail, I see that there have been some provisional releases this half year. Is it correct to say that they are higher than last year, during the half year?

Sarah Kuijlaars: So I think, in a project environment, there are always provision releases, but I think, on balance, it's not a major contributor to the bottom line.

Henk Veerman: Okay. And if I then go to your guidance of 8.5% to 9.5% EBITDA margin, as of the year end 2020 I assume. So, conceptually, you have 12 to 18 months to achieve that. I think it's – you know, assuming a stable revenue it equals about €50 million of EBITDA growth. How realistic is it, really, to assume, let's say, the upper end of the range, or is it time to, maybe, narrow it down a bit?

Peter Oosterveer: No, I don't think that we see a need to adjust the range. I know that there's companies who tend to adjust the range or narrow the range by the time they get closer. I think we defined the range with a margin which we felt was appropriate, and I still think that that margin is appropriate. So I don't think that – I don't see a need to actually or change the band; it is between 8.5 and 9.5 and we still have confidence that we will get to that range, and, not only confidence, we actually see the levers we have available to get there.

Henk Veerman: Okay, thank you. On ALEN you express, again, that you expect to achieve profitability before year end. We're already almost in August, is it, maybe, time to maybe disclose what kind of profitability are we talking about; is it marginal profitability or should we really expect double-digit profit stemming from this asset?

Sarah Kuijlaars: Yeah. So I think – so in half one, indeed there were continued losses coming from ALEN, as Peter referred to, that now we've got 70% of contract cover for the gas-to-gas, which is the biggest plant. That will then lead to gas deliveries, yeah, which then – it obviously improves the revenue stream and the operational profit. The gas-to-power plant is fully operational and that is a positive; it's small, but it's a positive margin contributor.

Henk Veerman: Okay. And to what extent is achieving profitability a [inaudible] requirement for the sale of the asset?

Sarah Kuijlaars: So the – we've described that the memorandum is now being shared and, you know, valuation will be on future cash flows and those are in line of sight.

Henk Veerman: And so, again, the target is to divest it before year end. What makes you so comfortable to say that that will be achieved, given that…? Have you – for example, have you already seen strong interest from multiple buyers or –

Peter Oosterveer: Yeah. We –

Henk Veerman: – is there another reason for it?

Peter Oosterveer: – the reason why we are – why we still have expressed the intention to divest of them in 2019 is the interest we're getting from potential buyers. The fact that a similar facility as the one we have in [inaudible] was sold, similar in terms of capacity, not necessarily similar in terms of condition, to a large pension fund and a pension fund which happens to be also amongst the potential parties interested in our asset. So we have enough signals which give us confidence that we will get traction on the sales process, because of the number of potential buyers and, let's say, the variety of buyers as well; it's not just all in one category.

Henk Veerman: Okay. Last question on the unbilled receivables, it's up versus half year. Is this something to do seasonality, or maybe could you give a little bit more colour on why it's up?

Sarah Kuijlaars: So I think the – it's important to highlight that, obviously, the working capital position has significantly improved compared to half one 2018. But the business is growing and that massive ramp up in revenue inevitably translates to the working capital, size of the working capital.

Henk Veerman: Yeah. And billed receivables is up €80 million, right, or is it…?

Sarah Kuijlaars: So I haven't got the numbers in front of me, but I think it comes back to the – particularly that ramp up in North America, yeah, in those – in the consortiums. Of course, it impacts the – both the receivables and the payables, but it's worth highlighting that, for North America, working capital is flat compared to H1 last year.

Henk Veerman: Okay, thank you.

Luuk van Beek[?] (Degroof Petercam): Luuk van Beek, Degroof Petercam. I've got a question on the overdue receivables, especially the bracket above 120 days. You improved it by €28 million. Were there any – what was the main driver, were there any one – big one-offs in there or is it just across the board? And what do you expect for the rest of the year; do you expect to improve this, especially this bracket, further in the rest of the year?

