THIRD QUARTER TRADING UPDATE 2015

Neil McArthur, Chief Executive Officer
Renier Vree, Chief Financial Officer
22 October 2015
Mr. Slooten: Good morning or good afternoon. My name is Joost Slooten. I am the Director of Investor Relations for Arcadis. I would like to welcome you to this Arcadis analyst conference call on webcast. We are here to discuss the company’s results for the third quarter and first nine months of 2015, which were released this morning.

With us in the call today are Neil McArthur, Chief Executive Officer, and Renier Vree, Chief Financial Officer.

The PowerPoint presentation that is used is available through the investor section of the Arcadis website, www.Arcadis.com. Again, www.Arcadis.com and then the investor section of the website to get to the presentation.

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 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!
Disclaimer

Statements included in this presentation that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward looking statements. These statements are only predictions and are not guarantees. Actual events or the results of our operations could differ materially from those expressed or implied in the forward looking statements. Forward looking statements are typically identified by the use of terms such as "may," "will," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.

The forward looking statements are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward looking statements.

Agenda

Third quarter trading update 2015

Neil McArthur, CEO  •  Overview
Renier Vree, CFO   •  Q3 trading results
Neil McArthur, CEO  •  Strategic progress
                    •  Outlook
                    •  Questions & Answers

Burj Khalifa, Dubai
Mr. McArthur: Thank you, Joost, Welcome everybody to our third quarter trading update.

If we could move to slide no. 5, you see on the left hand side our year-to-date Q3 figures and some highlights on the right hand side of the page that I am going to go through.
In the third quarter, our gross and net revenues were up by 36% driven by acquisitions and currency effects.

Our Q3 organic net revenue growth was -1%, with slowing emerging markets and year-to-date our organic net revenue growth is +1%.

Our Q3 operating EBITA margin improves to 10.6% versus 10.4% this time last year.

Our Q3 EBITA is strongly up at +48% to EUR 60 million.

Year-to-date our operating EBITA is up 28% through the positive effects of our Performance Excellence program and the capture of our acquisition synergies.

Working capital is essentially flat compared to our mid-year, Q2 and end of Q2 position.

Our backlog year-to-date is up 2% due to currency effects, organic decline of -2%, reflecting mixed market conditions.
This probably looks very familiar to you. On the left hand side of the page are the 2015 leadership priorities and on the right hand side a summary of some geographic highlights during Q3. I will just go through our 2015 leadership priorities.

First of all, delivering on the acquisition synergies, first and foremost with Hyder. The synergies are on track. Hyder is still delivering “strong” organic growth. It becomes organic for Arcadis clearly in the fourth quarter. Operating margins are improving. Regarding Callison, the cost synergies are on track but we have experienced a strong decline in China.

The second leadership priority is Performance Excellence. We see increasing benefits to the operating margin, continuing to make their way through to the bottom line. The redesigns are underway and will already both 2016 and beyond.

The third priority is the North America turnaround. Organic revenue decline slowed somewhat in the third quarter and the 2-year turnaround is on track, clearly with continued leadership attention to our working capital position.
On the right, a quick high-level summary before I hand over to Renier Vree. In terms of Q3 for emerging markets, Brazil declined in line with our guidance at mid-year. In China slower growth continues.

In North America, we are making progress on the transformation across all businesses and in Environment we expect return to growth in 2016.

In terms of the UK and Continental Europe we see continued strong performance, both in growth and margins.

With that, I would like to hand over to Renier to take us through the Q3 trading results.

Mr. Vree: Thank you, Neil. Let’s turn to page 8.
Q3 and YTD financial results

<table>
<thead>
<tr>
<th></th>
<th>Q3 2016</th>
<th>Q3 2014</th>
<th>Change</th>
<th>Q3 YTD 2015</th>
<th>Q3 YTD 2014</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>Gross revenues</td>
<td>850</td>
<td>630</td>
<td>+30%</td>
<td>2,547</td>
<td>1,827</td>
<td>+39%</td>
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<td>Organic gross revenue</td>
<td></td>
<td></td>
<td>+1%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>growth</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Net revenues</td>
<td>640</td>
<td>475</td>
<td>+36%</td>
<td>1,982</td>
<td>1,407</td>
<td>+39%</td>
</tr>
<tr>
<td>Organic net revenue</td>
<td></td>
<td></td>
<td>-1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>growth</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>EBITA</td>
<td>60.0</td>
<td>40.5</td>
<td>+40%</td>
<td>149.1</td>
<td>123.9</td>
<td>+20%</td>
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<tr>
<td>Operating EBITA (1)</td>
<td>68.6</td>
<td>49.5</td>
<td>+39%</td>
<td>181.9</td>
<td>142.2</td>
<td>+28%</td>
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<tr>
<td>Operating EBITA margin</td>
<td>10.6%</td>
<td>10.4%</td>
<td></td>
<td>9.3%</td>
<td>10.1%</td>
<td></td>
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</tbody>
</table>

(1) excluding acquisition, restructuring and integration-related costs

Here, in the table you see both the results for the third quarter this year in comparison with last year as well as the year-to-date figures. I will focus on the quarterly figures, as Neil already touched upon the year-to-date figures.

The organic revenues on the gross level grew 1% while net revenues showed a decline of 1%. The difference is caused by two large projects in North America, where we are involved in and outsourced work to subcontractors.

The organic net revenue decline is a combination of two forces. We see North America declining about 2% in the third quarter and Brazil further declined this quarter to -30%, but everywhere else throughout Arcadis we saw growth.

Regarding the EUR 60 million EBITA that Neil mentioned you see the gap with the operating EBITA of EUR 8.6 million. That means there is 1.3% spread between the reported and the operating EBITA, which is a decline compared to the 2% in the first half, reflecting that the relative spending on restructuring and integration charges had declined, as we had indicated.

