Q3 Trading Update

Thursday, 24th October 2019
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Operator: Good morning, ladies and gentlemen. Thank you for holding, and welcome to the Arcadis Q3 2019 Trading Update Call. At this moment, all participants are in listen-only mode. And after the presentation, there will be an opportunity to ask questions. I would like to hand over the conference to Mr Pullens. Please go ahead, sir.

Jurgen Pullens: Good morning everybody, and indeed, welcome to the conference call for our third quarter trading update. I'm here together with Peter Oosterveer, CEO; and Sarah Kuijlaars, CFO. We will start with a brief presentation, and then we will open up for questions. So having said that, I would like to hand over Peter Oosterveer.

Peter Oosterveer: Yes, thanks Jurgen and good morning everyone. Thanks for joining us. Presumably, you can see the slide pack. So the very first slide actually is already gone on the screen, but was actually a very good slide because it's arguably one of the most strategic flood proofing exercises on the globe right now, which is a project Arcadis is involved in, actually leading a group of 18 consultants to develop a master plan for Lower Manhattan. So it's something which has hit the news just recently and definitely one of those projects we're very proud of.

And if you turn to the next slide, in fact that it is a similar one, but this time in the UK, where we work with the UK Environmental Agency on flood defences across England. And when you just look at developments in the world, then I'd have to say that we will increasingly see our involvement in these type of projects.

So with that being said, let's quickly go through the Q3 results. I am, as I said in the press release as well, very pleased with the strong performance in North America, the Netherlands, Germany, Belgium and Australia, and we will probably talk about each of those in more detail later. And all of this in fairly dynamic times with a lot of things going on in the world, which has the potential to impact anyone in business for that matter, like the still looming uncertainty around Brexit, the UK-China trade war and how that will end. If you just look around the globe at this point in time protests in large cities and countries and then closer to home environmental concerns around nitrogen and PFAS, and we probably will talk about that one a little further as well.

Also very pleased with the performance improvements in Asia and Latin America. You will probably recall from prior conversations that we made a number of changes in Asia: leadership changes, new CEO and new CFO. We simplified the organisational structure. We eliminated a number of presences in countries where we really didn't have a right to play or couldn't create a right to play, and all of that has now led to significant improvements in our performance. In Latin America, as you'll recall from more than just the last couple of calls, we went through a significant rightsizing of the organisation to be more aligned with what the market offers in Latin America – which for us is largely Brazil, Chile and Peru – and that rightsizing now has resulted in another quarter of positive results, so pleased in that regard as well.

In the UK, I already mentioned that we are in dynamic times. We are obviously still dealing with the uncertainty around Brexit, although we are getting closer to the finish line by all accounts. But we also at the same time do see that clients are becoming a little bit more hesitant to either proceed with projects or extend involvement from the likes of Arcadis on their
projects. So in particular, on infrastructure and building projects, we see a need for our clients to let the uncertainty come to an end, get more certainty as to what the ultimate scenario will be, so that they can decide to proceed with their projects.

That being said, I’m still very pleased and actually impressed with how our organisation in the UK is holding their own, and how they’ve been able to still deliver strong results. Also in the UK – and I think that is, in a way, remarkable for a number of reasons – we saw a very significant project win in digital solutions. We will talk about that one a little later because we have a separate slide on that one.

But it is significant because of the magnitude. It is significant because of the combination of capabilities we bring together from EAMS, an acquisition we did about a year ago, with the reach and the client relationships Arcadis had, and that is exactly what we had in mind when we acquired EAMS. So definitely, a shot in the arm for us in terms of furthering our digital solutions. And again, we will speak about that in more detail.

We also announced further strengthening of our global environmental expertise by a partnership with Evocra in Australia. And the partnership is not intended to limit itself to Australia, but definitely also has the potential to be applied on a global scale. And also here, we will speak more about it later as we have a separate slide.

On the non-clean energy assets, ALEN in Brazil, the divestment process is advancing. The project itself, which is the project to increase the gas supply to our customers, is advancing as well. So steadily, we are increasing the production to the customers from the gas plant. And with the advanced divestment process, we are now in the phase where we have received the non-binding offers. We have kicked off the due diligence effort with selected parties. And whereas we still like to have an agreement in place in 2019, there is a possibility that it will actually extend into 2020 because we don't want to necessarily have an agreement in place in 2019 at all costs. So that's why we do expect that there is a potential for it to extend into 2020.

Moving on to the next slide with more detail on our performance in the third quarter, I think a nice organic growth of 3%, significant growth in operating EBITA, in absolute terms, but also in margin terms. So the margin of 8.3% is now approaching the lower range of the bracket we have in our strategic plan to be delivered in 2020, which, as you'll recall, is 8.5%. So we are approaching the lower range of that bracket.

Let me speak about the free cash flow and more specifically about the issue we have encountered in North America with the go-live of the Oracle Cloud solution. We went live with the Oracle Cloud solution on 24th July. We have had other go-lives and implementations before that. We went live in parts of Asia, Australia, the Middle East and the UK, but this was the very first time we went live with the cloud solution.