Sarah Kuijlaars: So a large proportion of the overdues does come from the Middle East and, as you're aware, there's some large projects out there so they're quite lumpy receivables, and, indeed, we did some good progress in Q2. It is a slow process but I think we're demonstrating that, finally, we do get paid, and I can assure you that focus remains, in Middle East and also globally, to keep focusing on the overdue receivables, particularly the older debt.

Luuk van Beek: So can we expect a low number year end normally?

Sarah Kuijlaars: Yeah. So, normally, yes, and we're continuing to focus internally on maintaining strong focus on cash and working capital.

Luuk van Beek: Okay, thank you.

Quirijn Mulder (ING): Good morning. Quirijn Mulder from ING in Amsterdam. On ALEN, is there a small shift in your outlook? Because you said second half year would be positive, cash flow would be positive for ALEN, now you speak about profitability year end; is there any difference there in your remark?

Peter Oosterveer: I think the only difference, Quirijn, which is probably worth mentioning in response to the question is the ramp up of the Gas – of the Gas Verde facility, and the certainty now around the 70% of the gas being under contract and being taken off. The process – I can get into an awful lot of detail, but the process to actually ramp up the production is probably a little slower than we had expected. That process is a process whereby the gas is being [inaudible] 70% is just going a little slower and that's probably the biggest impact, the rest is negligible.

Quirijn Mulder: My second question is about the IT platform you're going to create. Maybe you can elaborate on that, what you're doing there, on a separate basis or how do you see it?

Peter Oosterveer: Okay. I thought, for a minute, that you meant something else; by the way, let me mention it now. This actually happens to be the week where we've gone live on the Oracle platform in North America – I thought that that's what you mentioned – and that's a big step. I think we've reported, in the past, that we had a number of regions on the platform, which totalled about 30-35% of the revenue, and [inaudible] that almost gets double – gets more than doubled, so that's…. There's one more big region to go after that, which is continental Europe, and then everyone will be on the same platform. So that was an important step.

I think your question, Quirijn, was on the new entity. So what we're seeing is that a lot of innovation is already taking place within Arcadis; quite often it stays at a project level or at a regional level. And we, of course, because of what we do for a living in the many place in which we operate, we have a tremendous amount of asset knowledge, like the example I used on Shanghai; you know, we've been doing quantity surveying for eight years and we have a tremendous database of information. But not always do we, necessarily, use that information and that knowledge for the benefit of Arcadis as a whole; it, kind of, in most cases, sort of stays regionally.

So it's one of the steps in the journey of becoming more of a global company and more of a digital company. So what we're doing is we're taking the knowledge we already have within Arcadis and combined it with the knowledge we've acquired through the acquisitions of SEAMS and EAMS. And we gave SEAMS and EAMS somewhat of a soft landing in Arcadis by not necessarily completely bringing them into the larger Arcadis but make them part of the UK initially, which is where both of them actually originate as well so that made perfect sense. Now that we have firmly established them in the company, we believe it is time to consolidate the various capabilities so that we can scale them up faster and can use them for the benefit of the whole of Arcadis, so that they don't stay in a particular region but are now being used more consistently across the globe. So, to me, it's almost a logical step, Quirijn, in the process of becoming a truly global company, and by consolidating the capabilities we now have in different places.

Quirijn Mulder: Get[?] these people also at this entity or platform, whatever, different remuneration, etc. –

Peter Oosterveer: No.

Quirijn Mulder: – is that a different…?

Peter Oosterveer: No. It's just a change of our structure to make us more efficient in how we put the pieces together and how we reuse information. So, no, there's no change in their employment condition or their remuneration.

Quirijn Mulder: Okay. And my final question is about the Far East. You have the new management there and they were working on the 2018, first half of 2019. Are there still some countries to be looked at or projects? Are there still risk there that you'll find some dead bodies in the – somewhere, how do you say it in English?

Peter Oosterveer: Bodies, bodies out of the skeleton.

