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EDITED TRANSCRIPT
ARCAD.AS - Q4 2013 Arcadis NV Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 11, 2014 / 02:00PM GMT
Thank you, [Maureen].

My name is Joost Slooten. I'm the director of investor relations for Arcadis. I'd like to welcome you to this Arcadis Analyst Conference Call and Webcast. We are here to discuss the Company's announcements of the full year 2013 results which were released this morning.

We are releasing ourselves ahead of schedule today as due to a communication error, some of our unaudited financials became known outside of Arcadis late yesterday afternoon. Our approach has been approved by the Dutch Authority for Financial Markets. Please note that the figures in today's press release and presentation are unaudited and not yet approved by our supervisory board. The audited Arcadis 2013 full year results will be released on February 20.

With us on the call today are Neil McArthur, Chief Executive Officer, and Renier Vree, Chief Financial Officer. The PowerPoint presentation that is used today is available through the investor section of the Arcadis website for which the address is www.arcadis.com/investors.

Also, on the website, there is a PDF version to the presentation so if you're not able to get into the webcast application due to the late upload, you're able to get the PDF of the presentation from the site.

Just a few words about procedure before we start, we will begin with formal remarks from management and we call your attention to the fact that in today's session, management may reiterate forward-looking statements which we 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.

And with these formalities out of the way, Neil -- sorry -- the full year results are going to be presented -- first of all, the agenda is going to be that Neil McArthur is going to give an annual overview then talk about strategic process and the outlook and then Renier Vree is going to be presenting the Q4 2013 and full year 2013 financial results. After which, we will open the call for questions.

With these formalities out of the way, Neil, please begin.
And welcome everybody to our call and I'm very happy to announce that Arcadis has delivered 6% profit growth during 2013. We also were able to achieve 2% organic growth of net revenue through 2013. The stronger euro impacted our revenues and our profit by a negative 4%.

During the year, we saw a strong growth in emerging markets and our multinational client program. We saw a decline in revenues in Continental Europe but we're able to improve our operating margin to 7.9% in the fourth quarter. In North America, revenues were flat and strong margins continued. And in the UK, we had a solid year with organic growth and good margins.

So if you look at the figures that we have here on page 4, essentially flat in revenue terms, we were able to achieve our target 10% operating EBITA margin. We increase our net income from operations by 6% to EUR111.1 million. During the year, our free cash flow of EUR109 million was greater than net income and we're putting forward a proposal for shareholders meeting approval for 10% increase in our dividend per share at a EUR0.57 per share.

Turning now to page 5, our portfolio over 2013 has delivered strong returns. If you look on the left-hand side, we have a summary by region. And on the right-hand side, a summary by a global business line.

So for North America, North America is now 39% of our net revenues. During the year, we had flat revenues and stable strong margins delivering 11.5% operating margin in the year. Emerging markets is now 26% of our net revenues where we've had clear double digit growth across Brazil, Middle East and Asia and continued strong margins of 12.5%.

Continental Europe, 23% of our net revenue. Revenue declined due to continued government austerity in Europe and margins improved, and we'll talk a little bit about this later, to 7.5% in the second half of the year. United Kingdom, 12% of net revenues, low growth and stable margins for the year.

Turning to the right-hand side of the page by global business line, infrastructure, 27% of our net revenues, just over a quarter. We saw a clear growth in the emerging markets, and in fact, infrastructure in the emerging markets comprises 40% of our infrastructure of business and we see improving margins over 2012.

Water, 15% of our net revenues, decline in revenues due to government austerity, relatively stable margins delivering 9% for the year.

Environment, in terms of net revenue, 28% growth driven by the private sector and continued strong margins at 12.2%. Buildings now in net revenue terms, the largest global business line at 30%. High growth in the emerging markets, small decline in our margins but still at 9.4%.

Turning now to page 6, a number of strategic highlights during 2013. We completed two acquisitions, both of which are delivering above expectations. First of all, Geohydrologia in Chile. A small water consulting firm for the water in mining industries followed again in the first quarter by SENES with operations in Canada and India which provides environmental consulting for the mining energy and oil and gas sectors.

The major mergers over the last two years continued to add value to Arcadis. EC Harris, good growth and 10% target EBITA reached in the fourth quarter of 2013. Langdon & Seah, strong growth and margin. And then the combined synergy wins EC Harris, Langdon & Seah and Arcadis, greater than EUR90 million in 2013.

Continental Europe, one transformation ahead of schedule. Market conditions are challenging, as I said, with minus 6% organic net revenue decline in Continental Europe and accelerated cost actions further improved our operating margin to 7.9% in the fourth quarter.

And of course, we spend a lot of time during 2013 working on our strategy for 2014 through '16 and launched that at the early December.

I'd like to spend one slide talking about where we are in Europe where margin was improved in the second half and the savings target, we are increasing. So I'm now on page 7 for those following the PDF.

So in the top right-hand side, our original savings target, first quarter, in fact at this point, when we announced the results for 2012, was for EUR25 million of cost savings in Continental Europe. We've achieved cost out of EUR16 million for the full year 2013 and in doing that, we had set aside the structuring charges anticipated to be EUR20 million between 2013 and 2014 and we've used EUR14.4 million of those restructuring charges during 2013.

And that's given us confidence to increase and set a new target in total cost out of EUR32 million. If you look on the right-hand side, you can see our revenue development and net revenue in the top right hand, that part of the page between the first half and second half in both 2012 and 2013 and you can see that 6% decline over the year that I talked about. And then in the bottom right-hand side, you can see the improvements that we've made and the target that we continue to set for ourselves in terms of operating margin.
So in the first half of 2013, we're at an operating margin of 3.2%. As I just announced in the fourth quarter, we delivered 7.9% and then giving us an average for the second half of 2013 of 7.5% and we are well on track to deliver the 10% operating margin in the fourth quarter of 2014.