And whereas you would ideally like these processes to go smoothly, the implementation in this particular case did create some inevitable issues which has all to do with the complexity of the solution as well as the scale. And the way that the issues manifested itself was largely in delay of our ability to build our clients for our services – so we saw a delay in August for the July billing; we saw a delay in September for the August billing – and we are now in October, and we are seeing that we're catching up on the delay in billings.
But the billings itself, the invoices didn’t reach the clients early enough to actually get the cash in, in the third quarter. And that’s why we have a delay in our cash generation resulting from the billing issues in North America of around €50 million compared to what we would have and have expected to generate. We have a number of actions in place, working with our partners, Oracle and Accenture, and we expect these actions to be able to remedy the situation in the fourth quarter.

So for the year-to-date, organic growth of 2%. And I would stress again that quality for us is more important than organic growth at any cost. So the quality of the work we take in is important. Improvement of the EBITDA operating margin to 7.8% compared to 7.3% last year, which, in absolute terms, caused an increase of EBITDA by 14%. And then as a result of all of that, of course, we’ve also been able to significantly reduce our net debt.

And with that, I’ll turn it over to Sarah for further colour on the segments.

**Sarah Kuijlaars**: Thank you, Peter. And good morning everyone. I’m pleased to share a solid set of financial results for Q3 2019, demonstrating continued revenue growth and margin improvement. But first, let’s start with a project example here from Germany. We have been appointed the lead partner in a consortium handling the project supervision of a material and long-term rebuild and extension of stations and tunnels, supporting enhanced mobility in the growing Munich Metropolitan Region.

So now let’s turn to the financials on slide 7. It’s worth highlighting that these figures are presented in a consistent basis to previous quarters, in line with IAS 17. Our key metrics under IFRS 16 are only marginally different, and for further details, I refer you to our interim statement shared back in July.

So starting with net revenue for the quarter: as Peter mentioned, we reported €642 million, a 5% improvement year-on-year and an organic growth of 3%.

Looking at each region’s contribution in turn, North America continues to perform well with a strong 7% organic growth for Q3 and a 9% organic growth in North America year-to-date. In addition, backlog growth remains strong.

Our Environment business, now more than half our North American business, continued to be very strong covering both the public and private sector. It continued year-to-date both double-digit percentage growth and percentage EBITA margin. Water, our second largest business, also continues to contribute strongly to these excellent North America results. Latin America, with 3% of our business, also showed strong growth for the fourth quarter in a row, led by Brazil. EBITA margins continue to be positive showing a marked year-on-year improvement.

Turning to Europe and Middle East, Continental Europe net revenue development was positive. Margin delivery continued to be strong in the Netherlands and strengthened in Germany. The UK business continues to grow. However, Brexit uncertainties are beginning to undermine the strength of backlog. The recent UK Spending Review announcements have not yet translated into firm commitments.

However, we have a well-diversified portfolio. Our buildings, particularly in the private sector, and the Environment business are proving to be very robust to date. In addition, our growing digital capability resulted in the recent important contract with Transport for London.
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 in a challenging market environment.

On to Asia and Australia Pacific. Australia showed strong positive growth for Q3 and positive year-to-date growth. Operating EBITA margin continues to be excellent. The announced heads of agreement with Evocra will drive further growth opportunities involving PFAS in Australia and worldwide. Asia showed slight positive growth year-to-date led by China and an improved operating EBITA margin for both Q3 and year-to-date compared to last year. We continue to focus on our portfolio footprint and are finalising the divestment of our non-material assets in Indonesia.

And finally, CallisonRTKL delivered revenue of €167 million year-to-date, representing a slight revenue decline. Kelly Farrell, our recently appointed CEO, continues to revitalise the team with some fresh senior talent, has stabilised attrition, which will help the team to win more profitable work, resulting in stronger business results.

So now turning to slide 8. Our operating EBITA is up at €53 million, an improvement year-on-year of 17%. This resulted in an improved margin of 8.3%, up from 7.4% last year, our strongest quarter three operating margin since 2015. This is the result of our continued discipline in project delivery. Our program, Make Every Project Count is becoming truly embedded in all that we do. Most regions have contributed to this margin improvement, in particular Asia and Latin America, which you will recall we highlighted as an improvement area at year-end 2018.

Turning to net revenue, as highlighted in the previous slide, we have delivered an organic growth of 3%, which is the ninth consecutive quarter of organic growth. Net working capital has increased to 19.1%. This is a disappointing development, driven mainly by a temporary setback in North America due to the implementation of the new Oracle Cloud solution.

Given the materiality of the North America business, this has inflated our overall net working capital position by about 2%. We are confident that we will return to a more normalised position by year-end. And now to net debt. Resulting from our year-to-date free cash flow of €12 million, our debt position remains healthy at €386 million. With a growing EBITDA year-to-date of €174 million and a further debt reduction in Q4, this sets us up for a strong year-end leverage position.

So to conclude, we continue to grow our revenue and improve our operating margin. We had a particularly strong all-around business performance from North America, Netherlands and Australia and strengthening performance from other regions. Our cash flow was temporarily held back in North America, but our actions undertaken will allow us to return to a more normalised situation in Q4 with a sustained, strengthened balance sheet and strong leverage ratios. We remain committed to build on these results quarter-on-quarter.

And I now pass back to Peter.

Peter Oosterveer: Thanks, Sarah. Let me now speak about two things which we consider significant for a number of reasons, and hopefully those reasons will become clear as I lead you through the next couple of slides. So the very first one is a very significant win with Transport for London where we bring together the capabilities we acquired when we bought EAMS, which
was about a year ago, with the relationships, the horsepower and the platform Arcadis has. And for a number of reasons, this win is significant.

