Corporate Participants

Joost Slooten
ARCADIS – Director of Investor Relations

Neil McArthur
ARCADIS – Chief Executive Officer

Renier Vree
ARCADIS – Chief Financial Officer

Conference Call Participants

As per participants list

Presentation

Operator
Thank you for standing by and welcome to the ARCADIS Q3 2013 results conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Wednesday 23rd October 2013 at 2 o‘clock UK time. I would now like to hand the conference over to your speaker today, Joost Slooten. Please go ahead sir.

Joost Slooten
Thank you, Fiona. My name is Joost Slooten. I am the Director of Investor Relations for ARCADIS. I would like to welcome you to this ARCADIS conference call. We are here to discuss the Company’s announcement of the Q3 2013 results which were released this morning. With us on the call today are Neil McArthur, Chief Executive Officer, and Renier Vree, Chief Financial Officer. The PowerPoint presentation that is being used in today’s call is available through the investors section of the ARCADIS website, for which the address is www.arcadis.com/investors.
Just a few words about procedures before we start. We will begin with formal remarks and 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 would like to call your attention to the risks related to these statements which are more fully described in the press release and on the Company’s website.

With these formalities out of the way, Neil, please begin.

Neil McArthur
Thank you, Joost, and good afternoon/good morning everybody. Welcome to the call. I am very happy to report that we have achieved good growth, strong margins and cash flow in Q3 2013. North America is helping drive our organic net revenue growth to 4%. Our Q3 operating margin has improved to 10.9%, supported by strong margin growth in Continental Europe on a significantly lower cost base.

Project Europe has achieved cost savings of nearly €10 million in the first nine months and our actual annual run rate is now over €20 million, with our cost actions ahead of schedule. The result of that is net income from operations is up 11% in the quarter and 7% for the first nine months of the year. Our strong quarterly operating cash flow of €78 million brings our year-to-date total to some €37 million. As a consequence, we are able to raise our profit outlook for 2013 to between 3-6% and continued organic growth of revenues is expected, barring any unforeseen circumstances.

I am now on page 5 of the presentation. Our strategic progress continues very much unabated. The merger with both EC Harris and Langdon & Seah, again great success. Year-to-date our bookings of synergy wins greater than €80 million year-to-date. Our operating model in Continental Europe is on schedule. We continue to win a number of prestigious projects through our European collaboration. As we talked about at mid-year, our cost actions were accelerated and those expected positive margin effects that we talked about at mid-year have materialised. If we then broaden more globally, we are seeing major wins in what we call big urban centres, including the Grande Paris metro in France and more recently Seaport City work in New York. M&A remains on the agenda. We are looking to strengthen our market leadership positions.

I am now turning to page 6. One Europe, our new operating model for our European business, implementation well on track. The return to market growth has yet to materialise yet we are seeing a growth in our market share with our multinational clients across Europe and we are
seeing increased bookings for that Pan-European collaborative work. As I said earlier on the opening slide, our cost savings are now at €9.8 million year-to-date cost out, which on an annualised run rate is now €20.5 million and that has allowed us to move our margin improvement from 3.2% at the mid-year point to 7% in Q3. You will notice that on the same slide we have spent €10.8 million out of what we said in total of restructuring anticipated for the programme of €20 million.

If I then turn to the next page, just to give you some idea of some of the Pan-European collaborative wins in the last quarter, these photographs represent some of these projects. In the top left-hand corner, in Poland the design of a flood protection reservoir on one of the rivers in Poland. Hugo Boss in the middle there at the top, we are helping with the project management sourcing and engineering for a retail concept roll-out globally. In the left-hand side the European-wide learning community for low carbon climate resilience studies, we are doing the project management for that and also some of the tools that they are working with in order to reduce low carbon in cities across Europe. In the centre a Global Master Services Agreement for Novartis and then bottom right-hand side the Grande Paris metro expansion 100 km line around Paris where we are doing technical consulting expertise and also the project and overall programme management for that 100 km.

With that, I would like to turn to the next page and hand over to our Chief Financial Officer, Renier Vree, who will take us through the results in more detail.

Renier Vree

Thank you, Neil. I am now on slide number 9 where you see a summary of our performance in Q3 with the organic growth of 2% on gross revenues and 4% on net revenues. Looking at profits, you will see that, despite the fact that currencies were against us, we have reported a strong quarter with an improvement in EBITDA and net income and also in our earnings per share.

On the next slide you will see the same overview but now for the year-to-date performance with organic growth revenue at zero, net revenues an increase of 3% for the full year and, helped by the performance in Q3, now operating margin for year-to-date of 9.7% and also a net income which went up compared to last year and earnings per share of €1.09, a 4% increase for the year-to-date earnings.