Turning now to page 8, our sustainable growth performance and collaboration strategy provides us a clear roadmap and targets for the next three years. as we shared with you at the Capital Markets Day early in December, our strategy of sustainable growth comprises expanding the core, seven focused priorities for growth, M&A and at the core of everything that we do, a culture of continuous performance improvement and being recognized in the best as everything that we do and then increasing collaboration so that we reach out and bring the very best of Arcadis from around the world for the design and the delivery of our projects with our clients anywhere across the globe.

In terms of the targets that we shared with you in December, over the three-year period, we are targeting organic growth of greater than 5% compound annual growth rate over the three-year period similarly for inorganic growth greater than 5% compound annual growth rate over the three-year period.

Margin, as we communicated earlier, we see over the period increasing to greater than 11%. For the three-year period, we expected to have free cash flow greater than net income and we expect to return on invested capital to be consistent with the levels that we've delivered historically at greater than 13%.

If I turn now to page nine, for 2014, the leadership priorities clearly align to our strategy. So first and foremost, completing the ONEurope transformation and delivering 10% operating margin in Q4. Secondly, as we shared back in December, investing for increase organic growth and expanding our core activities and focus growth on the seven priorities.

Thirdly, driving performance excellence and the culture of continuous improvement to raise both margins and cash flow, and then strengthening collaboration by evolving our operating model of business steering in culture in order to bring the best of Arcadis to our clients. And then focus M&A on expanding our core and our seven clearly identified growth priorities.

And with that introduction, I would like to handle over to Renier Vree, our chief financial officer who will go through the fourth quarter and full year results for 2013. Renier?

Renier Vree - Arcadis NV - CFO

Yes. Thank you, Neil.

Let me switch to Page 11 and talk about the performance in the fourth quarter. There you see the absolute amounts and the percentages of our performances with growth revenues at EUR643 million in the quarter which was a decline compared to the same quarter in 2012.

However, currency was the biggest reason for that because of the strengthening of the euro against most currencies at a 5% negative impact so our organic growth was 1% positive for gross revenues. We were flat and we talk about the net revenues.

The operating EBITA was EUR50.4 million which is a reduction compared to 2010 and '12 and the reason, the main reason for that is the effect of -- and it will come back also in some other slides on the presentation -- that effect that we kept the EC Harris partnership in place following the merger, that there are benefits from that which fall into EBITA and a benefit for a particularly large in the first year of the co-existence with EC Harris.

So if we look at the operating margin as a percentage, was 10.8% in 2013 and 12.1% in 2012. And in a like-for-like basis, 2012 would have been 11.1%, so a slight reduction in EBITA margin.

Net income operations is above the level of the prior year that is helped by the fact that our associates did very well. Now the associates we have in Brazil as part of the energy essence that we are part owner of which performs well is also the activities of Langdon & Seah in Malaysia and Brunei where we are a control of the business but according to the IFRS rules, the accountant who goes over their results and some of the joint ventures in The Netherlands as well contributes to the income from associates in helping the overall net income to grow. And given the increase in the number of shares, our earnings per share were last year exactly the same as in 2012 in the fourth quarter.

So the next page, the same overview for the full year 2013, Neil already mentioned quite a few figures in this overview. So let me reiterate the increase and I think from operations by 6% and the growth of our earnings per share with the increase in a number of shares to EUR1.54 which is a 3% improvement from 2012.
Again, we move to slide 13 where we see the development of the organic revenues of the four business lines. As you can see, it's quite a busy year overview. So let me talk a bit through that.

So in the quarter, net revenues were just above zero. If you look at infrastructure that grew with 1% particularly growth which we recognized in the emerging markets as well as in the North America while Continental Europe, so a negative development also in the fourth quarter.

Water was down 11% that was taken place in all of the regions. For the biggest decrease was in Europe particularly in The Netherlands, Belgium and the UK. While in the US, we were helped a lot in the last part of 2012 when Superstorm Sandy hit the American coast, we had a local emergency work and had many people giving hands to help out there. This year, the fourth quarter was normal season, therefore the comparison led to a reduction in both the revenues in the US in the fourth quarter.

Environment grew by 2%, helped by good developments in Brazil, also with better sales prices. While in the US, growth with our multinational clients like in oil and gas stimulated the revenue development while Europe was flat when it comes to environment.

In buildings, the growth was 4% and there Asia and the Middle East were the main contributors as well as RTKL where there was good growth with healthcare activities in Middle East and commercial real estate in the US as well as in Asia while healthcare activities and workplace services in the US were developing negatively.

Let me move on to the next page, number 14, here we explained the difference in our operating EBITA between Q4 2012 and Q4 2013. Once again, you see the effect of the currency acquisition of SENES and Geohydrologia contributing to EBITA the feedback from the tax benefit of the EC Harris partnership was EUR6 million lower in 2013 Q4 compared to Q4 2012 and it means that the underlying organic development was almost flat and the fact that it also was developing negatively, was the reason that there's an slight negative amount here. Our restructuring and integration charges were EUR5.6 million in the quarter and are mostly related to the European activities.

On the next slide, number 15, we have the same analysis for 2013. Also here, currency having a negative impact on the EBITDA and the acquisitions fully compensating for that on a full year basis benefit of the EC Harris partnership was EUR3 million less than before, and organically, we have been in the lines of positive development helped also by the cost savings with it in Europe where you see the biggest benefit in the infrastructure division.

On the page 16 scorecard of the globally operating EBITA figures and you see there that also in 2013, we realize the 10% operating EBITA so at the target level of the previous strategy around where Q4 at 10.8%, also did nicely to this and achieving overall for the full year the same operating margin as in the prior year.

Let me now look at cash flow on page 17. You see that we have a strong development of cash flow in the fourth quarter with positive profit that was realized but also the reduction in working capital was significant creating a net cash flow operations of EUR103 billion larger than 2012.

Nevertheless, for the full year 2013, the cash flow operations was a bit lower than 2012 because at the end of the day, working capital went up slightly compared to where we ended at 2012 affected by the slow payments that we see with public sectors clients in the mature markets and also the fact that subcontracting has reduced, impacted the level of accounts payable and therefore increased working capital.