First of all, the magnitude of the project; the size of the award; the potential duration – this has the potential to become a multiyear involvement – and last but not least the spinoff we expect to get out of this particular project. And what the project does, it brings the digital capabilities EAMS has and ultimately delivers a single asset management tool for London Underground.

Now why is that important? I think it probably speaks for itself, but a more optimum use of the assets, particularly for a client such as Transport for London who runs and operates a significant number of assets – a more efficient use of the assets will create the efficiencies they are looking for. It will improve the safety, the reliability and ultimately the affordability of the use of the assets as well and as such will then, of course, serve the passengers – the many, many passengers who use the underground in London on a daily basis.

It is also significant for another reason. In a prior call, we mentioned to you that we are in the process of forming a new entity within Arcadis, an entity which will bring together the capabilities we acquired through the acquisition of EAMS and SEAMS. That was an acquisition we did in 2018. Combine it with some existing capabilities, which already were present in Arcadis and create this new business entity to increasingly deliver the digital services to the clients. So it is the beginning. And this win is a fantastic shot in the arm of the new entity to ultimately allow us to deliver the data-driven products and the solutions which clients increasingly need from companies like us.

And when you look at the opportunity here, I hope you can easily see how we can expand the experience we're gaining here into other places in the world where significant assets are being utilised in larger cities. So something we consider to be an important – a very important step in our evolution.

The other one we consider to be important – and I’m moving to the next slide now – is the partnership we agreed with Evocra. Evocra is an Australian company, which is a company we have been working with. Now PFAS recently hit the news in the Netherlands, but PFAS in itself is not a new issue. In fact, we have been working on PFAS-related projects for the last 15 years with a number of – large number of projects in a large number of countries. And we already, therefore, have a significant base of experience and expertise, and the patented technology which Evocra provides is just a welcome addition until the expertise we already have. Even though Evocra is an Australian-based company, the intent, obviously, that we will use this technology globally for situations and clients who require this particular technology.

We have tested the technology on two projects in Australia. And I’ve become convinced that this technology is a very workable solution for what is increasingly becoming a significant environmental issue. It’s just not being recognised as a significant environmental issue, but the momentum is absolutely building. So this is what we consider to be a significant growth opportunity for us.

If I then wrap up everything you’ve just heard Sarah and I say, then I’ll do that by utilising the last slide, the summary. As I said in my opening comments, our environment obviously has challenges and will continue to have challenges in the future: Brexit, the US-China trade war, the other things I mentioned, environmental challenges. But I believe that as a company, we’re
navigating these challenges as good as we can, and I believe we get increasingly better at it as well.

I’m actually pleased to report that this quarter we have really no operational surprises in our underlying business that created the strong performance we have delivered in this quarter. Our key markets remain obviously strong. The things which drive our business are urbanisation, mobility, infrastructure, but also environmental issues, climate change, resiliency and sustainability.

And when I see – and when I look at how we have performed – and I relate it to the three strategic pillars we introduced to you back during the Capital Markets Day in late 2017, then I believe that we are showing progress in all of the pillars. The very first pillar we introduced to you is People & Culture. We haven’t really talked much about People & Culture in this particular call, but I really want to highlight that our voluntary turnover, which is an important measure for us, is coming down. And that is exactly what we wanted to achieve.

I’ve mentioned in several occasions that I consider the voluntary turnover which we had in the past too high. We are definitely trending down and trending down quite significantly. And my expectation is that we will continue to trend down further. The second pillar we introduced to you at that time was Innovation & Growth. The creation of the new digital entity, the partnership we’ve just announced with Evocra, I think, are all signals and strong signs of – that we focus and advance our Innovation & Growth agenda as well.

And our last pillar was Focus & Performance. I believe that the changes we have made in the number of regions, more recently, in particular, in Asia, the simplification we have created in Asia, the simplification in structure and the greater selectivity to focus on those countries, which really give us a right to play, are all supportive of the Focus & Performance pillar.

Latin America I mentioned already as well. It was a painful process to rightsize the organisation, but we now have an organisation which is fully aligned with the market opportunities we see. I did speak already about the cash flow issue in North America, which is a temporary issue. We have a number of actions in place in conjunction with partners, Oracle and Accenture, which have already been in place for some time, and we’re starting to see the improvements, which give us the opportunity to remedy the situation in the fourth quarter.

I did speak already about the capabilities in environmental consultancy and digital. And in fact, we have two slides for you to provide you a full picture. And then, lastly, the divestment process of the non-clean energy assets is progressing. We always explained that we have an intent to have an agreement in 2019. We still aspire to have the agreement, but not at all costs. And therefore, we do share with you that we see a potential for that to extend into the subsequent quarter.

In closing, I have – and I hope I’ve been able to convince you – have further confidence that we will be able to deliver on the targets we have shared with you for 2020.

And with that, I think we’re ready to take questions.

Q&A

Operator: Ladies and gentlemen, we’ll start to question and answer session now. If you have a question, please press star one on your telephone. So star one for your questions.
The first question is from Mr Luuk Van Beek, Degroof Petercam. Your line is open. Please go ahead, sir.