In the comments below you see some more details on this. The EUR 9 million we spent on restructuring and integration were for Performance Excellence. We did
cost outs, particularly in Continental Europe, the UK, North America and also Brazil, mostly linked to severance payments to staff that have left us, while the integration costs were really for Hyder and Callison linked to people but also IT systems and office leases.

That brings the margin for the quarter to 10.6%, an improvement over the performance in the third quarter last year. Year-to-date we had 9.3% operating EBITA and if we take out the project cost overruns incurred in the second quarter, on a like-for-like basis we are then at 9.9%, so slightly below where we were one year ago.

**Q3: Organic net revenue growth -1%**
**Excluding North America and Brazil +6%**

On the left hand side of this slide we see the organic revenue development over the last ten quarters in a bit more detail. On the right hand side, again the explanation. If we ignore Brazil and North America the rest of Arcadis, which represents approximately 60% of the company, is growing at an average pace of 6%.
Here, we see the scorecard of the operating EBITA over the last eleven quarters. You may remember from the H1 update that we guided for a margin to be realised in the second half year of between 10.5% and 11%. Despite the fact that organic revenues were down by 1%, we have been able to achieve 10.6% operating EBITA, reflecting the benefits from Performance Excellence as well as the cost synergies with Hyder in the bottom line.
Working capital was essentially flat with the second quarter. It was slightly up, which is quite typical that between Q2 and Q3, we do not see much movement in working capital. What we did see is that level of debtors came down, and of our payables came down even more and therefore, working capital went up by 0.2%.

When we look back at last year and compare it on a like-for-like basis with the Arcadis entities without Hyder and Callison we see that our working capital would have been 18.3%. That is fully the result from a reduction in both billed and unbilled receivables.

We are working our way through the contracts we have in Hyder and Callison. That start to take a hold and we expect the benefits from that to become more visible as of Q4 as well as the process improvements that we have made around billing and collection.

Therefore, the outlook for the year remains the same as what we guided before. Cash flow generation will be strong in the fourth quarter and it will be supported by a working capital level that ends below the level of last year, which was 18.8%.
Let me provide you with some more detail on the business lines.

**INFRASTRUCTURE**
- World-class intelligent and integrated road and rail transport solutions
- Specialties: stations, ports, airports, tunnels, bridges, large projects
Let me jump to Infrastructure, which represents a quarter of our gross revenues.

**Infrastructure (25% of gross revenues)**

**Current developments**
- Strong growth in the Hyder activities across the UK and Middle East, supported by synergy wins
- Strong growth in Australia Pacific
- Expanding market share in Continental Europe through improved offering, North America delivered good growth
- Strong declines in Latin America due to deteriorating market conditions in Brazil

**Recent wins**
- IJmuiden Lock, Rijkswaterstaat (NL): Nautical and hydrological aspects of design on new lock system
- Atlanta, Georgia Department of Transportation (US): Review and evaluate options to provide congestion relief to Atlanta’s Downtown interstate system
- Calais Port (FR): Lead engineer project, detail design including site supervision during construction
- Victoria roads (Australia): Grade separations works

Most of the current developments reflect the picture for the last nine months. Hyder activities have shown strong growth in the UK and the Middle East. Also the synergies we have achieved with the Hyder clients and staff have contributed to that.

You see the same in Australia Pacific, which is a difficult market. But here, the value propositions from Arcadis as they have been brought to the existing Hyder clients are bearing fruit.

We are growing in Continental Europe at a higher level than the overall market is doing. That has to do with our improved offering, which now also includes more Opex-related services. Also in North America we had good growth.

Latin America was declining. The market conditions there are not good in Brazil. Public infrastructure is quite decent but in the private companies, like in the mining industry, we have seen strong decline.
I want to call out two recent wins. One is the Lock in IJmuiden, the gateway to Amsterdam where a very old lock system will be replaced by a completely new and big changeover and there we play a good role.

The second is the Port of Calais, a large project in France. We take care of the lead engineering work, detailed design and supervision. This is a project with a size of EUR 20 million.

The Water activities are helped by the Hyder activities in a number of regions, particularly in the UK and the Middle East. With the synergy effect with the Water utilities in the UK for instance as well as in Water for industrial clients.
Organic growth is especially visible in North America, where water treatment has picked up this year but also in a number of markets in Continental Europe, where we have seen growth, while organic growth is flat in the UK.

In Latin America, again Brazil makes things difficult because of limited funding for clients like the SABESP, the Water Utility of Sao Paulo this year.

There is a recent win to call out, the New York City project for a treatment facility in The Wards. You see the picture on the right.

Another one is in the UK where we have been very much involved in preparing the work on taking into account the risks of flooding and coastal erosion throughout the United Kingdom.
Let’s move to Environment.

Environment (24% of gross revenues)

Current developments
- Slowing decline in North America reflecting strong competition while our new market approach takes hold
- Growth in the UK driven by impact assessment work related to infrastructure investments
- Market conditions in Brazil were slow resulting in organic decline and Continental Europe was essentially flat

Recent wins
- Port Hope (Canada): Radiological surveys
- Financial institution (US): Three-year framework contract to provide EHS audits
- Major oil company (UK, Germany): Five-year environmental framework contract to provide both consulting and contracting services at retail and fuel depots
- US Healthcare company (US): ECS project for design/build of a waste water treatment system in US
Here, North America has shown a decline throughout the year. That reflects the strong competition that we have, while we have taken a different approach to the market. You may remember that from the last update we gave, which was the FieldTech Solutions business we had created for the standard remediation work.

In the UK, because of all the investments in Infrastructure and Buildings, there is growth in the Environmental work around Environmental impact assessments.

In Brazil, on the back of the decline in infrastructure work, also the Environmental business is in decline.

Continental Europe was essentially flat when it comes to Environmental activities.

A few years ago we acquired a company called SENES in Canada, which in the meantime was integrated into Arcadis Canada. Here, we won a significant project for radiological surveys in an area of the nuclear plant in Canada.