And also, let me draw your attention to the graph that shows the quarter-on-quarter development of working capital at the left showing that during the year, in every quarter, we were able to further reduce our working capital.

The balance sheet is summarized on page 18 where by year end, our net debt reduced significant to a level of just over EUR200 million and that means that our net debt over EBITDA with an important ratio for our lenders extends at 1.0 and if we take the average for the middle of the year and the end of the year which is used for the bank covenants, we achieved 1.4 ratio. So significantly, you know, once we have agreed with our banks which includes a ceiling of not exceeding three times EBITDA as a level of net debt.

Our loans are well diversified. We have a number of term loans. We have revolving credit facility which we currently to what we use and we have a long-term debt outstanding with private placement holds in the US. And you also can see from the graph that we only have a small amount of loans to refinance during this year.

I would like to take you now to the business lines of Arcadis starting with the overview of page 20 of the developments over the last two years where revenues have grown in average 12% and the growth have been positive in all four business lines particularly in buildings where the acquisitions of EC Harris and Langdon & Seah revenues developed very favorably.
Zooming in on the individual business lines and starting with the infrastructure on page 22. You see there in the table graph with the five-year overview of revenues and an overview of how the revenue has developed during 2013 where, organically, revenues were slightly down on the gross level but still up on a net level because of the reduced subcontracting in Continental Europe.

In the fourth quarter, revenues declined as mentioned earlier in Continental Europe because of the tough market situation there while we saw a continued in the emerging markets particularly in Brazil and also in North America. The margins of infrastructure improved and we ended at 8.8% for the full year.

And going to water, we see the same over the US infrastructure on that page 24. In water, the organic revenue development for growth was minus 1% and for net revenues minus 3%. Also here, Continental Europe had the biggest impact on the water development while the mentioned Sandy effect also played the role here in the comparison.

We did see significant projects wins in the emerging markets. You may have noticed as of the press releases recently, like the one for Brazil, that we have sent out and also the water for industry, so water projects we do for our industrial clients is being rolled out successfully throughout the world. Operating margin declined slightly and ended at the level of 9% for the full year.

In environment, similar overview on page 26, organically a decline of 2% on gross revenues while net revenues grew organically by 3%, showing also here a reduce level of subcontracting and US has the largest market for us in the environment business. There we have seen a sharp decline on the federal side of the market that is compensated by growth on the private sector side and also on the clients in the private sector particularly the multinational customers in oil and gas and mining that we see a strong demand continuing.

In Brazil, we changed our business focus having more attention for the larger clients, the larger projects, and therefore, being successful in achieving a higher growth and also better margins.

While in Continental Europe, we started to see also here growth coming back in the environmental business of the operating margin for the full year was slightly lower than before at 12.2%. And here, the increased competition in the US helping us to achieve the same level as 2012.

Finally, in buildings on slide 28, buildings grew organically 5% in the growth revenues and 4% in net revenues and also the backlog shows a strong growth of 14% helped by the synergies wins of Langdon & Seah and EC Harris with Arcadis.

So the emerging markets helped us significantly in growing the revenues also in the UK particularly around London, we saw a positive developments of revenues. In North America, there was a decline in the project management activities which we also saw happening in Continental Europe.

RTKL, it grew its business particularly on the commercial real estate in North America and Asia with their continuous difficult situation in healthcare market of the US and also in workplace, helped us through the growth. The operating margin stated a good level, 9.4% a bit lower than the year before. But here, the lower impact of the partnership of EC Harris played this role.

Now moving to an overview of the developments of the regions, I'm now at page 30 of the overview. You see in the graph that the same growth of 12% of revenues with the biggest increase in revenues in UK following the acquisition of the EC Harris and in the emerging markets with Langdon & Seah as well as EC Harris, while in Continental Europe, an average decline of two years of four percent and an increase in the US of 3%.

And if you look at the headcount development on the right part of the graph, you see that there in Europe, there is a decline in starting while in the other regions, there is an increase also in the US, we have reduced our headcount to optimize our results.

And more detailed overview of the regional performance is on Slide 31. This is a further detailing of the 10% EBITDA margin that they have achieved in 2012 and 2013 with the overview of the region. It's also attached to the press release we issued this morning with all the detailed figures about the revenues and EBITA and you can see from here that we did see a reduction in margin and this was particularly compensated for by further improvement in our performance in the emerging markets where Arcadis is active.

And with that, Neil, I think, we're ready to listen to the outlook and I'll hand it back out to you.

Neil McArthur  -  Arcadis NV  -  CEO
Sure. Thank you, Renier.

Just two pages on the outlook, turning now to page 33. First of all, the outlook for business line. First of all infrastructure, we expect continued growth to the structure business driven by strong growth in Brazil and Middle East. And remember, I pointed out right in the beginning that is 40% of our infrastructure revenues today in Arcadis is in the emerging markets, Brazil and Middle East.

And niche growth in the US, in our transportation infrastructure business. We see opportunities in program management in the UK as infrastructure spending increases in the UK and we see Continental Europe stabilizing based on recent wins at the end of 2013 and this quarter.

Water, return to growth over the year. We see North America growth in water treatment and flood work. We see strong demand in water in Brazil and some of those taking time to come to market over the last few months. Continental Europe stabilizing and we see growth for awarded for industries. Renier pointed out very successfully growing on a global basis.

For environment, we expect low growth and capital expenditures driving growth in Brazil and Renier pointed out that that's higher growth and at higher prices. US private sector is good but as we've noted a number of times now, increasing price pressure as people -- our competitors refocus from the federal market to the private sector market and we see growth in Europe from private sector demand.

In terms of building, we expect continued growth at the strong capital expenditure being spent in both the Middle East and Asia. We see UK growth supported by the London market and in the US, as Renier just pointed out, we see growth in the commercial segments, commercial retail-type activities in the US and from our built asset consultancy that we're bringing to our clients across North America and we see stabilization in Continental Europe.