**Luuk Van Beek (Degroof Petercam):** Yes, good morning. First of all, a couple of questions about the Oracle implementation. You talk about remedying that in Q4. Is it a temporary fix or really a permanent solution to it? And also, can you comment if this – if the remedies that you implement will help to avoid things like this with the future implementations in Continental Europe, for example? And finally, if it has had any impact on your operational part from sending out the bills later, the impact on your employees or your project execution?

**Peter Oosterveer:** Very good questions, all good questions. So let me take them one at a time. So the fixes and the changes we've made are permanent. So a number of the fixes have already been made back in the August time frame when we became aware of some of the issues. And we continue to implement further fixes. Most of the fixes we need to make to make this a permanent solution have been implemented. So there's still some tweaks to the system, but nothing to be overly concerned about. So that's why we are confident to call this a permanent issue, which we will be able to, indeed, remedy in the next quarter.

Then the second question is about the future. Yes, there is clearly an opportunity to learn from this experience. This was the very first cloud experience we have. The subsequent waves, which we still have in store, are all on the cloud as well. So clearly, we take the learnings with us and expect that the next implementations will go much smoother.

And then, lastly, does it impact the operation at large? No, it doesn't. The big impact is indeed the ability to send out invoices in a timely manner. Now where it does have an impact, and that is inevitable with systems like this, is that it does create changes in work processes. And that's why, in fact, you do these sorts of things. You do them to become more consistent, to have a more consistent base across the globe. So in some cases, there's an impact on people whereby a work process they used in the past is now a change. But I would describe that as a fairly minor change. So in terms of impact on the operation, the biggest impact really has been the ability to send out our invoices in a timely fashion.

**Luuk Van Beek:** Yes. And then two quick follow-up questions or actually other questions. One is on PFAS you said that you’ve done a lot of those projects over the last 15 years. Can you indicate if that's a big, big part of your Environmental business or just one of the many technologies that you offer? And the second thing is the Middle East still shows quite a significant revenue decline. On the previous call, you said that you expect it to bottom out next year. Is that still your expectation?

**Peter Oosterveer:** So let me start with PFAS first. So the size of the business we already guided in PFAS in 2018 was in the tens of millions of dollars of service revenue. So I would say that was already significant. And the expectation looking at the market and the recognition that this is increasingly a problem – an environmental problem to deal with the expectation, of course, is that we will be able to grow that business. That’s why we did describe it as a growth opportunity.

In the Middle East, our selectivity has indeed continued to have an impact on the top line, which is something we have fully accepted and was our intent. The quality of the work we are getting in even though it is challenging business circumstances, as Sarah already mentioned, is indeed improving. And the expectation is indeed that that we are at the point where the bottom is
inside, the bottom in terms of further reduction of the top line. That doesn’t mean that next quarter, I’m expecting, and I’m suggesting to see, a pickup in revenue, but the bottom is inside.

**Luuk Van Beek:** All right. Thank you.

**Operator:** The next question is from Mr Henk Veerman, Kempen & Co. Your line is open. Please go ahead, sir.

**Henk Veerman (Kempen & Co):** Hi. Good morning, team. A couple of questions from my side. So firstly on the EBITA margin, could you please quantify what the impact was of the one additional working day? Thank you.

**Sarah Kuijlaars:** Yes. So I think we highlighted last quarter that the one less working day held us back by 0.5%, and that has then helped us for this quarter. And going forward into Q4, we don’t see any impact year-on-year from the working day difference.

**Henk Veerman:** Okay. Because I mean the margin is 8.3%, right, and if I look, absolutely, it was €53 million of EBITA. Last year, you mentioned that project impairments had a negative impact on your margin as well. And if I sort of adjust for these two impacts, is it fair to say that the underlying margin improvement has not been that high?

**Peter Oosterveer:** Well, I would say, if you break it down by region, I think that the margin improvement has been significant to go to 8.3%. For the first time in a long time, I think there’s a significant improvement. And when we break it down by region, then we see improvements in virtually all our regions.

**Henk Veerman:** Okay. Thank you. On the working capital, I saw that the aging of the gross receivables at the sort of the more than 120 days outstanding has increased by €10 million. Has there been any like incremental provision takings in the quarter to the P&L?

**Sarah Kuijlaars:** Yes. So you’re right. So there has been an increase in the aged receivables, which, of course, is disappointing. That is mainly in the Middle East relating to one client, but the dialogue with that client is positive, and we’re looking forward to resolving that. But you also see that, indeed, we did increase our provision slightly in Q3. We’re comfortable with the provision position we have.

**Henk Veerman:** Okay, clear. On Oracle – Oracle ERP system, I mean there has been some negative news on the cost that they charge especially when sort of these kind of operational issues emerge. Could you please comment on the CAPEX target for the full year? Is it still €50 million or should we expect a little bit higher number?

**Sarah Kuijlaars:** No. So CAPEX, we’re looking good. We’re trending a good €10 million lower than last year. And absolutely, we believe we can manage under €50 million for the year. I think it’s important as we go into operations, then you no longer charge to CAPEX. You start charging to the P&L, and that is beginning to happen in North America in Q3.

**Henk Veerman:** Okay. Sorry, €10 million lower, does that mean it’s about €60 million then, or is it still like €50 million?