Another project to call out is the one for a financial institution in the US. Financial institutions have been a strong sector throughout Arcadis this year. In this case it was a 3-year framework contract for environmental health and safety audits that we are performing.
Also in Buildings Hyder and Callison contributed to the overall growth of this business line. Organic growth was good throughout the company and especially Continental Europe, the Middle East and the UK did particularly well. This was often driven by the private sector where multinational clients are spending well on large programs for their activities around the globe.

In China, we saw a decline in architecture. We already mentioned that since the fourth quarter of 2014. There is also a slowdown in some of the geographies, on which we have taken capacity adjustments.

There are two projects to mention here. One is Surfers Paradise in Australia, the Ruby project, where we are involved in detailed design of two story towers with a lot of work around that investment.

Also in the UK for the Manchester University, where we do program management for the Advanced Materials Building.

With that, I hand it back to Neil

Mr. McArthur: Thanks Renier. On page 22 we give a little more colour and depth to what we have been working on in our leadership priorities in the third quarter.
On the acquisition synergies, the Design to Lead process for the integration for Callison, we have launched a combined new brand and positioning. We have the cost out synergy plan on track and, as I mentioned, we have seen a strong decline in China.

With Hyder, we have the Evolve to Win process. Very much the synergy capture plan is on track and delivering strong growth that will turn organic in the fourth quarter and improving margins.

On Performance Excellence, if we look at where we started to implement our Quick Wins program, which were the changes that we would make that would have an impact on our bottom line in 2015 in a number of our major operating regions, Arcadis North America, the UK, Continental Europe. In the second quarter we took a look at Australia Pacific and we made those changes. We have seen clear quick wins in project management, resource optimisation and procurement, which are delivering improved margins year-to-date in all four of those operating regions.

In Global Design we have increasing momentum that we talked about quite extensively at the mid-year and that continues with good wins.
Our Workplace & Collaboration, which is a three-year implementation to reduce our office footprint and to open up our offices to an open-plan environment is well underway. As I said earlier, we are on our way with the design changes that will impact both 2016 and 2017 to continue to increase our operating margin.

Regarding the North America turnaround, we implemented the revised market approach and have seen good progress is across all business lines. We are revitalising the commercial organisation to make sure that we have the right focus on which client with which capabilities to drive sales.

In terms of Performance Excellence all of the initiatives that we talked about, project management resource optimisation, procurement and the optimisation of our workspace and office footprint are helping to alleviate pricing pressure that we see in a number of the markets in North America.

We have evolved our operating model. We developed a new model and rolled that out in Environment for FieldTech Solutions but also in our historical core business and also corporate, and a redesign of the Water operating model will be complete in the fourth quarter.

I just want to make sure that you also understand that we have continued leadership attention to our working capital.
In the third quarter, we launched our new positioning and branding, leveraging our capabilities globally as Arcadis to be in a position of the leading global Design & Consultancy for natural and built assets. You can see that this is clearly a change for many of our entities around the world.

If you just take a moment to look at the brand block at the bottom, you can see over on the right hand side we really bring one of our core values of client focus to life with this part of the brand block by clearly stating what we do, Design & Consultancy, and where we apply that, in client sectors for natural and built assets.

If you then look to the middle portion in black, the new Arcadis design font, you can see that we are bringing together and bringing to life another one of our core values when you see the ‘C’ and the ‘A’ being joined up, so joining up all of the capabilities of Arcadis in order to bring collaboration to life in our brand identity.

Over on the left hand side, you see the modernised fire salamander, which is representing one of our core values of sustainability, because clearly the fire salamander only thrives in a habitat that has a well-balanced ecosystem. So, really bringing three of our core values to life in the new positioning and brand identity that we have.
We believe that we have put here a very powerful modern brand, positioning Arcadis as the leading global Design & Consultancy for natural and built assets.

...and creating a leading positioning with a new powerful CallisonRTKL brand

With the combination of Callison and RTKL, we are creating a top-five player globally in design and architecture and really creating a powerful CallisonRTKL-brand. Again, there is a very strong association with Arcadis in terms of it being the same font and the same orange colouring that is used. We are maintaining the identity of two strong powerful global brands with their own identities within the architectural design world and a clear positioning as the design consultancy of our Arcadis.

So, we are very excited about the CallisonRTKL as a new brand launching positioning as of last week.
Our outlook maintained strong growth and improving margins. If we look at Infrastructure, many regions around the world are benefitting from growth through Hyder. The UK, Continental Europe, North America, Australia Pacific have good growth for the remainder of the year. Latin America, as Renier talked about, remains weak.

In terms of Water North America shows low growth, mixed performance across Europe and decline in Latin America. The Middle East and the UK benefit from Hyder’s capability.

In Environment North America returned to growth in 2016, Continental Europe is essentially flat, in the UK further growth and clearly, Latin America impacted by the slowdown.

At Buildings, architecture demand is up in North America and down in China, that we talked about. The Middle East remains good. Good growth in Continental Europe and the UK with Asia slowing.

If we bring that all together, we expect our outlook revenues to grow by about 30% in 2015 and net income from operations to increase by approximately 20%,
supported by the planned divestment of non-core energy assets, barring unforeseen circumstances.

With that, I would like to turn to the next page and make one last statement before we open up for Q&As.

**Arcadis. Improving quality of life**

Again, at the top of the page you can see that we brought our passionate statement alive in our new brand identity “Arcadis. Improving quality of life”.

Mr. Slooten: We are now happy to take questions.
QUESTIONS AND ANSWERS

- Bjorn Krook – ABN AMRO

Good afternoon, gentlemen, quite a few questions from my side. First of all, on the slowdown in organic growth that we have seen sequentially, so moving from Q2 to into Q3. Q2 was at +2% and now for Q3 at -1%. Is that solely due to the move in emerging markets that you have seen, i.e. we know, as you said, North America has improved somewhat but how are Continental Europe and the UK doing?