If we look at the backlog, it's up 3% organically during 2013 and we've seen strong ordering taken in both buildings and water in the fourth quarter and we're off to a good start in terms of new order intake in 2014, some of which we have shared with you with our press announcements recently.

And then turning to page 34, if we look a little bit further in the three-year period, sustainable growth, performance collaboration has created a very clear roadmap for our future growth based on those three elements of expanding the core, the seven focus growth priorities and then continued mergers and acquisitions.

We talked about the financial targets that we set over the period, over the period of compound annual growth rate greater than 5% in both organic and inorganic revenue growth over the period getting to greater than 11% EBITA operating margin, free cash flow over the period greater than net income and return on investment capital greater than 13% in line with our historical returns.

For 2014, as we communicated back in the Capital Markets Day investment and capabilities to drive organic growth from our historical growth rates and performance excellence in order to enhance performance over the three-year period. And then finally, we expect increase revenues and net income for 2014 barring unforeseen circumstances.

And with that, I'd like to hand it back to Joost Slooten, our director of investor relations.

**QUESTION AND ANSWER**

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**Joost Slooten - Arcadis NV - IR Director**

Thank you, Neil. And, Maureen, our operator, can I ask you to open up the lines for Q&A, please.

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**Operator**

Thank you. (Operator Instructions)

We will now take our first question from Teun Teeuwisse from Kempen. Please go ahead.
Teun Teeuwisse - Kempen & Co. - Analyst

(Inaudible).

Operator

Sorry, it's now -- Bjorn Krook is now on the line. Please go ahead, sir.

Bjorn Krook - ABN AMRO Bank N.V. - Analyst

Right. Good afternoon, gentlemen.

Couple of questions. First on Continental Europe, you speak a number of times about stabilization. I know you gave some pointers on timing in the past but could you perhaps say when you now really think that there will be a stabilization and how much of the stabilization you're already seeing in your order book and in the behavior of clients.

Then on water, how long will you be fighting these comparables just to get an idea where we're heading there. And could you give some details on what you're actually doing to bring down the working capital?

And finally, the rate increases that we've seen in the first half of -- for the some increases that I think you put to in the first half of 2013 and then later on the rate increases in the second half of the year, how much is that sticking in the current environment and/or how much do you need to give up there? Thank you.

Renier Vree - Arcadis NV - CFO

Hello, Bjorn. This is Renier.

Bjorn Krook - ABN AMRO Bank N.V. - Analyst

Hi.

Renier Vree - Arcadis NV - CFO

Yes. First your question about Continental Europe. You're correct, we were expecting that the stabilization of revenues would have taken place earlier. I think we have seen that the clients remain reluctant to continue investing in the fourth quarter.

On top of that, many people went away for a long break towards the end of the year so business was pretty slow in December that contributed to that decline of 6% that I mentioned. When I now look at the expectations and also what we hear for our commercial people when they meet with our clients and gather indications for the work in 2014, then there's an increased sense of optimism. There's a number of projects that we have won, in fact, in all the major countries where we're active in Europe.

It's very important to realize our ambition for revenues in Europe in 2014. So when we take those signals together, then we expect that we are going to see stable revenues pretty soon.

Neil McArthur - Arcadis NV - CEO

Well...

Bjorn Krook - ABN AMRO Bank N.V. - Analyst
Sorry. Sorry, Neil. Just for 2014, you're actually saying flat organic development in Continental Europe?

Renier Vree - Arcadis NV - CFO

I think that would be a very logical outcome from what I see.

Bjorn Krook - ABN AMRO Bank N.V. - Analyst

All right.

Renier Vree - Arcadis NV - CFO

And, of course, the market is not, I would say, very consistent yet but based on what we see and hear, that's what we are aiming for.

Bjorn Krook - ABN AMRO Bank N.V. - Analyst

All right. Thank you.

Neil McArthur - Arcadis NV - CEO

On the question around the water comparables, clearly, Q4 was our most difficult one because we had strong organic revenue growth driven by the emergency work in Superstorm Sandy in Q4 2012.

Now when you look at it on a global basis, as Renier pointed out, we see a very strong growth prospect in Brazil in water this year and we've announced one major win in that part of the world just recently. And we see the opportunity to do more flood management type of work in Continental Europe and the UK and also helping our clients positioning for the expenditures for the AMP6 in the UK.

And we see an easing of the water treatment market in the US driven by our water for industry for private clients and somewhat in the what we call outside-the-fence work, so outside the water treatment work for municipal clients.

Bjorn Krook - ABN AMRO Bank N.V. - Analyst

Okay. So...

Renier Vree - Arcadis NV - CFO

Well, talk about the -- sorry, Bjorn.

Bjorn Krook - ABN AMRO Bank N.V. - Analyst

The worst is just behind us in terms of comparables.

Neil McArthur - Arcadis NV - CEO

Well, let me be very clear. We said we see a return to growth over the course of the year in water.
All right. Then moving to working capital, what are we doing to bring it down and control it? I think when you look at the developments, it shows that we have been very active during 2013 to drive it down.

Well how do we do that? First of all, we have very clear measurement of working capital, a very low level in the organization. So everybody that works with clients, everyone's project, is aware of their development of working capital and then that the clients are paying the bills because in the end, it's the most important part of capital for Arcadis.

Next to that for many people, that compensation is also depending on their achieving the days of receivables that's in the plants. When you look at the actual performance, we have seen that the collection process, so when we accepted the invoice, do we chase the clients to pay on time? That goes very well. We've also made already a good progress in billing clients faster and bill working progress becomes quicker and invoice that has been sent to customers.

Finally, where we still have work to do which is also harder, it's to contract more to faster payments so that the work in progress becomes less and we can invoice clients more from mostly basis and therefore reduce the working capital of time.
First of all, followup on what you just ended with. You mentioned the US federal market. Your US competitor, Tetra Tech mentioned that there's more clarity on the outlook for the US federal market and basically stating that the second half of 2014 should be better. Is that something that you see and also something that you already see in tender activity?

