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ARCAD.AS - Arcadis NV Acquisition of Callison M&A Call

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Good day, and welcome to the Arcadis Callison Acquisition Analyst Conference Call. At this time, I would like to turn the conference over to Mr. Joost Slooten. Please go ahead, sir.

Joost Slooten - Arcadis NV - IR

Good afternoon and good morning. My name is Joost Slooten. I'm the Director of Investor Relations for Arcadis, and I'd like to welcome you this Arcadis webcast. We're here today to discuss the Company's announcement this morning of the acquisition of Callison by Arcadis. With us during the meeting are Neil McArthur, Chief Executive Officer for Arcadis; Renier Vree, Chief Financial Officer for Arcadis; and John Jastrem, Chairman and CEO of Callison. The PowerPoint presentation that is used in today's session is available through the investor section of the Arcadis website at www.arcadis.com/ir.

Just a few words about procedures before we start. We are here today to discuss the acquisition of Callison and management will not take questions or provide any comments with regard to Hyder Consulting PLC. We will begin with formal remarks, and we call your attention to the fact that in today's session management may reiterate forward-looking statements which were made in the press release. We'd like to call your attention to the risks related to these statements, which are more fully described in the press release and on the Company's website.

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

Neil McArthur - Arcadis NV - CEO

Thank you, Joost, and welcome, everybody, to the call. And I'm turning now to page three. There will be three of us that at various points come in and out of the presentation -- myself, Renier Vree, our CFO, and we're very happy that the Chairman and CEO of Callison, John Jastrem, will be with us on the call to introduce Callison to you.

I'm now on page three, turning to page four. Arcadis will create leadership in high end architecture and design through the acquisition of Callison. Gross revenues for Callison over the last 12 months are $167 million, with an adjusted EBITA of $25 million and an employee base of greater than 1,000 people.

Callison is a leading architectural firm, operating in the US, in China, in Europe, the Middle East and Mexico, and today is the number one in retail globally and has strong positions in mixed use hospitality and interior design. Their clients comprise leading global developers and well known A-brand consumer goods companies. Partners in management are committed to Arcadis and will be staying with the firm. There's an excellent fit, and we'll share that with you later, with Arcadis and our subsidiary, RTKL, and Callison is headquartered in Seattle on the West Coast of the United States.
Turning to page five, I'll hand over to Renier Vree, our CFO, to go through the deal terms.

**Renier Vree · Arcadis NV · CFO**

Yes. Thank you, Neil. And just to summarize the key metrics in terms of revenues, $167 million. Net revenues slightly below that; the difference is largely outsourcing and sub-contracting. The adjusted EBITA over the last 12 months is $25 million and Callison has over 1,000 employees. And this transaction, on page five, is a cash transaction and it is largely funded through a new credit facility of $120 million that we have agreed with the syndicate of banks that support Arcadis already for quite some years. And the remaining part of the funds come from cash that we have available within Arcadis.

We expect the closing of the deal to happen by the end of the third quarter, and main closing condition is the government approval in Beijing that we need to obtain. The earnings per share will improve from the date of the acquisition and the expected contribution of that is at EUR0.15 earnings per share. The total cost we have made to prepare this transaction, so acquisition-related costs, are approximately EUR3.5 million, and those costs are taken in the second and third quarter of this year. Neil?

**Neil McArthur · Arcadis NV · CEO**

Turning now to page six, with Callison we create a top five leadership position in high end design and architecture globally, and it's a very strong fit with our strategy of sustainable growth, performance and collaboration.

In terms of the seven priorities that we set out as part of the sustainable growth part of our strategy, Callison is a perfect fit with two of our priority markets -- those of the emerging markets, especially China; and then also with our Big Urban Clients initiative. And as you'll remember, we chose 12 cities around the world to focus on as part of our Big Urban Clients initiative. The capabilities of Callison will strengthen Arcadis' offering in Los Angeles, in New York, London and Shanghai, and it also brings a new set of capabilities in New York that we didn't have as Arcadis in terms of design and architecture.

In terms of the priority value propositions that we highlighted as areas of focus of our strategy, two of them will be improved and strengthened through the Callison acquisition -- those in design and also in business advisory. It also expands our core, which is part of the sustainable growth part of our strategy, with strong home market positions in both the US and China, and with a strong customer focus and a strong organic growth record. It also meets our acquisition criteria. It's very much strategically and culturally aligned with Arcadis, very much industry-leading in terms of differentiated capabilities.

As Renier pointed out to you, very much value-enhancing and EPS accretive, and it strengthens our leadership position and creates a top five positioning worldwide in design and architecture with ample synergy opportunities. By combining -- bringing together those capabilities under Arcadis, together with the capabilities of RTKL, we really create the number one position in retail design around the world.

We strengthen our position as a leading player in the mixed use commercial developments, which is particularly important in the emerging markets around the world where commercial/mixed use development, where you have a large shopping mall associated with five-star hotels, business offices, places of leisure, they have a leading position, we have a leading position, and that really strengthens both of our positions there. And it gives us the clear leading international design and architecture position in China, where we will have approximately 550 designers and architects living and working day-to-day in China.

And with that, I'd like to introduce you to John Jastrem, the Chair and CEO of Callison, who is going to give you a broader introduction to Callison, and then we'll talk about creating the leader in high end design and architecture and I'll come back. So, John, handing over to you.