Quirijn Mulder: Yeah.

Peter Oosterveer: Yeah. So the management, actually we've made a couple of changes. The new CEO came on the 1st September and the new CFO came probably earlier this year, right –

Sarah Kuijlaars: Earlier this year, yeah.

Peter Oosterveer: – thereabout –

Sarah Kuijlaars: No.

Peter Oosterveer: – and, of course, they are significant changes. So we let them use their time to come to grips with what they inherited, and I think it's safe to say that they have pretty much covered the regions now. You know, are there – is there a possibility that they'll find something which is a surprise, a surprise to them or a surprise to us? Yes. But will it be material? No, that's not the expectation because, as I mentioned before, they have started, obviously, to focus on the bigger regions.

In addition to focusing on the bigger regions and the bigger projects, we've made a number of decisions, as you might have actually seen from the press release as well. We have moved out of the design and engineering work in China; that happened through a management buyout, so we actually sold off the business to two of the former managers. We have decided to depart from Taiwan, which is where we had a relatively small presence, and we've also decided to depart from India. And not as in departing from India with our GECs because we still have that large-capability GECs and, in fact, plan to grow it, but more as in doing local work in India, simply because we've not been able, at this point of time at least, to make that very profitable. And then we're looking at one or two countries more whereby we could end up in similar situations as the one I just described, depending on the entire process, but most of the actions have now been taken.

Quirijn Mulder: Okay.

Peter Oosterveer: So we are in lesser places, stronger focus on the top five or six countries.

Quirijn Mulder: But you still have activities in Indonesia, in the – I think in, what is it, Vietnam, Thailand?

Peter Oosterveer: Yeah. We have – so the – if you take the bigger countries, the Hong Kong, Mainland China, Macau, Malaysia, Singapore and the Philippines, and they will definitely remain, and then the smaller countries are Vietnam, Thailand and Indonesia.

Quirijn Mulder: And these countries will be less as well, sooner or later?

Peter Oosterveer: Not definite that – in fact, Thailand we'll probably not depart from because we have a fairly good position. In Vietnam we took a decision already, we closed our office in Hanoi and consolidated everything in Ho Chi Minh City, and made some changes to the team there. We now have, at least, a stable environment and not an environment which we expect to be a non-profitable environment. Indonesia is a country where we're still looking at what the best outcome can be.

Jurgen Pullens: I would like to switch to the call to give people also the opportunity to raise questions.

Operator: Thank you. And ladies and gentlemen, if you have a question or remark please press *1 on your telephone, so *1 for your questions or remarks. Please go ahead.

Peter Oosterveer: No takers.

Jurgen Pullens: I think no questions from the call. Are there any more questions here in the room?

Maarten Verbeek (the IDEA!): Maarten Verbeek, the IDEA!. Firstly, on your backlog, you mentioned that it's getting of a better quality, higher quality. I presume it also implies that, when you look into your order book, you see a better profitability, and is this profitability towards your goal of – improvement towards your goal of 2020?

Peter Oosterveer: Yeah. The description around quality, Maarten, is indeed the description about better profitability and less loss-making projects, so that actually is part of the whole 'Make Every Project Count' process. Getting a deep insight in the exact profitability on the 30,000 projects can probably only be provided by the time that we're all on Oracle, and we're not there yet unfortunately. So there is places where we have a good insight, particularly around, for instance, our top 250 clients; we have a fairly good insight in what we take in. But to safely say, for Arcadis as a whole, consolidated, we have – for the full backlog and insight in the profitability, we'll probably only have that by the time we are all on Oracle.

Maarten Verbeek: Okay. You mentioned, on your backlog, that in every region it improved, so that also includes Middle East, and how should I see that in context of your selective bidding?

Peter Oosterveer: The Middle East, check before I give an answer. Yeah.