**Sarah Kuijlaars:** So year-to-date we’re currently €30 million and last year were at €43 million year-to-date.

**Henk Veerman:** Okay. That’s clear.
Peter Oosterveer: Henk, if I could maybe add to your question about Oracle because you made reference to what has been in the public domain on Oracle. And whereas these issues, as they are described in the public domain as significant, those are not issues we have. I mean our issues are with the functionality. And we don’t expect to see as a result of the issues we’ve had that we will be – we’ll need to be careful in picking the right words – used by Oracle as some of the articles suggested in the public domain.

Henk Veerman: Okay. Okay, perfect. Thank you very much. Those are my questions.

Operator: The next question is from Mr Martijn den Drijver, ABN AMRO. Your line is open. Please go ahead, sir.

Martijn den Drijver (ABN AMRO): Yes, good morning, Peter, Sarah and Jurgen. First question on working capital. If I look at accounts’ receivables, those developed positively by €73 million. If I look at accounts payable, that’s a positive €4 million. So that’s a €77 million positive. Net working capital was down €70 million. So that’s a total delta of €147 million. I assume that is all unbilled receivables. That’s question one. And the second question is that sounds – looks rather high if I link that to gross or net revenues, which is 18% or 22%. What’s happening here? That’s question one, please.

Sarah Kuijlaars: So I’d like to highlight the backup slide, slide 14 which breaks down those movements. And I think you’re – so indeed between Q2 and Q3, there were various movements, various anomalies really both heavily influenced by the Oracle implementation in North America. It is our biggest region. So it’s got some quite material figures there. And absolutely, it’s worth highlighting that big increase in the work in progress is driven by North America. Yeah, and that’s linked to the struggle we’ve had with the billing. As Peter mentioned, that’s now accelerating. So we are absolutely anticipating that moves from WIP into receivables and ultimately into cash in Q4. Again, it’s worth highlighting that in June we anticipated the implementation of Oracle, so there’s some advanced billing there. So that skews the Q-on-Q movement. But I encourage you that there are several anomalies in play here, and we are working towards the stabilised position in December.

Martijn den Drijver: So to summarise, even if I adjust the €147 million, you have €50 million you say that’s normal unbilled receivable movement getting to growth basically?

Sarah Kuijlaars: Yes.

Martijn den Drijver: Okay, still seems a bit high. But okay. Moving on to the second question on the Oracle implementation. I just want to get this absolutely clear. When were you able to invoice again as normal?

Peter Oosterveer: So if I just take it one by one. So we went live in July. That meant that in August, which is when we typically send out the July invoices, we had the biggest shortage of ability to invoice, and that’s continued into September. Now we’re in October, we’re invoicing for September, and we are starting to catch up. And the expectation is that by the end of this month, the end October, that we will have been largely caught up on the invoices, which are outstanding, if you like.

Martijn den Drijver: Okay. So that basically means your invoicing again is back to normal, still a bit of a – but they will still be impact – sort of more modestly impacting in Q4?

Peter Oosterveer: Correct.
Martijn den Drijver: Okay. Got that. Thank you. Is there any way that you can quantify that impact or is that rather difficult?

Peter Oosterveer: Quantify other than what we have done with the €50 million cash?

Martijn den Drijver: Yes. So let’s say, are you expecting that you’ve caught up €40 million of the €50 million or is it €20 million? Or some sort of guidance there would be appreciated.

Peter Oosterveer: No, we’ll probably not provide that.

Martijn den Drijver: Okay. Moving on to the order backlog year-to-date. Q1 was plus 4%, Q2 was plus 3%, so already down. Year-to-date Q3 is minus 3%. That suggests that the order intake in the third quarter was minus 15%. Now I appreciate that you are more disciplined in the Middle East and we have the UK, and you’re more disciplined on projects in any way across the board, but minus 15% sounds rather high. Can you elaborate a little bit on that?

Peter Oosterveer: Yes, there’s two regions which do contribute, and you already mentioned those. That’s the Middle East and the UK. When you then look quarter-over-quarter or year-over-year, I should say, you compare this quarter – third quarter 2019 with the third quarter in 2018 we’re actually performing much better in terms of order intake. So it does appear that there is no impact year-over-year in these quarters.

Martijn den Drijver: Okay. I’ll leave that for now. And moving on, RTKL, new CEO in place, obviously that takes some time before that has effect, but minus 5% versus minus 3% in the second quarter even though attrition was stabilising. Can you shed some light on what’s happening there? What’s causing the top line decline?

Peter Oosterveer: I think there’s probably two main reasons without going into an awful lot of additional details. The two main reasons are that, first of all, we’re still dealing with the outflow of the strategic review, which we did conclude a little over a year ago, but has caused quite a bit of uncertainty. That reflected itself in a larger voluntary turnover of our people than we would have liked. That has been significantly reduced in the meantime, but still in the architectural world, particularly when senior people leave, they tend to take the work with them. They tend to take the client relationship with them as well.

So the positive sign is that we have greatly reduced the voluntary turnover, and Kelly can certainly take credit for that. Secondly, we have been able to hire a number of senior people who we expect to bring the work back into the company. So those are some internal reasons. And then, lastly, because of the significance of the business and particularly in retail significance of the business in both North America as well as China, we’re starting to see the impact of the US-China trade war.