**John Jastrem · Callison · Chairman and CEO**

Thank you very much, Neil, and it's great to be part of the Arcadis family. We're all looking forward to a very exciting future together. And as Neil kind of highlighted, on page eight we have a little more detail kind of supporting how we get to the CAGR of 7% growth on gross revenues. And also, the margin, which I would point out we expect to see continued increases in the margin capability of the business, as well as hopefully an even higher growth rate being part of Arcadis; we see a lot of opportunities there. And I'll try to give you some background as we go through the projects, because one thing you learn about architecture and design is it's all about the projects. That's what really gets everyone excited.

So I'd like you to move over to page nine and focus on a number of things. First of all, Callison's brand is a global brand and it is the number one retail design firm in the world. We also, as Neil pointed out, have very strong mixed use capability, doing some of the projects, which I'll take you through some of those, throughout the
world. And obviously, our client roster, which I will provide you some additional details, not only do we have many A-level companies -- global companies, but also you'll see the diversity of that base. Award-winning capabilities in interior and exterior retail design. We are very strong in that area and are recognized in the industry for our strong design capabilities and the excellent services that we provide.

If you turn to page 10, obviously we believe that we have a very good diversified geographic base -- 47% are in the Americas and 42% in China and then a mix throughout the other global workplace. Some of our capabilities in the mixed use and retail space are certainly where we're best known. And I would almost say that if there's a retail project, we're on the list. If there's a reason we don't get that project, it's because we're not excited about it or the fees aren't proper. So, that's a plus in terms of how we manage the business.

On page 11, you can see a very detailed listing, as I mentioned, very diversified, a very prestigious group of major clients. And with many of these clients, we have a very significant share of their work. In some cases, like Nordstrom, we're exclusive, where we do every single store, and I'll talk about that a little bit later. Many of these others, we continue to grow share, but our main focus is to provide the most complex and prestigious locations and dynamic projects for each of these clients so that we can charge premium fees.

Now I'd like to go into some of the projects and talk a little bit about some of the clients, which we're very proud of, and we're also only highlighting, obviously, a small section here. There's quite a number of pages with some very beautiful pictures, starting with page 12.

Since 1975, Callison has had a very collaborative relationship with Nordstrom and we've delivered really distinct shopping experiences in more than 155 new and remodeled stores. Callison's integration with Nordstrom's store planning team allows us a very high level of detail in every design phase, while also enabling a very efficient process. From individual designer shops that reflect the boutique atmosphere of sophisticated brands, to the new 300,000 square foot department stores in emerging markets, we complete an average of 10 projects a year for this upscale retailer.

Obviously, we're very excited about our relationship with Nordstrom. We see that continuing to grow. And from this, one other thing we're doing, we're looking at how can we sell the concept of an exclusive relationship to many of our other significant retail clients.

So, if you turn to page 13, one of those companies is AT&T, and the store that's showcased here is their flagship store on Michigan Avenue in Chicago, Illinois. From the outside it looks like a digital playground, but from the inside it really does feel like one. And that's really what AT&T hoped to create in this new flagship store, and we wanted to focus on experiences in a way that humanizes technology, in a way that's fun, interactive and approachable. Throughout this store, Callison strove to create a variety of places for face-to-face connections to change the sales experience from transaction to interaction. The result is not simply a new store, but a renovation of the shopping experience.

Next I would call your attention to page 14, Sperry Top-Sider, an iconic brand. And we were challenged by the Sperry folks to come up with a way to capture their passion for the sea store design concept. Obviously, this concept is inspired by their Northeast beach cottages that reflect the heritage of the brand, but Callison's designers really focused on the casual aesthetic that enabled us to capture the emotional and electric qualities of a family cabin passed down through the generations. Diffused natural light, sea worn and weathered finishes, unique furniture pieces, handmade beach art, nautical-inspired collectibles really provide the shopper with a relaxed but exciting tone.

I would then move you to page 15, the REI - SOHO New York store, a store that has won many, many awards. And when outdoor equipment retailer REI decided that its first store in New York was the place for them to be, the company opted to make a big splash with a location inside a historic landmark -- the Puck Building. Many of you have done work in historical buildings, you know how difficult that is. And we actually picked this project up from another competitive who was first en

On page 16, we talk about and show you Cole Haan. Well, we've collaborated with them since 2001 and really have been designing and implementing all of their concepts. We began working with their in-house team to revitalize their existing prototype, strengthening the brand and reducing costs. And as they continued to grow, we continued to get additional projects where we focus on targeting new customers for them while maintaining a consistent identity. We go from a refined residential look of the women's concept to the chic, easy shopping factory stores. So, we cover all components of their brand as it's delivered for the consumer to enjoy.

On page 17, Kid's Cavern in Macau, China. A flagship specialty store which is located in Macau, the shop combines children's apparel, toys, candy, designer wear in a very innovative destination space that raises the bar for all children's stores in the retail market. Callison's concept of a fantasy wonderland achieved just that, becoming the ultimate playground not only for children, but for the inner child in everybody. We have also won significant awards on that store.

Next we turn to page 18, City Creek, Salt Lake City, Utah. This was a catalyst for the revitalization of all of downtown Salt Lake City. The City Creek Center draws on the natural attributes of the region, the cultural sensibilities of local residents to create a modern, dynamic destination and it's registered in the LEED for Neighborhood
Development Pilot Program. This mixed use retail and residential center features wide open areas for public gatherings and smaller spaces, and really has a dynamic feel as it goes right through the middle of downtown.