Sarah Kuijlaars: Yeah. So the – so, indeed, we were looking at the EMU segment, which is positive. But when you strip out Middle East – sorry, yeah, when you strip out the Middle East is negative because of, indeed, that selectivity, particularly year-on-year, and that's balanced by the strength in continental Europe and the UK.

Maarten Verbeek: Yeah, okay. And with respect to the Middle East, you've said couple of times that you expect that the bottom in sales in the Middle East will be somewhere this year. That's still something you foresee?

Peter Oosterveer: Yeah. I think the – what we're seeing in the Middle East is the discipline we'd like to see, so we're happy with that. The bottom is definitely still here; in fact we – in terms of book-to-bill we're now close to 1 for the first half year, so that's at least a positive. We're not rushing into pushing the team to show a higher book-to-bill and leave the discipline behind. So definitely this year will still be a year whereby you could describe it as the bottom.

Maarten Verbeek: So in H2 we should expect a somewhat lower decrease compared to H1?

Peter Oosterveer: Lower decrease?

Maarten Verbeek: In sales.

Peter Oosterveer: Yeah. Well, if we're successful in winning the right type of work then you should see a lower decrease, yes.

Maarten Verbeek: And, with respect to ALEN, you still expect to divest in two tranches?

Peter Oosterveer: Very likely, yes. That hasn't changed; in fact, we now have, probably, a better insight in the type of buyers, and it's now more likely that we will find a buyer for the gas plant and a buyer for the power plant.

Maarten Verbeek: And since the gas-to-power is smaller is that something we should expect a bit earlier, to be announced, than the other one?

Peter Oosterveer: That's probably a little bit of a speculation, yeah, that's probably a little speculation.

Maarten Verbeek: And lastly, with respect to your balance sheet ratios and targets, you're well within the net debt and net working capital, etc., etc. Likewise, the question on operational margin. Are you tempted to sharpen these?

Peter Oosterveer: Are we tempted to, sorry?

Maarten Verbeek: Sharpen the targets.

Peter Oosterveer: Well, it is – it's the second quarter, now, we've had that question, so that's a positive trend compared to prior years, I would say, and we've debated that internally further. We don't see a need to do that now, but at the same time we don't want to give you the impression that now that we've achieved a number of targets we take the foot off the pedal. We still think – well, not think, it's a fact that in terms of EBITDA margin percentage we still have some work to do. So before we sharpen the targets in some areas, and we could potentially do it, I'd like to first see further improvement to the goals we have on the EBITDA margin percentage. But, trust me, we're not taking the foot off the petal. Go ahead.

Question: Yeah. With regard to your top 250 clients, can you elaborate on what was the organic growth of these in the first half 2019? Because we've seen –

Peter Oosterveer: It was 6 – was it 6%? 6%.

Question: 6% –

Peter Oosterveer: Yeah.

Question: – so…. And the total is 2%, that means, of course, about 0% or even -1% for the other 50% of the revenues?

Peter Oosterveer: Yeah. Around about 6%, yeah, yeah. Directionally correct, yes.

Question: And with regard to these clients, are you going to make more, because I think 250 clients means also that you have a couple of governments or utilities included in there, and you also include a lot of oil and gas companies, I think?

Peter Oosterveer: No, not that many. Why do you say that, because of my advice[?]?

Question: No, yeah. Because they're, by origin, quite big, so…. So what are you doing to – let me say, 6% is quite impressive, but what are you doing to accelerate it even further, given – our cities are quite clear, FDA, city of Amsterdam, and they have a lot of issues with mobility, etc., that I can understand. But what about the big commercial clients, what are you doing there to move? Are you moving up to the top of the organisation and to try to do business with them and not with the local guys?

Peter Oosterveer: Yeah. The – so if you breakdown the 250 clients, just to put it in perspective, there's about 45 or so which are truly global clients, the people who we serve in many different places in the world, and the rest are either regional or local. And when you think about local, then, for instance, [inaudible] in the Netherlands would be an example of a local client, and, largely, in infrastructure you find, actually, mostly local clients anyway. So you're right in that the typical clients who are global are either financial institutions, oil and gas clients, chemical clients or automotive clients; those are the typical clients we serve in many different places.