Second question, still on working capital, because I was looking at your numbers and basically can you explain a bit what happened? I see the improvement in the fourth quarter compared to the third quarter year-over-year in the receivables side. It still seems like receivables has gone up.

But what I've also noticed is that you're payables and your billing in excess of cost have gone up as a percentage of revenues and I was -- especially about this last part, I'm wondering how sustainable debt increase is or if whether that there's a timing issue.

Third question is on the savings, the increased savings you have announced for the project ONEurope. Can you indicate what these savings relate to? Does it relate to the continued decline and if it is more of a cyclical saving or will this also be a more structural savings as you have guided for before?

And then finally two small questions, can you, first of all, indicate what you're return on investment capital has been for 2013 and also I have noticed that your cash interest charges have gone up quite severely in the fourth quarter. Can you indicate what that relates to? Thank you.

Renier Vree - Arcadis NV - CFO

Well, on the first question, yes, we have seen that Tetra Tech announced that there is more transparency with US federal government and we've also seen it and I think we even issued recently a press release that we're also [into IDIQ contracts] with the US government.

However, history has thought us to be cautious to plan ahead and say, well, we consider this part of our backlog so we tend to be a bit on the safe side when we see this type of announcements and we like to be proved wrong and that we see fast growth coming back on the federal side. But for now, I think it's too early to call victory there.

When talking about working capital, well, on tables, I look at the payable side linked to suppliers, that definitely did note [reverb also] compared to where we were in Q4 of 2010 and '12. Of course, there are other elements also in payables but I would have to check the details here to give a more precise answer to your question, Teun.

Teun Teeuwisse - Kempen & Co. - Analyst

All right. Because it seems like the liability side of your working capital has gone up as a percentage of revenues.

Renier Vree - Arcadis NV - CFO

The other part of that is that amount of prepayments that we received from clients also has gone down between 2013 and '12 but also has a role to play in the overall development of working capital.

Teun Teeuwisse - Kempen & Co. - Analyst

Okay. And the improvement that we have seen in the fourth quarter on the receivable side, isn't that more of a cyclical movement rather than a real underlying improvement?

Renier Vree - Arcadis NV - CFO

Well, if cyclical means that every fourth quarter...
Well, seasonal, I mean, actually.

**Renier Vree - Arcadis NV - CFO**

Yes, chase our clients even harder for it or that they themselves want to make sure they settle all the bills and come to a full payment of any changes and projects that have taken place throughout the year, that's definitely the case. But it doesn't mean it happens by itself. We still have to work hard to have that seasonal effect take place.

**Neil McArthur - Arcadis NV - CEO**

On the third question, Teun, just so that everybody reiterate the figures, all of the cost targets that we have are recurring cost out, they're not one-off.

**Teun Teeuwisse - Kempen & Co. - Analyst**

Okay. Can you indicate what it relates to because the initial cost savings are usually related to IT sections or real estate. Where have been the new cost savings been identified?

**Neil McArthur - Arcadis NV - CEO**

Well, let me just correct that, that was one element of our savings. Another one was to better serve our clients on the pan-European basis. We're able to create bigger tools of capability and therefore do the same amount of work with your technical staff as well and that's being part of what we've been doing with our pan-European operating model as well and one leadership team rather than having many independent leadership groups across Europe.

Now, where we are today is that we have delivered to the bottom line EUR16 million of actual cost out into the P&L in 2013 and that has given us very clear confidence that we believe that on a sustainable going forward basis, we can raise the target to EUR32 million of real sustainable cost out moving forward.

**Teun Teeuwisse - Kempen & Co. - Analyst**

All right.

**Renier Vree - Arcadis NV - CFO**

On return on investment capital, we have achieved also in 2013 a level of about 13%. I don't have the definite final actual yet because they're still being reviewed by our overturn and will be part of our annual results and annual report that we are in the process of finalizing.

**Teun Teeuwisse - Kempen & Co. - Analyst**

Okay. All right. But it's ahead of the 13% target?

**Renier Vree - Arcadis NV - CFO**

It's ahead of the 13% target. Yes.

**Teun Teeuwisse - Kempen & Co. - Analyst**

Okay. That's clear.
Renier Vree - Arcadis NV - CFO

And I didn't get your last question on the cash interest charges.

Teun Teeuwisse - Kempen & Co. - Analyst

Yes. It seems like your cash interest charges and if I look at your cash interest rate, it has gone up compared to previous quarters and let me see -- I see that in the fourth quarter, you paid a cash interest of EUR7.9 million compared to EUR3.3 million in the third quarter and I was wondering what that relates to.

Renier Vree - Arcadis NV - CFO

I am trying to seeing where you are in the overview...

Teun Teeuwisse - Kempen & Co. - Analyst

That should be in your cash flow statement. It shows an interest rate for the full year of [21.7%]. And if I'm correct, that implies that for the fourth quarter, the interest payment was EUR7.9 million.

Renier Vree - Arcadis NV - CFO

Okay. I would have to look that up where that's coming from.

Teun Teeuwisse - Kempen & Co. - Analyst

Okay. I will get back to you then on that one after the call.

Renier Vree - Arcadis NV - CFO

Okay. Thank you.

Teun Teeuwisse - Kempen & Co. - Analyst

Thank you very much.

Operator

Thank you.

We will now take our next question from Philip Scholte from Rabo Bank. Please go ahead.

Philip Scholte - Rabo Securities - Analyst

Yes. Good afternoon, everyone.

First of all, is there any way you can quantify the amount of work you are currently doing related to the World Cup in Brazil and is there -- do you expect any ramp up of that just ahead of the World Cup and is there any risk of a significant slowdown after that?
And my second question relates to your, well, let's call it other emerging market region Asia, how do you currently look at the growth dynamics there? Are you worried by maybe the risk of a slowdown in building construction and real estate development at all and how do you see the dynamics currently developing?