Mr. McArthur: Yes, the slowdown is the slowdown in the emerging markets. We have seen the guidance for Brazil at -30%. We have also seen slower growth in Asia and in the Middle East. We have seen strong growth in Continental Europe and good to strong growth in the UK.

Bjorn Krook – ABN AMRO: So you see a continued strong momentum as we have seen in the first half of the year in the UK and Continental Europe.

Mr. McArthur: Absolutely!

Bjorn Krook – ABN AMRO: Then on North America. I have the same question as I had at the half-year numbers. We have heard to story about return to growth for a while now but we are still in negative territory in Q3. The comparable basis is quite a bit easier now. What exactly gives you the confidence that we will return to growth in 2016 and will it be growth over the full year 2016 or will it be growth in a quarter in 2016?

Mr. McArthur: Thank you for the question, Bjorn. Let’s remember where we are in North America. We announced a two-year turnaround program in the first quarter of this year and we put in place new leadership, not just the CEO and COO but there were multiple changes in the operation. The leadership teams have defined the turnaround program and they launched the program. Now, we are in the first quarter of the execution of that. That involves new market approaches that we have talked about, particularly in Environment and in Water where in Environment we are, in addition to maintaining our positioning in the complex remediation market, we developed a completely new composition of our Arcadis FieldTech Solutions, aimed at more standard environmental services and created an operating model that allows us to do that at the target margins that we have for Arcadis. We have launched that at the end of the second quarter. We are seeing some small wins already in that and that clearly needs more time in terms of responding to and creating
opportunities with our clients. We see the funnel of opportunities opening up for that over time. That did not happen without an operating model change in Environment, which is a major change of the organisation, of how we go to market and how we manage the day-to-day business. That is all settling down as we speak. At mid-year we also guided it was unlikely that we would return to growth in Environment in 2015. That we now see happening in 2016.

If we look at the other business lines, we have seen already the return to growth. We have seen organic growth in Water this year. That has been again a refocusing to areas where we believe we have new market growth opportunities in program management, in conveyance and global design excellence on the engineering side, in addition to maintaining our position in the water treatment space.

We are seeing good organic growth in Buildings and Infrastructure, so we are already seeing good growth for this year in three out of the four business lines.

Environment remains a tough market but we believe that we now have the right go-to-market approach, the right operating model. Also, as you have seen and as we have announced in this last quarter, I will be spending more of my time also deeply involved in the day-to-day, week-to-week leadership of North America.

**Bjorn Krook – ABN AMRO**: Just to be clear, so you do expect full year 2016 to show organic growth in North America.

**Mr. McArthur**: Yes.

**Bjorn Krook – ABN AMRO**: Okay. Cool.

I will switch to some more accounting-related questions. You indicated improvement in working capital, or not so much an improvement but an improvement in the quality of working capital. Can you share the receivables as a percentage of revenue for Q3 with us, because it has been such a debated topic?

**Mr. Vree**: Indeed, the level of receivables went somewhat down, so compared to the second quarter it went down by about 0.2% while the payables went down by 0.4%. That is why the net working capital combined went up by 0.2%.

**Bjorn Krook – ABN AMRO**: In terms of free cash flow, when I make the calculations using some of the H1 data, I get to a gap of around EUR 15 million in what I would expect the free cash flow to have been and what you reported. Has there been any actual cash-outs in Q3 that I might have missed, maybe some prepaid tax or something?
Mr. Vree: I am not sure what you are hinting at. Free cash flow is calculated as always. There is one thing that may have been different than in prior quarters and that is that we see the utilisation of some of the restructuring provisions. That is less than the actual payout, which of course leads to a cash-out. That is the reason that your calculation is somewhat different from the numbers we have provided.

Bjorn Krook – ABN AMRO: So, that is a release of provisions.

Mr. Vree: No, a utilisation ...


My final bookkeeping question: in prior quarters you shared the EBITA from acquisitions with us but I could not find it in the presentation or in the press release. Can you share that with us?

Mr. Vree: We are giving a trading update and furthermore, we have integrated both Hyder in the UK and the Middle East and CallisonRTKL to such an extent that we are able to just about calculate the revenues organically. But bringing it all the way down to profit it increasingly difficult because the organisation has really become one organisation. That is another reason why we have not made that part of our report today.

Bjorn Krook – ABN AMRO: Okay. I will re-join the queue for further questions. Thank you.

Philip Scholte – Kempen & Co

Good afternoon everybody. My first question is on the organic growth of Hyder and Callison. Are you willing to provide a number for that?

The second question is on the restructuring and integration charges, which at least according to me are continuing to run at a high level. Can you provide us some guidance for the 2016 number in terms of those restructuring and integration costs?

The third question is on your target operating EBITA margin in 2016. Neil, in the presentation you increasingly say that the benefits of Operational Excellence will come through in 2016 and 2017, which I could read as maybe a slower pace of improvement towards 2017. Is that the way to look at it or are you still very keen on meeting that 11% margin already in 2016?
Mr. McArthur: Let me take the first question, Philip. We are in a trading update, so we are not disclosing Hyder and Callison in the trading update.

The second question, Renier?

Mr. Vree: As I said, the level of restructuring and integration charges is declining compared to the first half. I expect that to further decline significantly in the fourth quarter of this year, because they have taken most of the measures that we are planning for this year by now and taken the charges for that. It will also work its way through in 2016, so I would expect that the combination of restructuring and integration charges may be half of the amount we are spending this year or thereabout.

Mr. McArthur: In terms of Performance Excellence, remember we have a three-year benefit’s capture program for Performance Excellence across five performance drivers, project management, global design, resource optimisation, procurement, workplace and collaboration. We have not reported on all five of those given the trading update but clearly, many of those span multiple years. The most obvious one is bringing together and reducing the number of offices that we have. That is a three-year program. Those benefits will flow through into 2017 clearly, because of the lease end dates that we have for a number of the properties that we actually lease.