We'll turn you now to page 19, The Pearl in Qatar. As the first phase of The Pearl, a $2.5 billion LEED community, provides a premier living environment. Designed as the Riviera of the Middle East, it features a waterfront boardwalk with retail and restaurants, multi-family residential housing and entertainment activities. We met a very aggressive timeline on this project in that we delivered all design phases in 18 months. And since then, the development’s value has increased 85%.

We'd like you to turn to page 20, Aqaba, Jordan, a $10 billion marina community that is the largest real estate project in Jordan's history. It maximizes the frontage on the gulf to create a vibrant mixed use community and it's part of the Jordanian government's initiative to double its tourism economy. We designed this project to handle more than 300 yacht berths in the luxury marina, a cruise ship terminal, a mix of hotels, apartments, villas and townhouses, ready to accommodate more than 50,000 people.

On page 21, the Greenbelt in Manila, Philippines. As planned around the central park of upscale district of Central Manila, Greenbelt opened to overwhelming accolades by residents, tourists, tenants and community leaders. The design is indigenous to the culture and climate of the Philippines. The project blends indoor and outdoor spaces in the historically significant natural environment, establishes an urban oasis in the chaotic and dense world capital. The site is also designed to accommodate future phases of development, including housing, a hotel and additional retail and entertainment.

Turning to page 22, Mumbai, India. Located with 150 meters of the Arabian Sea at the exotic Marine Drive, this 60-story tower incorporates two to four bedroom units, all with expansive sea views and wide decks. The tower defines an eye-catching profile, capped by a 20-meter beacon along Marine Drive. It's perched on top of a 10-story parking podium, affording uninterrupted sea views to every unit as well as convenience for the tenants and folks who occupy the facility. A club and fitness center with a cantilevered infinity pool is located midway up the tower. This development is part of a more comprehensive urban renewal strategy, which will provide additional work for us in the future.

Turning to page 23, Amazon. Here in our hometown of Seattle, where we're headquartered, Callison partnered with long-time client Vulcan to design phase five of Amazon.com's Seattle world headquarters. Callison's design took inspiration from the angles and structure of the iconic Amazon.com box. The building also caters to employees by hosting outdoor terraces, dog-friendly landscaping, a 38 by 12 living wall system made of recycled planting boxes, and all illuminated by 48 fiber optic lights, really provides visitors with a very friendly greeting. And we need those lights because here in Seattle it's often very gray.

On page 24, we get to a big MIXC project in Chengdu, China. The MIXC project is the highest level project of the developer in China which we do a lot of work with, China Resources. Callison's design of the mixed use center embraces the community's tempered climate and outdoor recreational lifestyle. Interconnected 72,000 square meters of class A office towers continues the destination's respect for sustainable living with the use of natural ventilation, sun-shading devices and a three-story garden. The 200-meter tower received gold certification from the USGBC.

On page 25, our initial major project in China, which is still one of the best performing mixed use developments, fits in a great location, in fact, one of the busiest locations, over a major subway system in Shanghai, the 3.3 million square foot complex includes 1.1 million square feet of retail and a seven-story podium, two 34-story residential towers, two 52-story office towers and a 9-story service apartment. Long-term perspective and marketing insight enabled the phased development to progress over a decade of economic market shifts. And I can tell you, it's probably one of our best examples of our phrase that says, “Callison provides design as a business strategy,” because it’s a project that really does perform, as many do.

Page 26, Porsche China. A fantastic opportunity with a great brand where we've been able to work directly with Porsche China to develop and manage a series of design prototypes with their investment partners to develop new, free-standing showrooms based on their global brand and environment. And as you probably are aware, Porsche has done extremely well in China. And again, these locations are performing well for Porsche.

Lotte Center, on page 27, in Hanoi, Vietnam is a truly self-efficient live, work and play destination. It's 65 stories. It's centrally located in the city's embassy district and it was an effort to attract international companies and travelers to the country's growing economy. The high-rise features in the latest in sustainable design solutions and modern conveniences. The tower's design maximizes energy-efficient principles to respond to the city's intense year-round climate, and a six-story stacked sky garden offers an urban feel with expansive river views.

Neil McArthur  -  Arcadis NV - CEO

Wonderful. Thank you --.
John Jastrem - Callison - Chairman and CEO

On page 28 --. Go ahead, Neil.

Neil McArthur - Arcadis NV - CEO

Thank you, John. And hopefully, that's given you just a small flavor of the world-class capabilities that Callison have and an insight into some of the iconic projects that they've been involved in all around the globe. And we're very, very excited to bring those capabilities as part of Arcadis. And as I say, we could have gone on for hours showing you the depth and the breadth of the iconic projects that Callison has been involved in over the years.

I'm now moving on to page 29. The acquisition -- the aspiration of bringing Callison to Arcadis is to create a global leader in high end design and architecture. And when we move to page 30, the combination of those capabilities within Arcadis allows us to create a top five leadership position. RTKL, on its own within Arcadis, had a top 10 positioning. And together with Callison, you can see that in terms of gross revenue in 2013 those capabilities within Arcadis would move us to be a top five player in high end design and architecture globally.