Renier Vree - Arcadis NV - CFO

When it comes to Brazil, Philip, we are involved with the World Cup. The most important project we are doing is in fact the airport in Sao Paulo which is a very large project so there's indirectly related to the World Cup and we already know now there probably are going to be extensions as well as a number of other airports that need similar type of services. So I'm not worried when I look at Brazil and also look at our order book in Brazil for infrastructure projects that we will see after the World Cup that revenues will come down.

Neil McArthur - Arcadis NV - CEO

And if we talk about Asia, Philip, we need to split Asia into a number of different entities. Let's first talk about China where we see strong growth continuing where the vast majority of our clients are private property developers where we're doing the cost on the project management for them. In the fourth quarter last year, we opened three offices in tier two cities in China. We have another two cities in the plan for this year in China.

We see unabated demand for projects that they are taking through to development in those second-tier cities. And so we see continued demand for both our cost management and program management services in China.

When you look at other major economies across Asia, if you talk about Malaysia or Indonesia, we see strong growth again in both of those, again, for our cost program management and build asset consultancy services particularly in Malaysia in that case.

And then the mature market of Singapore that's lower growth where we help our clients not just to realize new assets but we also increasingly through EC Harris in our build asset consultancy help them in optimizing the operation of the assets that they currently have.

So when we look across the whole of Asia, we are still confident to demonstrate a strong growth and good margins in Asia.

Philip Scholte - Rabo Securities - Analyst

Right. But if I'm correct, if I try to make or calculate the organic growth in, let's call the total emerging market segment, is coming down a bit?

Renier Vree - Arcadis NV - CFO

I think if you look at the -- Philip, if you look at the last part of the year and what we have seen is that Brazil continues to do well but also don't forget that in Chile, we have seen a significant slowdown where we are taking out quite some cost to make sure we focus on margin there and that reduces the overall growth of the emerging markets somewhat in the second half of the year.

Neil McArthur - Arcadis NV - CEO

And we haven't talked about the Middle East where we still see a continued strong growth driven by our leading position through the emirates and Qatar and growing presence in Saudi Arabia on both the buildings and the infrastructure side and an increasing footprint in water in the Middle East. So again, with -- for what we call emerging markets which is primarily Brazil, Middle East and Asia, we see continued strong growth for Arcadis.

Philip Scholte - Rabo Securities - Analyst

Right. All right. Thank you very much.
Operator

Thank you.

We will now take our next question from Luuk van Beek. Please go ahead.

Luuk van Beek - Petercam - Analyst

Yes. Two main questions. One, on the environment activities in the US, you indicate that you see increasing competition from parties that not only work in the public markets. You expected competition to be structural. Do you expect them to move back to their original markets once the public market recovers?

And my second question is about the outlook where you talked about investments and capabilities to drive organic growth and performance excellence should we expect a meaningful impact on the cost in 2014 and some say something about the beta period for those investments. Is that something that already contributes towards the end of 2014 or will it take longer?

Renier Vree - Arcadis NV - CFO

Well, Luuk, thanks for your questions.

When it comes to the environmental business in North America, we'll definitely going to make it very attractive for our competitors to move back to better opportunities that are there because this is our market where we do very well. They have a very strong position and we have clients we work for a very, very long time. So we will protect that business as much as we can and we'll definitely encourage others that want to make growth in that business to move back. But of course, that's not fully under our control.

Neil McArthur - Arcadis NV - CEO

In terms of investing and capabilities to drive organic growth, the type of things that you should think about there are investing in people to focus on clients where we believe we can have a greater share of voice within the multinational client program that we already have, expansion of that multinational client program particularly to pick up Asian multinational clients that we can serve on a global basis and then looking to invest in those cities that we've identified around the world where we believe that full range of capabilities from Arcadis can help them with their mission to more sustainable growth cities of the future.

All of that said is taken into our plans year by year for the next three years. All of it is baked into the improvement in our operating margin over the period towards greater than 11%. These kind of investments are the kind of things that take 12 to 18 months to really kick in so we will see that evolve over the three-year strategy period.

Luuk van Beek - Petercam - Analyst

Okay. Thank you.

Operator

(Operator Instructions)

We will now take your next question from James Woodrow from The Analyst. Please go ahead, sir.

James Woodrow - The Analyst - Analyst

Good morning, guys. Good afternoon.
I just have a quick question on M&A in terms of where we are in the pipeline. Are you looking at a number of deals at the moment or is that more like to be back and loaded in the strategy period?

Renier Vree  - Arcadis NV - CFO

We have, over the last period of time, built a strong core team here at headquarters in strategy in mergers and acquisition comprising five or six people where we have built a good pipeline of opportunities and those cover both our core, expanding the core and the seven focus priorities for growth.

In the world of M&A, that is we will not compromise on the criteria that we've always used and those kind of situations are one that you can accurately predict when anything will come to the full fruition of the deal.

And so we have a pipeline. We're continuously working that pipeline but we're not going to do something just for the sake of doing it.

James Woodrow  - The Analyst - Analyst

And so the second one, headcount, can you give what sort of percentage you're looking at? Increasing headcount by this year.

Renier Vree  - Arcadis NV - CFO

Well, that's not something we set targets for or plan for, James. It's more that we plan our revenues and based how we're developing, we see our organizations at a pretty granular level of combination of geography and type of service increasing or adjusting capacity to meet the demand.

James Woodrow  - The Analyst - Analyst

Okay.

Renier Vree  - Arcadis NV - CFO

So there's no really a number I can give you that would reflect the total development.

James Woodrow  - The Analyst - Analyst

Okay. And just the only other I picked up, Aecom were talking about pricing being quite positive in the US private market, are you clear you're not seeing that in your business, is there any reason for that or is it just your business got a lot more competitive where you are in the US?

Neil McArthur  - Arcadis NV - CEO

It's probably the starting point that you come from. We have very good margins in the private sector in the US today which means we have potentially higher prices than Aecom has used which is their margins versus our margins.