Philip Scholte – Kempen & Co: Right, but I do not really hear you saying that you are still targeting the 11% margin in 2016.

Mr. McArthur: Where we have our plans as we have at the moment, we are targeting 10.5% - 11% after the second half of this year. We continue to make progress with our Performance Excellence program this year and on into the next year. At this stage, we are in the middle of our planning process for 2016 and that planning process ends in December. At this stage, we see no reason not to be targeting our current target of 11% in 2016.


Dirk Verbiesen - KBC

Good afternoon gentlemen. On the slowdown you see in Asia can you be a bit more specific as to what extent being active there in engineering you are able to manage margins also proactively. I understood that especially China and is coming down in terms of revenue in architecture. To what extent does visibility in those markets allow you to do so?
Referring to the recent press releases or statements in the press on the Middle East, we see particularly oil-related countries trimming down or delaying large scope investment plans. If that would occur then it would probably affect 2016 – especially the Middle East – are you able to have the flexibility that would be required to cope with those downturns?

Mr. McArthur: Let’s remind everybody on the call that China is about 8% of our revenues and with this slowdown that we have seen in architecture and design and that we have been guiding for over the last year. The shape of that business has changed it. About 75% of cost and project management is now down to 25% architecture and design, which has a much shorter timeframe of projects, whereas the cost in project management of major projects that are also moving into the construction phase can be multiyear. So, in architecture and design we have moved both work that was done in North America for China and now people in North America take work on North America and make good growth. Also, we have adjusted our capacity in architecture and design in China. With costs in project management we have a longer timeframe but we are flexible and there are pockets where we have seen some decline and others where there is growth. So, we flexibly adjust our capacity. As I think I indicated on the mid-year call we do that on a bi-weekly basis that we are looking at all the key performance metrics of the businesses. So, we are flexible to be able to manage that and therefore maintain our margin structure, not just in China but in all of our business. I think this is a testament of our ability to maintain the bottom line profitability, given the operating margin we have delivered this quarter with the slowdown we have seen in a number of our end markets.

Let me then move to the Middle East. It depends on where you sit. We are in four major geographies in the Middle East. All year we have been saying that Abu Dhabi would be spending less and that has turned out to be the case. We have adjusted our capacity to meet that demand as well. If you are in Dubai, there is the Expo 2020 with lots of work still to be done on infrastructure and support infrastructure for that but we are a little bit more cautious on Dubai but there are still opportunities. If you are in Qatar with the spending levels that are still required for the World Cup in 2022, we still see good growth opportunities there. For the Kingdom of Saudi Arabia clearly there has been a shift in spending, away from what I will call the social infrastructure towards more defence spending. There has clearly been some postponement of work that we have won – that is now very clear – but there has also been some downscaling of work that we are currently executing and that means that we have to again – as we do everywhere in the world – flexibly adjust our capacity to meet the new level of demand. So, we are being very flexible. We strongly believe that the Kingdom of Saudi Arabia in the mid to the long term is a place that we absolutely want to be with the capabilities that we have as Arcadis.

- Dirk Verbiesen - KBC
So, also following that looking a bit beyond 2015 with your order book and maybe the leads you see across the business, so on the big picture and also looking at the organic trends we have seen over the past few quarters, it looks to be quite a volatile picture here and there. How comfortable are you that 2016 would be sufficient enough to see return to organic growth on a group level?

Mr. McArthur: We are in the third quarter update and we are in the planning process for 2016, so I would be hesitant to answer that already before we have engaged deeply in the finalisation of our plans for 2016.

Dirk Verbiesen – KBC:

Okay. But in terms of book-to-bill trends, can you say something on what you see in the major markets and regions, also the Middle East?

Mr. McArthur: Our book to bill is total Arcadis -wide virtually [one] year-to-date.

Dirk Verbiesen - KBC Okay, but in Q3 it must have been below one.

Mr. McArthur: Correct, it is somewhat below one.

Dirk Verbiesen – KBC: But is that more a seasonal thing? With the impact of Brazil and some other markets I can imagine that it is a bit more than only seasonal.

Mr. McArthur: The biggest bookings clearly are always in Q1. When particularly government and private sector get their budget sorted we see a strong boost in the book-to-bill in Q1 but for a trading update I think that is as much clarification I can give. Renier?

Mr. Vree: Maybe one thing to add, Dirk. In the emerging markets we tend to have a longer backlog. The average for a company is about eleven months and that tends to be a bit longer in the emerging markets. If we see swings in bookings – even in the mature markets – we have more time to adapt to that. One quarter when bookings are somewhat soft in a number of emerging markets does not mean we have to take very significant action. It means we become more vigilant and make sure that in case the bookings’ level remains more subdued we take actions in time. That is an important addition for the type of business that we run.

Dirk Verbiesen – KBC: That is clear. If I may, following Bjorn’s question on the free cash flow, on slide 5 you mention EUR 7.4 million versus EUR 51.6 million one year ago. Is that decline fully attributable to the cash requirements from restructuring charges?
Mr. Vree: No, no, that is part of it. Another part is just that the working capital level, the delta between the end of 2013 until September 2014 and from the end of 2015 until the end of September 2015 is different. That is the main reason for that.

Dirk Verbiesen – KBC: In absolute terms, yes. Thanks!

- Joost van Beek – Theodoor Gilissen

Good afternoon gentlemen. Let’s do questions one by one. First on your outlook, you reiterate your net income from operations to increase by approximately 20% but then you say ‘supported by the planned disposal of non-core […] assets.’ How should I interpret that? Would that be book gains on disposal and what kind of disposals are you exactly targeting?