Moving to page 31. It also gives us a truly global footprint. The dots here on this slide in blue show you the main RTKL offices around the world; the orange ones, the Callison offices around the world. And you can see where there is two colors on a city, you can see that we would have a combination of capabilities in those cities.

I'd also draw your attention to the fact that with our Big Urban Client initiative, this brings us new capabilities of design and architecture in New York, which we didn't have, and also strengthens our existing capabilities in three others Big Urban Clients that are being targeted, those being Los Angeles, London and Shanghai. I'd also draw your attention to the fact that with Callison's office in Mexico City that now gives us a presence in one of the largest economies in Latin America, together with Brazil. So that's our first Arcadis office in Mexico.

Turning now to page 32, looking at the combination of capabilities, net revenue in 2013, on the left by project location, on the right by practice type. So what you can see is the dark shading is the Callison proportion of our revenues and the lighter shading the RTKL proportion of the revenues. You can see that the Americas is very important and strengthening that whole market position, 46% of our revenues; 38% of the revenues in China, again, equally proportioned between Callison and RTKL; and then you can see that in the rest of Asia, again, an equal proportion; and we have a strong presence with RTKL in Europe and the Middle East.

On the right-hand side, you can see by practice group, commercial/mixed use nearly half of the revenues, very strong leading position in retail with the stronger positioning of Callison in that space today. And then, as you know, healthcare and workspace, but strengthening our workspace, particularly with interior design capabilities of Callison.

So then, moving on to page 33, we believe it's a really unique opportunity to create that top five leadership position in high end design and architecture. The combined capabilities will be the number one clearly globally in retail. We'll be recognized as a leader in commercial/mixed use around the world. We will have the leading international design and architecture position in China. In terms of synergy, the integrated offerings with the other Arcadis companies, the ability to even better serve our multi-national client program around the world, and the strength of our footprint around the world will create synergies with the combination with Callison.

It also enhances our opportunity to be recognized as the best through encouraging that entrepreneurial spirit that took both RTKL and Callison to China over a decade ago. We will continue very much with our client-focused collaborative and forward-thinking culture where we're able to attract and retain and develop the best people in design and architecture. And having that top five positioning will make us one of the employers of choice for the top design and architecture graduates around the world. And clearly, this, as a top five positioning, gives us a strong basis for further growth, to expand into new markets and sectors within design and architecture.

Joost Slooten - Arcadis NV - IR

Yes. Thank you, Neil. And then, operator, this is Joost Slooten again. I think we're ready to take questions, so if you could open up or instruct the dialers about how to ask questions, please.

Q U E S T I O N  A N D  A N S W E R
Thank you. (Operator Instructions). We will take our first question from Bjorn Krook from ABN AMRO. Please go ahead; your line is open.

Bjorn Krook - ABN AMRO - Analyst

Good afternoon, gentlemen. A couple of questions, I think, for Mr. Jastrem. The margins, on 17% on net revenue, that's some of the highest margins I've seen, and if you could just give us a bit more feeling on what is driving that margin. And also, perhaps what's between the 2012 and the last 12 months margins, because that's a very big jump. I've read on the Blue Point website that Callison also holds a minority stake in a retail fixtures business. Is that influencing the margins as well?

Then, on the synergy potential, you mentioned synergies, but is there anything that you can say about the size of the synergies and can you split that in revenue and cost synergies? And this is a cash transaction, and past acquisitions usually went with an equity to tie in the people. How will that be done now? And then perhaps a bit of a boring accounting question, but can I assume that the costs of this are spread between Q2 and Q3, or has the majority of the costs already been taken in Q2? And will there be any integration costs related to this deal? Thank you.

Neil McArthur - Arcadis NV - CEO

John, would you like to take the first one, on the margins --?

John Jastrem - Callison - Chairman and CEO

Sure.

Neil McArthur - Arcadis NV - CEO

-- and then I Neil, will pick up the other ones.

John Jastrem - Callison - Chairman and CEO

Absolutely. Well, related to the margins, I think there's a number of factors. I think you positioned it well in that I'm a believer in continuous improvement in terms of how, first of all, how you run a business. And that means a couple of things. One we talked about in the retail space, we continued to gather a bigger share of each of the clients that we have as well as win new clients. When we get more business from an existing client, we can be a lot more efficient. And that's probably one of the biggest positive drivers on the top line related to where you see some significant margin improvement.

The other area is as you get bigger into some of the offices, when the downturn occurred, obviously the entire industry had a dramatic slowdown. Unfortunately, there were a lot of competitors who really lowered prices just to kind of keep their people busy. We really didn't take that approach; we essentially did not chase work that we did not think made a lot of economic sense. And so as the market recovered we were able to maintain our pricing levels much better than the industry.

Bjorn Krook - ABN AMRO - Analyst

Yes.

John Jastrem - Callison - Chairman and CEO

But I mention that because that is definitely a key factor in terms of the margins. The other key factor is we are very strong on cost control. We are also very strong on recruiting the best talent out of school. My background comes out of Arthur Anderson, which is in the public accounting world, which I will tell you had the best recruiting program ever. And I have put that into many companies in the marketing services area as well as in this architecture business, and we are now hiring significant amounts of the top students out of all the major universities.
We've expanded that reach, we've increased the number significantly, and we have programs that we have put in from a training standpoint that allow these folks to move up at very fast pace. So, where you would typically take someone with five or seven years of experience, we have people at three years that are doing that work and billing clients at those levels.