James Woodrow  - The Analyst - Analyst

Yes.
And, James, during 2013, we were able to increase our prices in the private sector in the US. So maybe Aecom has also seen some of that and is also reacting to an increasing price trend.

**James Woodrow - The Analyst - Analyst**

Okay. That's brilliant. Thank you very much, guys.

**Operator**

Thank you.

We will now take our next question from Teun Teeuwisse. Please go ahead, sir.

**Teun Teeuwisse - Kempen & Co. - Analyst**

Yes. I have some follow-up questions still. Because you mentioned the group underlying profitability was largely unchanged with the like-for-like margin, not much lower than last year, but of course, there was a huge sum of money relating to the UK. Can you indicate what the like-for-like profitability in the UK has been?

Then another question on further cost, do you plan further cost savings outside Europe?

And then finally, on the Sandy-related work quarter, can you indicate how much that was and how much Sandy-related work you still had in 2013? And also, at what profitability, at what margin that work was executed?

Thank you.

**Renier Vree - Arcadis NV - CFO**

Teun, in the UK, if you take out this partnership benefit, the amount was EUR7 million as mentioned in 2012 which would have brought, best of my quick calculation, the margin last year to 7.3% while in ’13, the amount was EUR4 million and it would have been around 7%. So it means there's a slight reduction as mentioned earlier of the underlying margin in the UK.

**Teun Teeuwisse - Kempen & Co. - Analyst**

Okay. And this EUR4 million, is it expected to continue in the coming years, right?

**Renier Vree - Arcadis NV - CFO**

This EUR4 million is expected to continue. Yes. So we are currently recording approximately EUR1 million of credits every quarter.

**Teun Teeuwisse - Kempen & Co. - Analyst**

Okay.
On the second one, further cost savings, Teun, outside of Europe, I'd like to reiterate what we previously announced that we've appointed one of our most senior and successful leaders, Curt Cramer, who is the president of our environmental business in the US, our biggest single business worldwide, to be the director of performance excellence at the senior management committee level.

His job is to make sure that across the suite of process, well, that's how we decide which clients we want to serve all the way through to how we support our client-facing teams with our support infrastructure that we have our processes in the most effective and efficient way organized to avoid cost, but also then to reduce cost. So avoid cost in program management overruns but then also improve cost by further optimization of our cost base on the global basis.

So he is leading that initiative at the moment and when we're prepared to announce improvements outside of Europe, that we will identify in the future, then we will do so.

Teun Teeuwisse - Kempen & Co. - Analyst

And does that program also include, for example, being strict around client selection?

Neil McArthur - Arcadis NV - CEO

Absolutely.

Teun Teeuwisse - Kempen & Co. - Analyst

Okay. Thank you.

Renier Vree - Arcadis NV - CFO

When it comes to Sandy, Teun, I don't have very precise data. I know from the work executed in 2012, it was at least $10 million that we realized in the fourth quarter and very high margins because we have people working every hour of the day to help out the clients so it means that that work had been both efforts in level of profitability.

Teun Teeuwisse - Kempen & Co. - Analyst

Okay. And for 2013, you don't know how much of that work continued?

Renier Vree - Arcadis NV - CFO

Well, because, of course, it's harder after a while to link it directly to Sandy, we have seen a continuation of similar of that emergency work which in a number of cases became then a steady project for a number of clients to find more sustainable solutions and in the few cases also real programs where we had the bigger projects like the Battery Park project in New York. I can't give you an exact number what the total revenue stream from Sandy has been in 2013.

Teun Teeuwisse - Kempen & Co. - Analyst

Okay. Thank you very much.

Operator

Thank you.
We will now take our next question from Bjorn Krook. Please go ahead.

**Bjorn Krook - ABN AMRO Bank N.V. - Analyst**

Yes. Also, from my side, some followups. First on the associates which was very strong if you compare it to the brief course, I think, last year. To what extent is that sustainable and what is actually, yes, can we carry that forward and how do we look at that?

Also, we've seen some competitors reporting delays in the Middle East, in projects. Is there anything you are seeing on this end?

And then finally, on the investments in the operations, I think in brief discussion you indicated that you would invest 1 percentage point of margin, is that still the plan for 2014 and I'm pretty sure you didn't start at the Capital Markets Day in investing in the business too, so how happy are you with the progress in that?

**Renier Vree - Arcadis NV - CFO**

When we look at the income for associates, Bjorn, then in Brazil, we expect that the results will remain strong. It builds a business which has a kind of a monthly revenue and income stream so that it becomes a bit lumpy so it's hard to predict exactly. But I expected also in 2014 to be positive. It's easier to predict what's happening in Malaysia and Brunei with our Asian activities so there is a little reason to not expect the continuation of the good trend we have seen in the past year.

And also, when it comes to a lesser extent in terms of size, but still relevant for the Benelux that we have a number of joint ventures with construction companies on specific projects, those results are also quite predictable. So if we take it all together, that also in 2014, we should expect an income to continue to be positive in this part of the P&L.

**Bjorn Krook - ABN AMRO Bank N.V. - Analyst**

All right.

**Neil McArthur - Arcadis NV - CEO**

On the competitors having delays in the Middle East, I think it's very important to point out the vast majority of the work that we do in the Middle East. We sit on the half of the client as a project and program manager or a provider of project and program management services. That's the vast majority of what we do.

And so if there is a delay initiated by a client, that may impact somebody that's sitting on the detailed engineering design side of something in the Middle East. We sit in a different place because we have to help the client replan that rather than being on the receiving end of any delays from the client side.

In a limited number of places like in what do we do to the engineering side of new water systems in the Middle East, and increasingly, we're getting involved in design reviews and some engineering works with infrastructure. But today, the vast majority, we sit as project managers and program managers and providers of a cost in program manager services.

**Bjorn Krook - ABN AMRO Bank N.V. - Analyst**

Okay. So that's actually just time and delays are actually potentially positive for you?

**Neil McArthur - Arcadis NV - CEO**

Depending which client and which project, that could be helpful. Yes. But also, what we want to do is work with our clients to --
Yes, yes. Fair enough.