Mr. Vree: Indeed Joost, as you may know, we have a number of energy assets through an associate company. That has been in a sales process for a while and we are very close to having that disposal taking place, which would indeed lead to a book gain. Therefore, it will contribute to profit this year. It is also important to mention that over the last years this business has not been profitable because it is a start-up business where a plant has been created. So, next to the book gain this would also mean that going forward those losses that we report for our associates will also disappear.

Joost van Beek – Theodoor Gilissen: So, I guess you expect maybe on the shorter term that some disposal will take place and will probably be a book gain and that will be included in this 20%, so effectively, organically you would have a somewhat lower earnings [grove]?

Mr. Vree: I am not sure if the word “organic” is in place here but it is part of the 20%. If I would give you a bit more guidance, then approximately 5% of the profit increase that we estimating for this year comes from the expected book gain on this divestment.

Joost van Beek – Theodoor Gilissen: Then on Brazil. I know it is impossible to call the bottom but at the Q2 numbers you already said that you were further laying off people there, I think about 500 in the second quarter and another 200 in Q3. Do you expect more capacity reductions there and what would this mean for your margin? In the second quarter profitability was still above 10% in Brazil.

Mr. Vree: Your numbers are correct. We started the year with about 3,000 people in Brazil. 500 people left in the second quarter and another 200 in the third quarter. In the meantime, because there was no follow-up on the projects that people were working on, we decided to take another 200 people off of the payroll. That means that at the end of
October we will be down by 900 people, which is also in line with that 30% decrease you have seen in the third quarter in terms of the organic revenue development. That is exactly with the intention to preserve the profit level in Brazil and keep it at the current double-digit level.

**Joost van Beek – Theodoor Gilissen**: Is there any – though early – sign that public spending will start to increase in the next six to nine months?

Mr. Vree: We are pursuing a number of projects. For sure the infrastructure with the public sector is a market that is more robust. There are opportunities that we are pursuing there. On the short term there is still some work that needs to be prepared for the Olympics, because next to the large sports venues there are some venues that are more secondary to the overall event. That still needs to be constructed, planned and later on demolished. That is also work we are positioning for. If we win that it would be a nice addition to our backlog. It will involve quite some people for about one year and a half on these projects.

**Joost van Beek – Theodoor Gilissen**: My final question is relating to Mr. Zack Smit, who stepped down about one month ago. He was responsible for North America, if I am correct. So, you are looking for a successor. Is that more internal or external and what kind of requirements do you have for his successor?

Mr. McArthur: Let’s be very clear. I am responsible in the Executive Board for North America and together with John Jastrem and Joachim Ebert and the new leadership team that is in place in North America, we are very confident that the turnaround program that Zack helped design and started to implement this year will be appropriately pushed forward at the right speed. In terms of what we are looking for, is an Executive Board member, the kind of calibre people that we have today like Stephanie Hottenhuis and Stephan Ritter that are very effective members of the Executive Board today. We are going through and looking at all candidates and make sure that we make the right choice for the right person. That is all I am prepared to say here on this call.

**Joost van Beek – Theodoor Gilissen**: That is clear. Thanks.

- **Edward Donoghue – One Invest**

I have a few questions. The starting one is on North America. In the press release you basically state you are going to spend more time addressing North America. I wanted a clarification of what that actually means, bearing in mind the efforts you have been putting
in place for almost a year now. What is the response of FieldTech, commercially amongst clients, looking at existing and new clients?

The other question is on the leadership priority slide. You talk about alleviating pricing pressure and Performance Excellence. What is the level of pricing pressure because “alleviate” means less severe but it does not mean totally compensating. So, what are the other elements that you are going to use as an offset, to get an idea of what that pricing pressure is and how that is going to play out going forward?

Mr. McArthur: Let me take out. “More time” means that I personally will be spending more time working with John Jastrem, Joachim Ebert and the leadership team on the further implementation of the turnaround plan for North America. You can imagine that is our biggest business, in the same way as we did very successfully a two-year turnaround of our European business. We are very confident that we have all elements in place.

Edward Donoghue – One Invest: Sorry to interrupt but can I just say what you think then is missing that you as the CEO of the group based in Amsterdam on a geographic and time zone difference will be spending a lot of your time actually focussing on that. No disrespect, but what will you bring to the table that you think has not been pulled together sharp enough so far?

Mr. McArthur: First of all, I spent one and a half week last month in North America and I continue to spend not on the end of the phone but also face-to-face time with the leadership team in North America. In my former life I spent 21 years helping clients to transform their business with a strategy consultant with a leading global strategy consulting and management-consulting firm, so I have done personally many of these. Hopefully I am bringing that day-to-day, week-to-week experience together with John Jastrem, who has done many of these and Joachim Evert, who has done many of these. It is a very large organisation where we are only nine months into a two-year transformation. Remember, it took until the mid-year to define what we wanted to do and how we were going to do that. We are now one quarter into the execution of that and there are still elements that need attention like for our Water business. You know the go-to-market piece but we still have to do some tweaks on how we bring that to market with our operating model. So, I am working on a weekly basis with that team to make sure that we are well on track. That is what I will be doing going forward.

On the Arcadis FieldTech Solutions the initial client reactions are very good. We only launched it at the end of Q2, so we had some small wins today. We have 150 people doing this type of work now in North America and we are responding to larger and larger requests for proposal. Those need to be clearly produced and then moved into revenue generation.
Then in terms of pricing pressure, we have Performance Excellence. We have our offering model that will allow us to get to our target of greater than 11% operating margin through the two-year turnaround program.

Edward Donoghue – One Invest: That sounds all very good but could you give a bit of granularity on what the pricing pressure actually is, on where you are seeing that most and the measures? Obviously, there is a commercial sensitivity that you are putting in place to offset that.