Bjorn Krook - ABN AMRO - Analyst

Yes.

John Jastrem - Callison - Chairman and CEO

Those would be the major components.

Neil McArthur - Arcadis NV - CEO

In terms of moving on to the second question, Bjorn, around synergies, this is very clearly bringing the capabilities together, very much focused on driving the top line as one of the industry leaders. And we've very clearly articulated that we are the leading international design firm in China, a very important home market now for Arcadis. When you look at the number of Arcadians now with Callison in China, we actually have around 3,000 people across our businesses in Hong Kong and Macau in China today with the addition of -- the successful addition of Callison's capabilities. So it's very much driven off growing the top line.

In terms of the question about equity tie-in, if you look at the ranking of both RTKL and Callison, Callison was ranked at number 15, RTKL at number nine. Independent of one another with organic growth, neither of them could reach the top five positioning, which means that the designers that are there today, the senior leaders of those businesses, have the opportunity to be leaders of a business that is top five in the industry. So that's a strong motivation for them to be part of Arcadis in doing that.

Secondly, a big observation that the majority of the shareholding was held by private equity, and private equity is clearly interested in a cash transaction.

Bjorn Krook - ABN AMRO - Analyst

Yes. Fair enough, yes.

Neil McArthur - Arcadis NV - CEO

Moving forward, we have a strong bonus program with the RTKL and other businesses, and Callison will mimic that as well, exactly the same bonus system where we believe that we have a very high incentivized system for senior leadership on the performance at the bottom line year-by-year. And also, the senior leaders will participate in the Arcadis long-term incentive program. And where around the world possible the employees will be able to sign up for the Arcadis employee stock program.

Bjorn Krook - ABN AMRO - Analyst

Okay. Very clear.

Neil McArthur - Arcadis NV - CEO

On the question of acquisition-related expenses, indeed, there are 3.5 million costs. Those costs are incurred in the second and third quarter, of which the majority was in the second quarter. Relative to integration costs, we haven't made a detailed integration plan yet. Nevertheless, given the focus we will have on revenue synergies, I don't expect that we should expect significant integration costs in the near future.

Bjorn Krook - ABN AMRO - Analyst
And on the question on the minority stake in Haya, in the retail fixtures?

**John Jastrem - Callison - Chairman and CEO**

Yes. That's really had zero impact.

**Bjorn Krook - ABN AMRO - Analyst**

Zero impact. Very clear. Thank you.

**Neil McArthur - Arcadis NV - CEO**

Maybe a little explanation there, Bjorn, for everybody on the call. The business of Callison in China had a minority shareholder. And as part of this transaction, we acquired 100% of the Chinese business. So the numbers you have seen here in the presentation are based on 100% of the Callison activities.

**Bjorn Krook - ABN AMRO - Analyst**

Okay.

**Neil McArthur - Arcadis NV - CEO**

Great. Thank you.

**Neil McArthur - Arcadis NV - CEO**

Pleasure.

**Operator**

Thank you. We will now take our next question from Quirijn Mulder from ING. Please go ahead; your line is open.

**Quirijn Mulder - ING - Analyst**

Yes. Good afternoon, everyone. Questions for John. With regard to, let me say, your profitability in general, you have two activities, one is exterior design and interior design. Is there any difference in profitability on those activities? And which is the largest part of your business? That is my first question.

Then my second question is about RTKL. We know that RTKL has, of course, more than 1,000 people working, as we understood in the past that many people were working for Chinese, let me say, orders or awards, etc. from the US. Is that also the case for Callison as well?

And then my final question for this moment is what can you tell me about your order book at this moment? Thank you.

**Neil McArthur - Arcadis NV - CEO**

So, John, would you like to talk in general terms around the first question on exterior design, interior design?

**John Jastrem - Callison - Chairman and CEO**
Yes. Basically, if you look at the exterior work, it kind of falls into the general category of mixed use, but then there's also typically a big interiors component of that. So, if I look at the retail space versus -- which would be mostly interiors, but, again, there's an exterior component, the higher margins will generally slightly be on the exterior work, but it's not a significant difference. And the way we end up blending things together, and I think this is also changing more, I think that the bigger change would be retail versus commercial, but, again, not significantly different in terms of the margins.

Neil McArthur - Arcadis NV - CEO

Great.

John Jastrem - Callison - Chairman and CEO

It would be within a couple percentage points.

Neil McArthur - Arcadis NV - CEO

Yes. Thank you, John. On the second point, Quirijn, there's a difference in the business models. Both started with work in Asia, both RTKL and Callison, with work in Asia with some work being performed on the ground in China. And in the initial years with Callison, it was also a lot of the work performed back in the US for Chinese clients. RTKL had moved on with that model as well, where they have more capability on the ground in China today. Our understanding and belief is that Callison had moved even further with the vast majority of the work performed for Chinese clients, is performed by people in China today, but bringing that international design edge and some capabilities from the US.

In terms of the order book, John?

John Jastrem - Callison - Chairman and CEO

You're talking about the backlog?

Neil McArthur - Arcadis NV - CEO

Yes.

John Jastrem - Callison - Chairman and CEO

About 180 million.