Neil McArthur  -  Arcadis NV  -  CEO

-- delay any projects through the impact value of that project or program for the client. So we will help them where we can.

Bjorn Krook  -  ABN AMRO Bank N.V.  -  Analyst

Yes.

Neil McArthur  -  Arcadis NV  -  CEO

The third one around investing out of opening margin and driving organic growth, yes, clearly we've got started on that. I'll point to just one example. We hired a senior person to lead our oil and gas market sector on a global basis last year, second half of last year, Jim Bausano, clearly when we look at our multinational client program, the success that we're having, the growth is in the oil and gas and mining and that's being driven by the investment and new people from outside that have the full range of capabilities and can engage a client in a conversation around not just environment but also the full suite of solutions that we have now as Arcadis on a truly global basis. So we are beginning to see the fruits of our investment.

Bjorn Krook  -  ABN AMRO Bank N.V.  -  Analyst

Okay. Because what I'm, of course, trying to find out is to what extent we're at already towards the end of the investments and how much is waiting on the cost base in Q4 in 2014 already -- or 2013, sorry. It's a continued process but --

Neil McArthur  -  Arcadis NV  -  CEO

It's a continued process that's, I would say, gathering momentum because remember, we finished the strategy process only in the end of 2014 where -- sorry, 2013 -- where we clearly identified the focused areas for growth and we've translated that now into the investment plans and those business are there and we're investing against those seven priorities and expanding our core and clearly that we want to make sure that there's a balancing act between investing appropriately for growth and maintaining a high margin and a return for our shareholders as we go.

Bjorn Krook  -  ABN AMRO Bank N.V.  -  Analyst

Okay. And then one thing that's finding this and I think you hinted on that, we will not see the 5% organic growth revenue in 2014, right?

Neil McArthur  -  Arcadis NV  -  CEO

I'd reiterate what we said at the Capital Markets Day is that we expect to deliver a compound annual growth rate of greater than 5% over the three-year period. And when you look at the starting point that we're coming from and this year, 2013 is no different than we've done historically over the last three to four years that's been between two and three percent organic growth, then I leave you to make your judgment as to the organic growth for 2014.

Bjorn Krook  -  ABN AMRO Bank N.V.  -  Analyst

Okay. Fair enough. Thank you.

Operator

Thank you.
We will now take our next call, question, from Andre Mulder. Please go ahead.

Andre Mulder - Kepler Cheuvreux - Analyst

Good afternoon. Two questions. Could you be a bit more specific on what your organic growth was in the UK? You're not saying positive, what do you mean by that? Secondly, do you have any targets for where working capital should be at the end of this year?

Renier Vree - Arcadis NV - CFO

Andre, this is Renier. When it comes to the UK, there we have seen in the second half of the growth level within the low single digit when it comes to net revenues.

For working capital, not of target at this point in time. I would like to be specific about and definitely want to bring it further down the purposes of also review we have in the free cash flow exceeding net income for another year. And therefore, further reduce in working capital is an important element of achieving it.

Andre Mulder - Kepler Cheuvreux - Analyst

Is there any reason why you should not achieve that this year?

Renier Vree - Arcadis NV - CFO

Well, we did achieve it in 2012. We did achieve it 2013. And also in 2014, that's definitely where we are aiming for.

Andre Mulder - Kepler Cheuvreux - Analyst

Okay. Thanks.

Operator

As a reminder, if you would like to ask a question, please press star one on your telephone keypad. We will now take our next question from Philip Scholte. Please go ahead.

Philip Scholte - Rabo Securities - Analyst

Yes, thank you. A very dual accounting and modeling question for Renier, probably. Do you have any guidance on your tax rate for 2014?

Renier Vree - Arcadis NV - CFO

Hi, Philip. Well, maybe a dual question for the spreadsheet. Of course, it's very dynamic how you get to a tax rate so I don't blame you for it. It's something that's also I spent a lot of time on.

Philip Scholte - Rabo Securities - Analyst

Well, I don't. I just ask you.
Renier Vree - Arcadis NV - CFO

I'm just building up to a good answer. When you look at how the tax rate has developed over the last couple of year, then you have seen typically we are 28% to 29%. It really helped the share price of our tax credits for option of share incentive programs that help us. So I think we're allowed to stay below the 30% and then you quickly get to a number of 28% or 29% which is the historical rate we have been performing at in the last years.

Philip Scholte - Rabo Securities - Analyst

All right. All right. Well, thanks very much.

Operator

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

Joost Slooten - Arcadis NV - IR Director

If we could give it just one more second or a minute to see if people have more questions because the last time around, I think we hooked off a little early.

Operator

Okay. If you would like to ask a question, please press star one on your telephone keypad.

Joost Slooten - Arcadis NV - IR Director

Okay. If there are no further questions then, operator, thank you.

I just wanted to say that given the fact that we came out early with results, we were perhaps not able to fully answer all of your questions. Please feel free to approach me if you need further detail on some of the financials that were presented. We'll be happy to provide those.

And as said earlier, we have announced also in the press release that went out last night that we will issue our audited and approved full year 2013 results on February 20th.

Neil McArthur - Arcadis NV - CEO

As originally scheduled.

Joost Slooten - Arcadis NV - IR Director

As originally scheduled and on that day, if you have questions, then also please approach us. And if there is a call to be scheduled which we're not sure about yet, then we'll let you know. So with that --

Neil McArthur - Arcadis NV - CEO

I'd like to thank everybody for participating in the call and just to reiterate, in 2013, delivering a 6% profit growth while we had about a minus 4% currency impact and continuing to deliver low single-digit growth organically, we feel that a strong performance, given the market circumstances, particularly in Europe and the US and we're very happy with the position that we've built for ourselves now in the emerging markets over a quarter of our business is in the emerging markets today and we'd like to thank everybody for being with us on the call.
So thank you all.

Renier Vree - Arcadis NV - CFO

And goodbye.

Operator

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