Mr. McArthur: Let me take two business lines. Let me first talk about Environment and then talk about Water. If we talk about Environment, we have clearly seen that our clients are demanding lesser supplier, more and more work is standard in environmental remediation which is at a lower price point. That is why we build FieldTech Solutions with an operating model that allows us to get to our target margin as for Arcadis. Part of that work is a more standardised, routinized way of doing things that we will then partially offshore to our Global Design Excellence Centres.

If you look at Water, a whole space that we also have not competed in is in what we call conveyance which is the movement of the water to a treatment facility or from a treatment facility in either program management or in design and engineering.

On the design and engineering side of that, again we make use of our Global Design Excellence Centres, so that we can again take the market prices, operate in a different way and therefore produce the operating margin that we are looking for as Arcadis. Those are two very concrete places of alleviating that pricing pressure and still maintain our target margins for North America over the two-year transformation.

Edward Donoghue – One Invest: If we come across to Brazil, again to get an idea of where the trends are going for the rest of the year. Do you think the organisation now is rightsized or do you think that, as you alluded to for Q3, a number of project rolled off, unfortunately no replacement, that you had to lay off an additional 200 people? If you look at the work in progress now, how much of those projects will you be concluding on a six months’ view from now?

Mr. Vree: I think that the work we have done now in rightsizing the organisation is fit for the backlog that we currently have and the work we expect to win. The current view is that, also going into 2016, it will remain more at the level where we are in the second half of 2015. But in case the market will take a further downturn then we will continue to do what we are good at, which is adapting the organisation and protecting the profit margin. Nevertheless, also in Brazil this downturn will come back one day and also then we want to make sure that we are agile in picking up on opportunities and remain the leading design and consultancy in Brazil.
Edward Donoghue – One Invest: Thanks for that. My third question is jumping across to China. Again, a similar sort of structure question. You said 75% is cost projects, 25% is spot architecture work. If you looked at the 75% where you have a certain degree of stability – visibility how far does that go and what is the refill pipeline looking like within that?

Mr. McArthur: In terms of China, our order intake in the middle of the year was slower than what we have seen in the third quarter, there’s an uptick again in China

INAUDIBLE

Operator: I am sorry, Chairman, for interrupting you. There is a lot of noise on the line and I think it is coming from Mr. Donohue’s line. If you are using a speakerphone, please lift up your handset?

Edward Donoghue – One Invest: No, I am not. I just got some colleagues. Sorry!

Operator: Sorry, but we cannot hear the chairman at all. Sorry, you were saying about China?

Mr. McArthur: In terms of our overall business in China, we have longer term cost and project management practices versus our average in China. Therefore, that gives us more time to react. We have seen in certain pockets at certain times during the year some slowdown in China and we reacted with, again, small capacity adjustments where necessary in order to protect our margin in China.

Edward Donoghue – One Invest: I appreciate it is a trading update but bearing in mind the importance of Hyder as an acquisition and the continuous reference of Hyder throughout the press release and various operating units, it would be very helpful if you could give some kind of guidance how Hyder has performed on an organic basis, a trend level through the year, just to get an idea of what is actually going on there.

Mr. Vree: That is no problem. What we have seen in Hyder, that their level of revenues has continued to increase. We cannot call it organic but it is at a level, which is not far away from double-digit throughout the year, which includes the third quarter. On the margin, we mentioned that the first quarter there was a 5% margin that improved to an 8% margin in the second quarter. Also in the third quarter, as best as we can calculate it now with the integrated concept, there was a further improvement in that margin trend for Hyder.

Edward Donoghue – One Invest: Excellent gentlemen, thank you very much indeed.

- Luuk van Beek – Petercam
First of all, I would like to come back to the free cash flow in the third quarter. If I calculate it based on the figures you have given previously they were down 40%. You mentioned the cash outflow and working capital was up slightly but are those the only things that explain why it was down 40% in Q3 or is there any other element that we should be aware of?

Mr. Vree: No, there are no other specific elements to take into account. There are always the usual swings you have in a company during the year, when payments happen and collections come in, et cetera. But nothing else relevant and material to mention.

Luuk van Beek – Petercam: And regarding the working capital, you stressed that the payables have declined more than the debtors have. Is that due to the revenue mix change that you have seen and is it something we should expect to persist going forward?

Mr. Vree: Also when you compare it with the prior years, you tend to see that around the middle of the year and the end of the year the level of payables is somewhat up. During the year that is less visible. So, it is not a different trend as we have also seen in prior years.

Luuk van Beek – Petercam: My final question is on the ...

Mr. Vree: Maybe one more thing on what you mentioned on cash flow. The company profile has changed between 2014 and 2015 with Callison and Hyder now in. They have not contributed to cash flow when it comes to working capital, because there we have seen increases, more so than for the rest of Arcadis. So, that is important to mention.

Luuk van Beek – Petercam: Ok. My final question is on your revenue mix. Basically, the pressure is mainly in areas where you have relatively high margins like Brazil and the US environment. So, I expect there is a negative mix effect. Do you think that it is possible to offset that through Performance Excellence and the other initiatives that you are taking or does that make you a bit more cautious on the margin outlook for next year?

Mr. Vree: You touched exactly the right buttons. The programs that we have in Arcadis, including Performance Excellence, but also Global Design is structurally one of the most fundamental changes we are making to the company – having part of the work we do for our clients delivered from low-cost design centres – help to remain competitive and profitable at a good level, also when price pressure intensifies. These are important to mention and they give us the confidence that we are good in how we manage the bottom line towards our target.

Luuk van Beek – Petercam: Thank you.
Bjorn Krook – ABN AMRO

Thanks for taking my follow-ups. To avoid any confusion – I do not think it is only me – you reiterate that you can still target 11%+ margins for 2016. It has come up in a number of different ways, but when Hyder and Callison will be moving from M&A growth to achieve organic as of 17th October, that will have mechanically a positive impact on the organic growth in Q4. Is that the right way of saying things?

Mr. Vree: I will answer that one immediately, Björn. You are exactly right. That means that the development of Hyder and Callison are then becoming part of the calculated organic growth of the company as of this quarter.