Then we go to slide 11 where the graph is with the organic growth of the business lines and the total for ARCADIS and what's important to mention here is you see in the black line the 4%
growth for ARCADIS. What is really remarkable is that all four business lines have generated positive organic growth. It had been three years ago the last time that that happened. Compared to the previous quarters, especially the increase in water is worth mentioning where North America and the Emerging Markets have contributed to this and also that buildings remained at a high level where UK, Middle East and Asia all contributed to that growth.

Moving to slide 12, the operating EBITDA – an increase of 10% in the quarter, as I mentioned earlier. That growth has been generated through acquisitions for €1 million that relate to the last three we did in the past 12 months (SENES in Canada, ETEP in Brazil and Geohidrologia in Chile). There was a currency effect. It was negative over €3 million for the quarter and then the remaining part is the organic growth. That came really from improved contributions from Continental Europe as well as from the Emerging Markets in comparison to last year. Overall, our restructuring integration charges were just over €5 million, which is €700,000 less than what we spent in Q3 2012.

On the next slide you see an overview for the year-to-date figures and also the contributions. The organic development and acquisitions explain most of the improvements and you see also here the currency impact. We have spent just over €50 million in restructuring and integration charges, slightly below the same level in 2012.

Moving to slide 14, let me show the margins per quarter. In Q3 the 10.9 you can see here in 2013 bring the year-to-date figure to 9.7, showing that we are ahead of where we were at the mid-year point and also ahead of where we were last year. Given this performance, the 10% target that we have set ourselves at ARCADIS for the full year comes again within sight.

On the next slide the trend over the last five years for the first nine months in net income operations and the same for earnings per share where you see the consistent improvement during that time period.

On slide 16, the cash flow development – we saw a good cash flow in Q3 after H1 was behind expectations, coming from profit but also from working capital improvements. Working capital at the end of Q3 was 17.9%. It came down another percentage point from Q2. Nevertheless it’s still a bit higher than at the same point last year and, in fact, if you go one year back, then we were at the same level as we were two years ago. The main reason why we have not been able to meet the performance of last year is that the payments by the public sector are slow. It takes more time than before to get invoices approved and collected, particularly in Continental Europe and North America. Nevertheless, with the focus we have on working capital and the fact that this is
in our incentive system throughout the Company, we have also the belief that in Q4, which is usually where most of the cash flow is being generated, also this year will show a good cash flow from operations again.

Moving to the balance sheet on page 17, at the end of the quarter our net debt stood at €320 million, which is lower than we were at the same point last year and, taking the net debt to EBITDA calculation that we use for the bank covenants, taking the average of March and September, it is a level of 1.6, so a bit below where we were the year before. If we take the point measurement at the end of September, then the net debt to EBITDA stands at 1.4, so well within the agreement to not exceed a level of 3 as in the covenants but also well below the level of 2 that we have set as management of the Company. The funding profile didn't change from the last quarters and you see here again that our sources of funds are well-diversified in terms of sources and in terms of the spread-out over time.

Now let's zoom in on the performance of the individual business lines. Starting with infrastructure but before that on slide 19, the general overview where the CAGR shows 14% average increase over the last two years. The biggest increase has been with buildings and that has also helped with the acquisitions of EC Harris and Langdon & Seah in the past two years.

Then the details on infrastructure on page 21 – the level of subcontracting has decreased compared to last year. You see there that our organic growth revenues declined by 2% while net revenues increased by 3% and the difference comes from less subcontracting. Continental Europe was a drag in terms of the revenues in infrastructure although not far from being in a stable situation, while in the Emerging Markets, North America and this is where we really saw the contribution to the growth of this business line. In Q3 (because these figures in the table are for year-to-date) Continental Europe did stabilise. Two important projects were won, the Grande Paris metro project in France on which we sent out a press release a little while ago and also an important project which is infrastructure in combination with water and technology around the management and modernisation of the locks and pump stations throughout the Ijsselmeer in the Netherlands.

The next pages are for the water business line. On page 23 you can see that the organic growth returned. We were at -2% at the mid-year point and after Q3 we are flat against last year for nine months. North America played a significant role in that with the growth in municipalities, the work we had won with the hurricane Sandy activities and also the private sector improving through the water industry activities and services that we launched. Also in the Emerging Markets like Brazil and in the Middle East we won a number of significant projects, also helped with the now
extended service offer in Brazil with ETEP. Two of the projects that I would like to mention is the Seaport City project that also Neil mentioned where we do a feasibility study for a pretty large opportunity to have New York better protected against rising sea levels and storms and in Nassau County, New York, where a waste water treatment plant is being developed and improved with our technology and knowledge.