And that’s why I did mention it in my opening comments as one of those issues in the world, which has the potential to impact our business. And the entity in Arcadis which is impacted the most from that is actually CallisonRTKL because of the significance of the work they do in retail. And if goods are not being shipped anymore as quickly and as volume in those as they used to do, then it tends to have an impact on the retail clients.

Martijn den Drijver: Okay, okay. Two more, if I may. On ALEN, you previously said that the transactions might take place in two tranches, the large one later than the smaller one. Is that still – are those still your thoughts? Or could we expect the smaller entities to be sold before year-end? Or is that slipping into Q1 2020 as well?
Peter Oosterveer: Given where we are with the potential parties or the parties who are now in the due diligence, I would probably try to refrain from giving you too much detail because it will probably make our position not necessarily stronger.

Martijn den Drijver: Okay. I appreciate that. Okay. And then on the accounts receivables overdue to 120 days. Obviously, one popped up from the 31-120 into that particular range. Are there any other projects in Middle East that are not in the overdue 120 days, but we could actually move into that area in the next couple months that you are already aware of, projects that have issues?

Sarah Kuijlaars: No. So I think, clearly, in the Middle East, structurally, we have a higher DRO than elsewhere in the group. So they tend to be older, but those particular ones that shifted from the – into the old buckets they relate to one client, which we’re working very hard to resolve.

Martijn den Drijver: So no similar projects still in safety zone?

Sarah Kuijlaars: Yes.

Martijn den Drijver: Okay. And then the final one, and then I’ll leave it to my colleagues. You haven’t mentioned France in the press release. That always – that has been a lag in the first half of the year. Can you tell us a little bit about the trends in the quarter with regards to France?

Peter Oosterveer: Yes. I think that was actually in the presentation, if I’m not mistaken. Yes. It was actually on slide – the slide Sarah used. That France is still underperforming, the slide which had the third quarter segment revenue highlights – although we might have not specifically said it, but we do highlight that France is still underperforming. Although we are starting to see improvements also caused by a change in management we actually made and subsequent changes in the next layer which were made by the new CEO of France. But it’s still not meeting the goals we’ve set for ourselves for 2020.

Martijn den Drijver: Okay. And now we’re in the third quarter. It’s coming closer and closer. Should we – if this performance continues – if the improvements remains modest or actually it doesn’t actually show, what are your alternatives? Can you elaborate a little bit there?

Peter Oosterveer: Yes. I probably would not want to necessarily specifically speak about France and the alternatives. But I will say that – and we’ve communicated that before that as part of our ongoing portfolio assessment, we are continuing to look at where we can play, where we have the right to play as we’ve done in the Middle East, as we have now concluded in Asia. And we will definitely look at other regions where it appears that we have a presence which is not necessarily meeting our expectations. And if we come to the conclusion that there is no improvement in sight, then there’s different things we potentially have available, as we’ve done in Asia as well. You could either shut it down or try a management buyout, which we have done in, for instance, Indonesia. So those are the actions we will consider, but I’d rather not comment on France specifically at this point in time.

Martijn den Drijver: Okay. Thank you very much for taking all my questions.

Operator: The next question is from Mr Bart Cuypers, KBC. Your line is open. Please go ahead sir.
Bart Cuypers (KBC): Hi, good morning. Thanks for taking my question. Yes. It’s boiled down to one or maybe two now. So we had the overdue receivables. You’ve talked about the 120-day-plus. But unless I missed it, yes, there is not much being said about the 31-220 days, where you see also an additional uptake of about €15 million. Can you perhaps give some more colour on what is happening over there? What drives this change?

Sarah Kuijlaars: Yes. So I think, first, it’s worth putting it in context that, of course, year-on-year we are showing an improvement. We fully recognise that’s not good enough, and we continue to prioritise managing these overdue amounts and getting them paid, but again the overall view of this is distorted by North America in this quarter, but across the globe there remains focus on managing these overdue receivables and getting the cash in the door.

Bart Cuypers: Okay. So, it’s not an evolution that you see from the – through the one to the 30 days, for instance, that you’re seeing particular reasons or particular activities migrating more easily to that particular buckets over the last quarter?

Sarah Kuijlaars: No. So I think – so North America plays a big role. We’ve already commented on the Middle East, where the debt’s older than they should be. And then we see pockets pop up in different regions, but we believe it’s absolutely manageable, and there will be, as I say, laser focus on this in the remaining 90 days of the year.

Bart Cuypers: Okay, all right. Thank you. Yes. Then last question on the ALEN divestment. Can you give some information? And so you indicated that there are non-binding offers that you have been – you have received. Can you give an indication on how many different parties that you’re currently in negotiations with?

Peter Oosterveer: No, I can’t. This morning, I was lured into saying that it’s a pair, and they launched vote pi, but I’m not going to suggest that it is a pair. So I’m not going to suggest it here either. That would not be strengthening opposition, if you appreciate it, but it’s not a pi.

Bart Cuypers: Yes. Okay. But there are multiples in any case?

Peter Oosterveer: I’ll leave that conclusion to you.

Bart Cuypers: Okay. Thank you.

Operator: The next question is from Mr Hans Pluijgers, Kepler. Your line is open. Please go ahead, sir.