So what have we done on the – on making sure that we get our arms around the clients in the broadest possible sense? We now have – well, we already had account managers for all these clients, obviously, but we now have executive sponsors for all of these clients. I happen to be an executive sponsor on three of them. And the intent, indeed, is to use the different levels in an organisation to create connections with similar levels in the clients' organisations so that we are, indeed, connected not just at the sales level, because if you're connected at sales level only then you run the risk of always competing on price and we don't always want to compete on price; in fact, we prefer to not compete on price, not because we don't like to compete on price but not competing on price is a better solution at the end of the day.

So we're doing a number of things to make sure that we get the connections at all levels. And, in fact, this whole thing works now, also, much better in terms of 'Make Every Project Count,' because we're now seeing our account managers going after the cash, which might sound like an obvious thing but wasn't necessarily the case in the past. Account managers were feeling themselves largely responsible for doing the sale and then they were focusing on their next sale, and now we've broadened that responsibility and involvement. So, increasingly, now we are using our account managers to make sure that we get paid as well, and it's actually working.

Question: Yeah. And then my last question, maybe, that's about pricing levels. Is there – can you say anything about it or is that – especially in the US, for example, is that something which is a concern to you, prices of wages, etc.?

Peter Oosterveer: Not an extraordinary concern; you know, we see the regular increases in most places. I can't think of a place where we've seen exceptional increases. Particularly on the US, probably a comment which I would make is that we still have an opportunity to expand on the use of the GECs in the US much more than we do today, and that would be a tool we could also use to balance or offset any price increase you would get because that will give you an opportunity to be much more competitive, well, actually much more profitable as well. We have seen a significant increase, by the way, in North America this year with the use of GECs, but it's still at a level, compared to other regions, lower and therefore has opportunity for further growth.

Maarten Verbeek: Maarten Verbeek once again. Last off, with the full year figures you made a nice breakdown of your key markets and your improvement areas into revenues, but also the difference in organic growth, operating EBITDA and DSO. For us to get a better feeling of the progress you are making, first of all, of continued improvement and growth in the key markets and the recovery into the improvement area, could you give some feel how these blocks are?

Peter Oosterveer: The ones we put in the 83 category or the ones we put in the 17 category? Yeah, that one, so that was the 83, that – I think that slide was the 83, right, if I'm not mistaken?

Maarten Verbeek: Yeah. The 83 to 17 SILs[?] –

Peter Oosterveer: Yeah.

Maarten Verbeek: – breakdown, but could you also give some feeling about what the organic growth is for these two blocks and the operating margin for these two blocks? Likewise, what you just….

Peter Oosterveer: Yeah. No, let me just look at my notes here. Oh, which one you want to go first, Maarten, Asia?

Maarten Verbeek: Whatever you have in front of you.

Peter Oosterveer: So the organic growth in Asia was 0.3. Then the next one we had was the Middle East, which is, of course, still minus, but that is to be expected. Again, we are focusing much more on the top line and we've seen an improvement. Last one we had was LATAM, if I remember correctly, and that one was 9.9.

Maarten Verbeek: And if you talk about profitability? And you – again, maybe as a whole building block, I don't know if you have[?] these numbers together, because I don't think you want to break down to that level?

Peter Oosterveer: No. I don't want to, necessarily, break it down in –

Sarah Kuijlaars: No.

Peter Oosterveer: – in great detail, but I can just directionally give you a feel for it. So I'll start with Asia again. Higher than last year. Latin America obviously higher than last year because for two quarters now Latin America has been positive, so by definition had to be higher. And the Middle East, about two times as – actually, yeah, two times as high as last year.

Maarten Verbeek: Thanks.

Jurgen Pullens: Are there any more questions? No. Then I would like to thank you for your participation. Thank you.

[END OF TRANSCRIPT]