Neil McArthur - Arcadis NV - CEO

Let me talk in general terms about China and RTKL and Langdon & Seah for Arcadis. Year-to-date, we're seeing a strong revenue growth in China with -- and, in fact, across Asia with RTKL. And the same is true of L&S in China -- Langdon & Seah in China, and we have an increasing order book on the back of also significantly increasing revenues for both of those in China.

Quirijn Mulder - ING - Analyst

Thank you.
Thank you. We will now take our next question from Philip Scholte from Rabo Bank. Please go ahead; your line is open.

Philip Scholte - Rabo Bank - Analyst

Yes. Good afternoon. A couple of questions, please. You were talking about adjusted EBITA. What is that exactly adjusted for, if I may? The second question is probably also for John. Why -- can you explain why you actually need Arcadis? You seem to have a very strong and powerful business. What's the reason you were actually choosing to partner with Arcadis? And the second question for John is why are you actually not so big in the Middle East, where, of course, there are a lot of these huge super malls, and you would expect there to be a lot of possibilities?

Third, on your nearest calculation on the EPS accretion, of course, it's interesting to see that number, but to get there I either need to put in pretty low interest charges or low tax rates. Can you -- I'm not asking you to make the whole calculation for me, but can you give a little bit more detail on how you get there?

And also, for Renier probably, on the financing side, you say it is coming from your existing banking facility, but does that mean that this is completely separate from your Hyder facility which you have put in place with another banking group? That's it. Thanks.

Neil McArthur - Arcadis NV - CEO

For Renier, the adjusted EBITA.

Renier Vree - Arcadis NV - CFO

Yes. For the adjusted EBITA, Philip, two things. One is that the bonus scheme that we have agreed with Callison to be in place, those numbers have been included in the way we calculated the EBITA. And also, we calculated with 100% of the Chinese business, so already taking out the minority stake that was there in the past, which was -- done in a prorated basis within Callison. So those are the two main differences that we calculated.

And also, the other two that you awarded to me. On earnings per share, well, there will be a surprise that interest rates are indeed low right now, so we're talking here about fully loaded financing costs of around 2% on the total investment, so indeed quite low, and a tax rate which is, in fact, slightly higher than for Arcadis given the -- also the significant business in North America, where tax rates tend to be above what we see in other parts of the world.

And the financing is indeed a separate transaction, so we have the financing in place specifically for the acquisition of Callison.

Philip Scholte - Rabo Bank - Analyst

So, John, why Arcadis?

John Jastrem - Callison - Chairman and CEO

So, very simple. First of all, we've spent a lot of time together with RTKL over many years. Often times, we will end up doing projects together. We compete a lot with each other, so the firms know each other very well. We've had employees that have gone to RTKL and vice versa over the years. So, if you look at all the industry, it's probably without a question the best partner and the best fit and will be easiest for us to work together. A lot of the people know each other and we're in a lot of the same markets.

Why Arcadis? We believe that the industry is going to consolidate very rapidly, and having a global partner -- you mentioned the Middle East, and that's a prime example of where we as a company covering the globe, it's a matter of how much investment do we have to make into these clients to serve them properly? They're looking for a provider of multiple levels of service. And certainly, partnering up with Arcadis allows us to get a lot of those additional services as well as leverage offices and everything else.

And the Middle East is a very difficult place. We've been very careful doing business there because it's not an easy place to do business. So, we have a very good practice that's very profitable and fairly small compared to what it could be, but it's because of those factors that we have had limitations in growing that market. And that's probably the best example, but I think the China piece has significant opportunity for us to leverage the skills and capabilities of a global player like Arcadis.
Neil McArthur  -  Arcadis NV  -  CEO

Super. Thank you, John. Does that help, Philip?

Philip Scholte  -  Rabo Bank  -  Analyst

It does. If I may, a short follow-up on that, because probably Callison is actually growing faster than at least Arcadis is currently doing. And I don't have the details on RTKL, but probably also growing faster than RTKL. So, you could argue that you're actually doing a better job -- sorry, Neil -- than RTKL.

John Jastrem  -  Callison  -  Chairman and CEO

Well, thanks. I appreciate that. I'm sure Neil is hearing this.

Neil McArthur  -  Arcadis NV  -  CEO

Yes. Clearly, Callison has a compound annual growth rate on gross revenue of 7%. I think John said that he believes that through this we can accelerate that. And if you look at where RTKL is this year, they're doing very, very well. It's in the same order of magnitude, even maybe higher this year, than Callison. We've also, as you know, had a very healthcare practice in RTKL which has gone through the last two to three years of downturn in the North American market due to Obamacare, and that's being picked up significantly by our success in our commercial practice and retail practice globally.

So I think the growth rates at the moment are very comparable and we may even have a little bit of the edge this year in RTKL.

Philip Scholte  -  Rabo Bank  -  Analyst

All right. Good. Thank you.

Operator

Thank you. (Operator Instructions). We will now take our next question from Dieter Furniere from KBC. Please go ahead; your line is open.

Dieter Furniere  -  KBC  -  Analyst

Yes. Hi, guys. Thanks for taking my questions. A couple of ones, mainly financially-driven. I think the first one, is Callison debt-free, or could you say something about its balance sheet? And furthermore also, what is the level of working capital you are working with, maybe percentage-wise? Is it similar to RTKL or to Arcadis as a group?