Now on the next page (page 25), environment, we show you the development of that business line. Important to mention that developments in the Federal market in North America have an impact on the whole industry. That market is declining and therefore many of our competitors that are far more active than we are in the Federal markets also focus their attention on the private sector side, which has become more competitive, but by focusing on our clients, with the quality of our services and technology, we were able to improve our revenues in oil and gas and mining sector with the MNC clients. In the Emerging Markets, where we also apply some of the approaches of North America in how to select our clients and manage our projects, we were able to grow the environmental activities at better prices. SENES in Canada also contributed to growth, with revenues booked from synergies with the ARCADIS activities. Two projects that I would like to mention are: one is the AkzoNobel, the framework contract that already was in place, was extended and also expanded in terms of scope; and, helped by the access to the clients in the chemical and pharma industry through BMG which we acquired just over a year ago, we were also able to sign a number of Master Service Agreements with those clients.

Then on buildings (slide 27), you see there the strong growth we report in that business line. We are now at 4% for the year-to-date figures, coming from +2% at the midpoint. The Emerging Markets and the UK were the key regions to contribute to that growth because in North America and Continental Europe the revenues declined for the first nine months. RTKL (our architectural activities), there we did see growth in the commercial market in North America and Asia, particularly around retail clients but also office or mixed use projects, but in healthcare and workplace, which are mostly within North America, there we saw a decline of activities. We won a project with Philips on global project management to allow workplace innovation for Philips and with a major oil and gas client we won a project on their workplace transformation where we help them to reduce their opex spend, applying the built asset consultancy concept.

With that, Neil, it is back over to you.
Neil McArthur

Thank you, Renier. I am turning now to page 29. We have shared with you earlier our leadership priorities for 2013. They remain unchanged: implementing the Pan-European operating model and accelerating the cost actions associated with that; stimulating improved organic growth and capturing revenue synergies from the recent acquisitions and I think we have demonstrated that again this quarter; evolving our performance culture, working on margin improvement – that’s coming through; working capital Renier talked about – that we are not where we want to be and it’s still a work in progress and we continue to evolve our performance culture around how we manage our projects.

Acquisitions are still on the agenda, to strengthen our positions, our leadership positions, both in emerging and selected mature markets, and then we are going to be working this year on our strategic review and target setting for the 2014 through 2016 period. I am happy to report that we brought forward when we can share the results of our strategic review and our strategy for the period 2014 through 2016 and we are going to do that on an investor day on December 4, in just about six weeks’ time.

Turning now to page 30, the outlook for the business, infrastructure – we expect growth to continue, good growth potential in the Emerging Market, higher spend from big urban centres. We expect Continental Europe to remain relatively stable. Water – further improvement anticipated. Our Water for Industry offering continues to offer growth opportunities globally for us. North America has picked up. We see growth in the Emerging Markets, with Continental Europe expected to be somewhat lower. Environment – we expect to maintain organic growth, driven by private sector demand, especially the multinational clients that we have and, as Renier highlighted in the section on the environmental business, public sector expected to be lower, resulting in low growth in North America and some upside in the Emerging Markets and the UK. On buildings, continued great story around organic growth, built asset consultancy, creating that growth on a global basis. We talked about the synergy bookings of more than €80 million year-to-date. The growth will come in the Emerging Markets and the UK, with Continental Europe and North America being stable.

So overall backlog, we have the seasonal quarterly decline and year-to-date we are up 3% since the end of 2012. Higher margin from the cost improvements that we have in Continental Europe and North America and therefore we are confident to raise the profit outlook to between 3-6% for the year and we expect continued organic growth of revenues, barring any unforeseen circumstances.
With that, operator, I would like to open up the call for questions please.

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Questions and Answers

Operator
Thank you, sir. If you would like to register a question, please press *1 on your telephone and, if you need to cancel your questions, it’s the # or £ key. Your first question comes from Dirk Verbiesen from Kempen. Please ask your question.

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Dirk Verbiesen – Kempen
Good afternoon gentlemen – a few questions. To start with, maybe continuing on Continental Europe, I hope I didn’t miss it but the order book and the backlog in Continental Europe, how did that develop in Q3 versus I think going out of H1 at 7% higher backlog? Also, looking through your comments, Neil, in concluding this call, is it fair to assume that you won’t return to organic growth in Europe in the next quarter YoY? Can you say maybe something on how this order book and backlog will develop in terms of revenues going into 2014? I hope it’s not too early to say anything on that.