Bjorn Krook – ABN AMRO: Exactly, and that should have mechanically an accelerating impact because it is growing faster than the remainder of the company, in terms of organic growth.

Mr. Vree: Indeed.

Bjorn Krook – ABN AMRO: Cool.

Then on the Energy divestment that are now included in the guidance. Were those already in the plans when you launched the 20% net profit from operations growth guidance i.e. has there been an underlying deterioration that requires you to book this in there or was that already the plan and are you just making it explicit now?

Mr. Vree: Exactly, because when we gave our quantitative guidance for 2015 at the end of July, the expected sale of those energy assets and the gains from that were part of that guidance. We thought that giving more imminent outlook now it would be important to be fully transparent about that, also because it impacts the results of associates in our P&L, the background for being more specific now in this quarter.

Bjorn Krook – ABN AMRO: So, you do not see a deterioration in the business, which would require you to ...

Mr. Vree: No, not at all.

Bjorn Krook – ABN AMRO: And if you could be very explicit on the 11%+ margin target? Has that always been there, also for 2016? Some people might think that you have let go of this. Just to be very clear, you are still targeting 11%+ margins for next year?

Mr. McArthur: Absolutely! As we have said, we have delivered 10.6%, which was within our guidance for the second half of the year. We reiterate that with the improvements that we see through Performance Excellence, the further synergy capture from the acquisitions, our ability to scale up global design, which we have not talked about in the trading update – we
will leave that again until the full year – the momentum in global design continues to accelerate. We have shared that we are up to 10% in headcount at the mid-year. We continue to accelerate that increase in the use of global design. All of those together with optimising our resource basis and being flexible when there is a downturn in markets to protect our margins, we are very confident that we will get to our 11% operating margin target for next year.

**Bjorn Krook – ABN AMRO:** Cool. I just wanted to confirm that. Thank you.

- **Edward Donoghue – One Invest**

Gentlemen, I hope you can hear this clearly. Just with regard to North America, could you give me your exposure on oil and gas and then with regard to the Middle East and China, are you seeing any change in payment terms? That is an issue that has popped up from other companies this reporting season, especially in China. There seems to be a certain stretching of payment terms. Could you give any information on that?

**Mr. Vree:** The oil and gas sector is particularly important for the remediation work we do in America. Overall, as a company it is like 6% - 7% of our revenues. In North America it is relatively more. When you look into the environmental business it is even significantly more. It is about a quarter of our activities in the environmental sector that has a relation with the oil and gas sector. Of course, that is also one of the reasons that the environmental business in North America is seeing a swifter decline than before though in general we see that the remediation work is quite resilient when it comes to [...] of our clients in the oil and gas sector, given the fact that licensing regulatory perspective.

**Mr. McArthur:** I would argue that in oil and gas what we are doing is that Arcadis with our broader strategy, which historically in oil and gas is remediation. We offer the full range of value propositions from Arcadis so we are seeing business advisory growing, particularly in Europe, our program management and cost management work is growing in certain areas around the world as we build that expertise. So, we are moving away from our traditional reliance upon environmental remediation in oil and gas.

**Edward Donohue – One Invest:** Great. And then just on China and the Middle East payments?

**Mr. Vree:** [That is not linked] to oil and gas and I guess we see that in general.

**Edward Donohue – One Invest:** Yes, sorry, that was in general.
Mr. Vree: We have seen in China no changes when it comes to payment behaviour. The Middle East also there we have seen the messages in the newspapers about discussions that there would a slowdown in payment behaviour in for instance KSA but I guess given the types of roles we play in these projects and the clients we work for, we have not seen any changes there in client behaviour.

Edward Donohue – One Invest: Great. Thank you very much indeed!

- Quirijn Mulder – ING

Good afternoon, I have four short questions. Can you give me an indication of the number of people working at Arcadis at the end of the year?

Secondly, can you give me an indication about the cross selling effects between Hyder, Callison and the rest of the organisation? Could you clarify the word “legacy” in the press release? What exactly do you mean by that?

With regard to the margins, can you give me an indication of how resilient the margins were in Brazil?

Finally, what were the cost for re-branding? Are these costs in 2015 fully booked in the third quarter or is that coming in the fourth quarter?

Mr. McArthur: In terms of headcount for year-end, what we currently anticipate is that we will be below or around 27,500-ish by year-end. It may be a little bit lower than that.

Cross selling Hyder and Callison, we are not providing that level of information at a trading update but we will definitely again give full disclosure at the end of the year, like we did at mid-year in as far as we can still measure that sufficiently.

Mr. Vree: With “legacy” we really mean like-for-like, apples to apples. So, that the background of that term in our press release.

Margins in Brazil, as I said before they remained at double-digit levels with the actions that we have taken.

On re-branding, first of all those cost are quite limited because for the rollout we used the existing budget that our organisations apply for client events. This was the theme for meeting clients and organising client events, so that is quite a limited amount. Some of the
cost were more on corporate, taken for the design by itself and those cost have already been incurred earlier in the first nine months of this year, including the third quarter.

**Quirijn Mulder – ING**: Thank you.

Mr. McArthur: As there are no more questions, in closing just some remarks. We are pleased with our margin improvement we have been capturing at the synergies from our recent acquisitions, the progress that we have made with our Performance Excellence program, and also the speed and agility to deal with multiple emerging markets slowdowns, where we have been adjusting capacity. I would like to reiterate that we are targeting 11% operating margin in 2016. Nine months into the two-year transformation in the North American turnaround, we are making good progress. As I said and then reiterated, I will personally be spending more time on this moving forward as Zack Smith steps back. Then we are on track to reduce our net working capital by year-end below the end of 2014 level.

With that, I would like to thank you all for taking the time for joining us.

**Mr. Slooten**: That concludes this call. Thank you all for dialling in. Goodbye!

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End of call