And secondly, could you say how the deal will be paid in terms of what percentage will be paid in 2014, '15? Is there a certain part being deferred in time? And then, also related to that, could you give a bit of more clarity on the impact it would have on the covenants that Arcadis is working with, given the fact that it's fully paid in cash?

And then finally, maybe more of a clarification question, the 7% growth CAGR you are providing, is it correct to say that this is purely organic growth? Thank you.

Renier Vree  -  Arcadis NV  -  CFO

Yes. Hi, Dieter, this is Renier. When it comes to the balance sheet, this is very similar to what we also see with RTKL, meaning that the balance sheet is consisting mostly of working capital, which in the case of our industry means obviously accounts receivable. And, of course, we will see intangibles and goodwill on the balance
sheet based on the consideration we pay for that. The working capital is not too different from what you see us average for Arcadis, so I don't expect a significant change of the ratios because of that.

And indeed, consideration is payable in cash. Almost all of that will be payable this year, except for some typical retainers that are to be in place. And as for the covenants, there's an impact of around 0.3 of an increase in the net debt to EBITDA for Arcadis, still staying well below the agreements and the thresholds that we have agreed to with our lenders.

Neil McArthur - Arcadis NV - CEO

And the growth rate is mainly organic, Dieter.

Dieter Furniere - KBC - Analyst

Okay. Thank you very much. Maybe a last follow-up. Could you say how long this is typically? And the deals with private companies, you're talking some time with them, how was this different for others, so how did this deal actually come through?

Neil McArthur - Arcadis NV - CEO

The first conversations took place two years ago -- around this time two years ago.

Dieter Furniere - KBC - Analyst

Okay. Thank you.

Operator

Thank you. We will now take a follow-up question from Bjorn Krook from ABN AMRO. Please go ahead; your line is open.

Bjorn Krook - ABN AMRO - Analyst

Yes. Two follow-ups from my side. How important is it to be in the top five in this industry? Because you've both done impressive projects on your own. Is there any real reason why you want to be in the top five? Because, obviously, Callison being the low end of the top 10 range, they still make good money. And if you competed for projects, where did Callison win? I am really trying to find where you complement each other.

Neil McArthur - Arcadis NV - CEO

Yes. Well, let me take the first one, Bjorn. Increasingly, the war for talent across everything that we do, whether it's in design, in architecture, in engineering, in consultancy, is getting stronger on a global basis. Having a top five positioning means that we will be able to continue to attract the very best talent from the best design schools around the world. And if you think mid to long-term, especially with the growth that we have in the emerging markets, the ability to attract the best graduates from the best schools in places like China to join an international, global design and consultancy firm that's in the top five, that will become, we believe, increasingly important.

John, do you want to talk about where we come against one another face-to-face? And I think we win our fair share and I think we lose our fair share versus you guys.

John Jastrem - Callison - Chairman and CEO

Yes. I think you're right, Neil. I think the key advantage now is to eliminate some of that competitive drive that ends up getting done. The industries have a lot of push on getting quality and then trying to negotiate price very hard. So, by being stronger I think there's also the opportunity we hope to have the companies work really
closely together. And along those lines, in addition to just the fact of how much more we should be able to get on the win side, I think there are a lot of opportunities on the cost side to just utilize people better. You're talking about a people business; utilization of those people is very important.

And to Neil's point, being able to recruit the best talent is really where the key is going to continue to be to make these companies really successful. And employees want to have a lot of variability. They want to be able to do projects all over the world. They're adventurous. They're an adventurous group. And those are really big factors, I think, in terms of our ability to really help each other. And when you put one plus one, I think -- I don't know if it's three, but it's definitely going to be two-and-a-half or more. I just see a lot of advantages from the standpoint of us coming together as a team in this global market.

Bjorn Krook - ABN AMRO - Analyst

(inaudible - multiple speakers) --

Neil McArthur - Arcadis NV - CEO

Yes, super -- that's --.

Bjorn Krook - ABN AMRO - Analyst

Sorry. Sorry, Neil. So, there's not something that you particularly envy in what Arcadis had or RTKL had or vice versa, Neil and John?

Neil McArthur - Arcadis NV - CEO

No. I think yes. I think the positioning that Callison has in retail, they are recognized as the retail leaders globally is something that we're absolutely eager to bring as part of the Arcadis family. We compete head-to-head in retail/commercial/mixed use mainly in Asia, but also somewhat in the Middle East and somewhat in the US, and that's complementary capabilities. But we absolutely look at their positioning as the leader in retail as something that is enhancing to what we have today as Arcadis and RTKL.

And then, if you look at the interiors business that John has been building with Callison, that's really premier high end interior design capability that we see the possibility of further growing and expanding within Arcadis. When you look at the access that we have to our multi-national clients, we are not the strongest today in that sector. And that's something that we think by growing that capability that they have in Callison, together with what we have in RTKL, we will be a more dominant force in the corporate interior design market in the future.

Bjorn Krook - ABN AMRO - Analyst

Okay. And then, a very short follow-up. John, you're going to stay with the combined group?

John Jastrem - Callison - Chairman and CEO

Yes. I'm looking forward to it.

Bjorn Krook - ABN AMRO - Analyst

Okay. Thank you.

Operator

Thank you. (Operator Instructions). We will now take a follow-up question from Quirijn Mulder from ING. Please go ahead; your line is open.
Quirijn Mulder - ING - Analyst

Yes, thank you.