Hans Pluijgers (Kepler Cheuvreux): Yes, good morning all. Yes. All the questions have already been tackled. First, looking at the US. The Environment business, you said it was growing quite well. Could you give maybe some detail on the few tech solutions? How fast that that’s growing currently? And also, what you see there in margin development?

Then, secondly, also on the Global Design Centres, you indicated at the half year that was growing by about 50% of revenues going through that Global Excellence Centres. Could you give maybe some detail on the few tech solutions? How fast that that’s growing currently? And also, what you see there in margin development?

And secondly, you indicated you had a few options when the country, let’s say, is not performing as expected, but it’s also maybe one option where you could maybe also look at strengthening your position? Is that also an option you consider not with big acquisitions, but maybe small
add-ons? Is that also something you’re looking at? And my last question for the moment is
you indicated that you were catching up on the issue in the US with the receivables, invoicing.
However, does it also involve some additional cost in Q4, which we have to take into our
numbers?

**Peter Oosterveer:** Well, you started your point, Hans, saying that all questions have been
asked, but you still came up with five new questions. So we’ll take one at a time. On
Environmental FieldTech, so that was your first question. How is Environment actually
performing in the US? I guess that was the question, and FieldTech service being part of that.
Well, needless to say, and I think Sarah did mention that we’re very pleased with the
performance of our Environmental in North America for a number of reasons: a) because of the
significance of it. It is the largest business for us in North America. We believe that because
of what is happening in the world that the experiences we are gathering increasingly in
North America will help us to build our Environmental business elsewhere in the world as well.
So, there’s another reason why we’re very proud and pleased with it.

I think the performance also probably is counterintuitive in that a lot of people think that
because of some rhetoric which is being used in the public domain that in America there is less
care for the environment than there should be. And we don’t necessarily see that reflected in
our numbers at all. Now part of that is because of the clients we work for. We still take their
responsibility. But let me just summarise by saying that, of course, we’re very happy with the
performance of Environment. It continues to really outperform in terms of growth, in terms of
profit contribution as well. And of course, the advantage for Arcadis or the beauty is that we
will be able to leverage that experience in other places as well. And we see increasingly
opportunities to do so.

On the GECs, yes, we have said that we wanted to grow the GECs throughout 2019 with about
15%, 15% of the population that is. So over the year, we wanted to have – or at the end of
the year, we wanted to have 15% more of people in GECs than at the beginning of the year.
We’re still on the trajectory to get there.

Now of course, what is impacting it somewhat is that in places which appears to be or are a
heavy user of the GECs, that we see some pressure on the business. Middle East is one. UK
is another one. But that being said, that’s probably be levelled by Australia, which is also an
heavy user. So for 2019, we still expect about a 15% growth of the GECs. And for 2020, just
to give you a bit of an insight in what we’re planning to do next year, although we haven't
finalised the business plan, the expectation is that we will see at least the same level of growth,
if not more, in the GECs.

So the opportunity is not being saturated. Clearly, there's much more opportunity for GEC usage going forward.

In Asia, you asked a question about whether we are done with the Indonesian divestments.
Yes, that means that we have now completed all the actions we had identified. They included
Indonesia. They included pulling out of Taiwan. They included pulling out of Korea. They
included reducing our footprint in Vietnam to only Ho Chi Minh City, and that's being completed.
And the last bit still to be completed is – but it's really small is to eliminate our presence in
India in the GECs, but that is just going after small local work in India. That is something which
we still need to formally complete because there’s still some projects we’re finishing as we speak.

But other than that, we are done in Asia. Then you asked the question rather than only reducing your footprint, do you also see opportunities to strengthen your footprint or your presence in some places? Definitely that is something we’re looking at, particularly in certain businesses. The EAMS and SEAMS acquisitions we did, albeit they were all both cases U.K.-based, they are intended to help us in other places as well.

Opportunities to further strengthen our environmental position we will look at. But none of them will be as big as the things we did, say, four, five years ago. It will all be very measured, and it will all be at a much smaller scale to particularly try to fill niches we have in our service offering. And then, lastly, you asked the question, catching up on the receivables in North America.

**Sarah Kuijlaars:** And then costs. So, I think...

**Peter Oosterveer:** Yes, costs yes.

**Sarah Kuijlaars:** So as I mentioned earlier, the — we’re no longer capitalising the investment in Oracle in North America, and that falls through then to P&L. And those costs were taken in Q3. And any similar type of costs will be taken into the P&L in Q4. But I think it’s worth highlighting that year-to-date margin for North America remains ahead of last year. So we’re absorbing those costs as we grow the organisation.

**Hans Pluijgers:** So for, let’s say, catching up, you don’t need that really additional costs that we have to take into consideration in Q4.

**Sarah Kuijlaars:** Not more than Q3? No.

**Hans Pluijgers:** Okay. And then maybe coming back on the US environmental business, especially FieldTech Solutions. Let’s say, environmental is now already having margins clearly above the mid — in double-digit area or especially also FieldTech Solutions that was, let’s say, in the past seen as maybe business which could not reach the double digit, but is that still the case? Or do you see already, let’s say, a better development there?

**Jurgen Pullens:** Hans, this is Jurgen here. If you look specifically to Arcadis FieldTech Solutions, that is a double-digit margin business. That is a part of our, say, environmental consultancy in the US. But if you look to specifically Arcadis FieldTech Solutions, that is a really good business.