The second question is on the situation in the US overall. What do you see in Q4 following the shut-down? I saw some weakening in environment in Q3 but what is happening in Q4? Any comments on that and also in the broader perspective beyond environment would be helpful.

The last question I have is on the cost savings and integration costs. What is the impact of the savings or the charges I would say compared to the savings beyond what you disclose on Europe? So the additional €5 million that you charged in the first nine months, how does that translate in savings? Thanks.

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Renier Vree
Hi Dirk. Thanks for your questions. Well, according to the order book in Continental Europe, that declined in Q3 and by the way always that is because in July/August many clients don’t release new projects. So that is seasonally not unusual and typically in Q4 it’s again orders coming back. When we look at what we have in order book and also the requests we see coming in from clients and the way our organisation in Europe sends us the market sentiment, then we have reason to
believe that Q3, although still negative, that stabilisation of revenues is very close by and it could very well be that in Q4 our revenues will not decline any more organically but it is hard to make a very clear prediction about that.

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**Neil McArthur**

On the US question, Dirk, we expect the infrastructure spending to continue in the year. We expect water to continue to generate growth, both through our Water for Industry programme. Environment we expect to see low growth and buildings to be stable for North America.

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**Dirk Verbiesen – Kempen**

But you don’t see any delays or cancellations or even following the shut-down from the Federal side?

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**Neil McArthur**

The Federal part of our business is reasonably – I think it’s about 15% of our North American revenue or slightly less. We saw I think only one project so far where there was some stand-down but that’s not material.

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**Renier Vree**

There’s a bit more to be seen in the healthcare side, Dirk, for architectural work, which has been a slow market already for quite a while and got even slower following the shut-down of the Government.

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**Dirk Verbiesen – Kempen**

Okay.

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**Renier Vree**

But if you look at the total of what we do as ARCADIS in North America, leave alone for total ARCADIS, the direct impact is very limited. The bigger concern is more that the overall sentiment in North America turns more sour because companies are less eager to invest. So there we are
a bit cautious whether the overall sentiment in North America remains as positive as it recently became.

When it comes to the question on cost savings and integration costs, particularly the integration costs, you are right, we spent also about €5 million outside Europe but that is pretty widespread. Both in our US organisation as well as in RTKL there have been some capacity adjustments or organisational changes. Equally for EC Harris and also in Chile where the market, particularly for the mining part, went down, we have reduced capacity for which some severance payments had to be made.

**Dirk Verbiesen – Kempen**

Okay, thanks. Your guidance already tells us that you are not really affected in US but it was more on a general view of what’s happening. Thanks for that.

**Operator**

Your next question comes from Philip Scholte from Rabobank. Please ask your question.

**Philip Scholte – Rabobank**

Thank you. Well, following up on those previous questions actually, in your outlook statement on the water business you say that the North American business has picked up. Is there any particular reason for that? Is that the industrial push or is that just across the board?

Secondly, on your cost savings targets in Continental Europe, with a run rate already running at over €20 million and a target of 25 next year, I know you are saying you are ahead of schedule but what’s your view on will you beat that number or are you looking at additional possibilities? How are you looking at that number and that whole restructuring right now?

**Renier Vree**

Let me take the first one, Philip. In North America there are a number of strengths that are helping us here. On one end it is the municipalities where there’s a catch-up effect on delayed investments in the past. You can also see that in comparison, a year ago that business was pretty slow. The second one that helps is the work we won in the aftermath of super storm
Sandy. Finally, also industrial water contributes to that and these effects together help the business of water in North America to grow.

**Neil McArthur**

Then on the cost savings and the annualised run rate and the target setting for Continental Europe, as we said earlier in the year, we have been working hard to accelerate the cost savings. We are confident that we are going to meet our target and, once we have met our target, we will share that with you, hopefully, at the point that we reach that but we are not going to adjust our target at this point in time, Philip.

**Renier Vree**

But also don’t forget that the target is aimed at achieving a 10% margin for Europe and that’s what we are really driving at.

**Philip Scholte – Rabobank**

Sure, thank you very much.

**Neil McArthur**

You are welcome.

**Operator**

Once again, if you would like to register a question, it’s *1 on your telephone keypad and it’s the # or £ key to cancel your question. We appear to have no further questions at this time, sir, so please continue.

**Joost Slooten**

If there are no further questions, then obviously we are looking forward to speaking again with all of you on December 4, when we will announce the strategy for 2014 through 2016 and we look forward to seeing you then. Have a nice afternoon/evening. Thank you.
Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.