Neil McArthur - Arcadis NV - CEO

Hi, Quirijn.

Quirijn Mulder - ING - Analyst

Thank you. Thank you to pick up my questions here. My first one is about, let me say, the normal multiples you are going to pay. Are we speaking about normal multiples, let me say, the last five years or the last 10 years with regard to the acquisition? And is that also evolved, let me say, to buy out the minority shareholders in the Chinese operations? That's my first question.

And my second question is the fact -- it seems that, let me say, it has accelerated in the last couple of months probably, this whole process. And given the fact that you can only spend your euro only once, does this acquisition, purely from a financial standpoint, it make easier for you to give up on Hyder given the bid war which seems to emerge here?

Renier Vree - Arcadis NV - CFO

Hi, Quirijn. Thanks for your question. But first of all, we won't talk about Hyder, as agreed, when it comes to the multiples you know that the largest transaction that we have done over the last years, it's more than five years back, so all the larger transactions, but typically having a multiple between six and seven times EBITA and this transaction is now different from that. And moreover, what we also see from the track record of Callison, and how we see Callison and RTKL together, being successful in design, is that it will be very lucrative for our shareholders, also based on the numbers that we have shared with you.

Neil McArthur - Arcadis NV - CEO

Just building on that, Renier, I'd even go further and say that compared with the other deals that we've completed, the larger deals, the multiple is highly attractive.

Quirijn Mulder - ING - Analyst

Sorry. I can fully understand.

Neil McArthur - Arcadis NV - CEO

I said that compared with the other, larger deals that we've completed, the multiple for this deal is highly attractive.

Quirijn Mulder - ING - Analyst

No, I fully understand. And I'm not allowed to speak about Hyder because we could speak about other multiples in that case. And that was the reason for my question.

Neil McArthur - Arcadis NV - CEO

Yes. And we will make no comment on Hyder.

Quirijn Mulder - ING - Analyst
Okay, okay. No, that's okay. I can understand that as well.

Operator

Thank you. As there are no further questions at this time, I would like to turn the call back to the speakers for any additional or closing remarks.

Joost Slooten - Arcadis NV - IR

Yes. We'll just give it a second because sometimes people can't find the right button to be able to ask the question.

Operator

(Operator Instructions). We will take a follow-up question from Quirijn Mulder from ING. Please go ahead; your line is open.

Quirijn Mulder - ING - Analyst

Yes, a more detailed -- sorry, a more detailed from my side. In your table on page 30, you speak about $161 million of revenues. In your presentation, at the beginning, you speak about $167 million. Is there any reason for the difference, or is that some misprint whatsoever?

Neil McArthur - Arcadis NV - CEO

Yes. If you look at it actually, Quirijn, the table on page 30 is based on the year 2013, so that was $161 million for Callison, which is also what you see on the table on page eight. The $167 million is the revenues for the last 12 months. So that's the difference.

Quirijn Mulder - ING - Analyst

So, Callison has a broken book year then, maybe?

Neil McArthur - Arcadis NV - CEO

Indeed, yes. They have a broken book year. Okay?

Operator

Thank you. We will now take a follow-up question from Dieter Furniere from KBC. Please go ahead; your line is open.

Dieter Furniere - KBC - Analyst

Yes. This is some small ones, mainly for modeling purposes. So, you expect the deal to -- will be finalized in Q3 slightly then as Q4 we will see it in the numbers? And could you maybe talk a bit about the seasonality of this business, if there is any? And then maybe more of a cheeky follow-up on the margins. Given the margins you see for this business and it's being consolidated in full over 2015, could it be that then your margin target for 2016 could be already reached one year ahead of the strategy plan? Thank you.

Renier Vree - Arcadis NV - CFO

Well, a couple of things, Dieter. First of all, we gave our guidance for 2014. Of course, the acquisition of Callison was not included in that, so it will be additive to that for the fourth quarter, and we expect the deal to have closed. The margin is indeed higher than the average for Arcadis, so that's helpful in getting closer to our targets.
But this is not the time to give guidance for '15. Also, we look at the size of Callison in comparison to the total of Arcadis, then this is not going to have a significant impact in the sense that it would advance that by a year or so, as you were asking. Nevertheless, it's helpful both for '14 and thereafter to acquire a growing company with above average returns.

And finally, seasonality is not really a factor in this industry, so there is no significant impact from that to be foreseen.

**Neil McArthur - Arcadis NV - CEO**

Yes. And if you look at it -- just for modeling purposes, if you look at the two home markets that Callison has -- both China and the US -- the US Architectural Association has the highest level of confidence in the new inquiries for new work, since before the crash, so that's boding well for the movement in design in North America. And if you look at the growth in China, as we articulated earlier in the call, we're seeing that in our business in China today around buildings and design, both with RTKL and Langdon & Seah, and I think John indicated that he sees further growth potential for Callison.

**John Jastrem - Callison - Chairman and CEO**

Yes, definitely.

**Dieter Furniere - KBC - Analyst**

Okay. Very clear. Thank you.

**Operator**

Thank you. There are no further questions at this time.

**Joost Slooten - Arcadis NV - IR**

Okay, operator, then thank you very much. And thank you to all the participants for participating in this call and we look forward to speaking to you again in the future. And with this, we close the call. Thank you.

**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.