**Hans Pluijgers:** And the environmental, is it also double-digit in US if you could give maybe something on that?

**Sarah Kuijlaars:** Yes.

**Jurgen Pullens:** It has a good margin development, yes.

**Hans Pluijgers:** Okay. Thanks.

**Operator:** Ladies and gentlemen, you can still press star one for your questions. The next question is from Mr Quirijn Mulder, ING. Your line is open. Please go ahead, sir.

**Quirijn Mulder (ING):** Yes, good morning, everyone. A couple of questions from my side. With regard to Brazil first, small questions. Situation was loss-making for ALEN. That was
probably certainly the case in the third quarter as well. So are you still keeping your outlook that you will be breakeven towards the end of the year with regard to ALEN, given the delay in the second gas-to-power plant construction?

And then in the operation of Brazil, can you give an indication about the improvement of profitability there, given the – and with regard to margins what’s happening there? Then with regard to order book, minus 3% organically, that is partly because of UK. Can you give an indication about the decline in the order book in the UK? So what is the effect of the Brexit on the order book at this moment?

And then my final question on the US I’m still somewhat surprised about what happened with the invoicing and/or lack of invoicing. I think that you, Mr Oosterveer, were quite experienced in the whole process with regard to implementing an ERP system also at Fluor. So what has really went wrong where – because you were really well prepared for that work, also given the, let me say, the early invoicing already in July. So maybe you can elaborate on that what was really, let me say, the background that was not functioning as expected?

Peter Oosterveer: Let me start with the last one first, Quirijn, because I’m sitting here thinking about my experience indeed from the past, and maybe I should have made myself the project manager of the US implementation to make it go smoother. But joking aside, to explain what has happened is the invoicing process – when you speak about invoicing, you think about well – you may be thinking about, well how difficult can that be because you send out a bill to a client and then you expect the client to pay.

But let me assure you that the invoicing in the US is probably the most complicated invoicing we will see in Arcadis, simply because of the demands of a particular category of clients, and particularly, I’m talking now about public clients. If I tell you that if an average person works 40 hours a week, you probably think, well, you just charge 40 hours to a particular number, and that number ends on an invoice and the invoice goes to the client. Well, we have instances where someone needs to break down the activities by quarter. And that means that you don’t have one line item for invoice, but you have 165 line items for a week. And all of that is, of course, adding to the complexity of the US invoicing.

So whereas the whole process sounds like how difficult can it be, let me assure you that it is more difficult than one would probably give it credit for. Now that being said, am I disappointed that we run into these issues? Clearly. I mean I had hoped that because of the additional time we’ve given ourselves in view of the delay. We took early in the year that this functionality would run smoother than it actually does. So I’m not sitting here being proud of what we did. I’m sitting here being disappointed of what we have experienced in North America.

I am at the same time positive about the actions we’ve taken, the involvement from Accenture and Oracle, which includes an involvement from the highest level in both companies to make sure that we resolve these issues as quickly as possible. So yes, my experience would have also suggested that this would have been a little smoother, but unfortunately that wasn’t the case, and it clearly is a disappointment. Let me take another question you asked a question about Brazil and you asked a question about the Brazil as in the Brazilian operation, correct?

Quirijn Mulder: Yes, and the ALEN – the participation.
**Peter Oosterveer:** Yes. So the margin improvement – or you might reference to the many quarters in a row that Brazil was loss-making and, of course, we’ve turned the corner. Now because of the significant reduction, Brazil is now no longer as significant in terms of contribution as it was in the past. So it is from a much smaller basis now than it was four or five year ago. But we’re still very pleased with the turnaround, and we’re pleased with the fact that we are now writing black figures. But it is all relatively small in absolute terms, and in percentage terms it is also relatively small, but it is positive, and that's what is encouraging.

**Quirijn Mulder:** Okay. And then with regard to the income from participations, especially with regard to ALEN?

**Sarah Kuijlaars:** So indeed, in Q3, there was still a loss in ALEN of a couple of million, and that's linked to the ramping up from an operational point of view on the gas-to-gas plant. But that trend is positive, and absolutely we're aiming to breakeven by the end of the year.

**Quirijn Mulder:** Okay, thank you. And the UK order book.

**Sarah Kuijlaars:** So on the UK, so the seasonal pattern there with the public Spending Review and, unfortunately, because of my government is focused on other issues, there's been a lot of talk about investment in infrastructure, but that hasn't yet been translated into firm commitments. Now we hope that will come in Q4, but just highlighting the fact that given they are distracted by Brexit that's – the timing of those commitments is less certain than in previous years.

**Quirijn Mulder:** So is the order book between 5% and 10% lower year-on-year, for example?

**Sarah Kuijlaars:** Yes.

**Quirijn Mulder:** Thank you.

**Sarah Kuijlaars:** Yes. We hope that's timing, but there's a lot of uncertainty in terms of when they will translate that into firm commitments and firm orders for our order book.

**Quirijn Mulder:** Okay. Thank you.

**Operator:** There are no further questions.

**Jurgen Pullens:** Okay. When there are no further questions, I would really thank you for your participation and questions, and then I will close this conference call. Thank you.

**Operator:** Ladies and gentlemen, this concludes the conference call. You may now disconnect your line. Thank you for joining and have a very nice day.

[END OF TRANSCRIPT]