

# Arcadis Reports Second Quarter and First Half Year Results 2019

## ARCADIS REPORTS SECOND QUARTER AND FIRST HALF YEAR RESULTS 2019

### Organic growth, continued solid results and sustained cash flow improvement

#### Operational:

- | Continued solid results led by strong performance in North America
- | Measures to improve results in Asia, Middle East and Latin America start to yield results
- | Further investments in people and digital offerings to support key growth areas

#### First half year financials:

- | Operating EBITA margin improved to 7.6% (2018: 7.2%)
- | Organic net revenue growth of 2% to €1.3 billion
- | EBITDA increased by 12% to €112 million (2018: €100 million)
- | Net working capital improved to 16.2% (2018: 18.8%); DSO to 82 days (2018: 91 days)
- | Sustained free cash flow improvement leading to a leverage ratio of 1.6 (2018: 2.2)
- | Organic backlog growth at 3% year-to-date

**Amsterdam, 25 July 2019 – Arcadis (EURONEXT: ARCAD), the leading global Design & Consultancy organization for natural and built assets, reports continued solid results and a sustained cash flow improvement for the first half year of 2019. Organic growth was 2% and operating EBITA margin improved to 7.6%, up from 7.2% last year. The results were led by a strong performance in North America.**

Peter Oosterveer, CEO Arcadis comments: “Arcadis delivered another solid quarter leading to 2% organic growth and an operating margin of 7.6% for the first half year. The sustained cashflow improvement allowed us to further reduce our debt to a leverage ratio of 1.6, well within our 2020 strategic target range. I am particularly pleased with the continued strong revenue growth and margin improvement in the Americas, as well as the better results in Asia Pacific. In Europe & the Middle East, we saw strong performance in the Netherlands, the impact of one less working day, and lower results in France. The actions identified in prior quarters for Asia, the Middle East and Latin America have resulted in improved results in all three regions.

As part of our innovation and growth agenda we will continue to invest in our people and digital offerings. This to exploit our growth opportunities in sustainable cities and smart mobility, future proof industries, environmental consultancy, and water management. Following a successful demo day with Techstars, allowing 10 global startups to present their innovative solutions for the City of the Future, Arcadis will use the opportunity to continue our cooperation with these startups via pilot integration into Arcadis projects and potentially through additional equity investments.

Additionally, to allow us to accelerate the upscaling of digital solutions and delivery of new business models, we are in the process of creating a new entity that consolidates our legacy asset knowledge and digital capabilities with those which came with the recent acquisitions of SEAMS and EAMS.

Our strategic priorities for 2019 remain clear. The progress made in the first half year gives us confidence that we will be able to deliver on the strategic targets set for 2020.”

### REVIEW OF PERFORMANCE (EXCL. IFRS 16)

in € millions Period ended 30 June	HALF YEAR			SECOND QUARTER		
	2019	2018	change	2019	2018	change
Gross revenues	1,707	1,586	8%	878	819	7%
Organic growth	4%			5%		
<b>Net revenues</b>	1,275	1,220	5%	647	621	4%
Organic growth	2%			2%		
<b>EBITDA</b>	112	100	12%	56	53	5%
EBITDA margin	8.8%	8.2%		8.7%	8.5%	
<b>EBITA</b>	90	79	13%	45	42	7%
EBITA margin	7.1%	6.5%		7.0%	6.8%	
<b>Operating EBITA<sup>1)</sup></b>	97	88	10%	49	45	10%
Operating EBITA margin	7.6%	7.2%		7.6%	7.2%	
Net income	38	35	9%			
Net income from operations (NIFO)	49	44	10%			
NIFO per share (in €)	0.55	0.51	8%			
Net working capital %	16.2%	18.8%				

Days sales outstanding	82	91		
Free cash flow <sup>2)</sup>	8	(6)	60	54
Net debt	378	468		
Backlog net revenues (billions)	2.1	2.1		
Backlog organic growth	3%			

<sup>1)</sup> Excluding acquisition, restructuring and integration-related costs

<sup>2)</sup> Cash flow from operating activities minus investments in (in)tangible assets

## REVENUES AND INCOME

### IFRS 16: APPROACH AND IMPACT

IFRS 16 'Leases' replaces the existing standard IAS 17 'Leases' and significantly changes how Arcadis, as lessee, accounts for its operating lease contracts from 1 January 2019. Arcadis has decided to apply the 'modified retrospective approach', and has not restated comparative amounts for the year prior to adoption. The 2019 figures in this press release are based on IAS 17 and therefore comparable. The impact of IFRS 16 is an accounting change and has no impact on net cash, nor on bank covenants as they are lease adjusted. The impact of IFRS 16 on EBITDA is H1 +€37 million, for EBITA 2019 €1 million, net finance expense -€5 million and net income -€2 million. The net income is negatively impacted as a result of front loading of expenses. The interim 2019 financial statements are reported based on IFRS 16, including transition disclosure, and are attached to this press release.

### REVIEW OF PERFORMANCE FOR THE SECOND QUARTER

Net revenues totaled €647 million for the second quarter, organic growth was 2%. The organic growth in the Americas was strong with 11%, revenue growth in Europe was 1%, while the Middle East decreased by 23% due to continued selectivity in acquiring work. In Asia Pacific the organic decrease was 1%, and in CallisonRTKL 3%.

Operating EBITA improved organically by 6% to €49 million (Q2 2018: €45 million), the currency translation effect was 3%. The operating EBITA margin improved to 7.6% (Q2 2018: 7.2%) driven by strong performance in the Americas.

### REVIEW OF PERFORMANCE FOR THE FIRST HALF YEAR

Organic net revenue growth was 2% in the first half year, mainly driven by a 10% growth in the Americas. Revenue growth in Europe was 1% while the Middle East decreased by 19% due to continued increased selectivity of acquiring work. In Asia Pacific and CallisonRTKL the organic revenue decrease was 1%.

Operating EBITA increased by 10% to €97 million (H1 2018: €88 million). Operating EBITA margin increased to 7.6% (H1 2018: 7.2%), driven by strong improvement in the Americas, including Brazil, and by better performance in Asia Pacific. Non-operating costs were lower at €7 million (H1 2018: €8 million).

The net revenues and operating EBITA (margin) were impacted by an average of one less working day.

The effective tax rate for the first half-year was 34.9% (H1 2018: 26.3%). The weighted average annual income tax rate for the full financial year is expected to be ~29%. The tax rate was impacted by, among other things, non-deductible expenses, updates to tax positions from previous years and unrecognized losses.

Net finance expenses were €14 million (H1 2018: €14 million). Within the net finance expense the interest expense was reduced due to a lower average gross debt, offset by a lower interest income from loans to associates and a significantly lower net foreign exchange result.

Income from associated companies was €1 million (H1 2018: a loss of €5 million). The expected credit loss on shareholder loans and corporate guarantees related to the non-core clean energy assets in Brazil was €5 million (H1 2018 €0).

Net income from operations increased by 10% to €49 million or €0.55 per share, compared to €44 million or €0.51 per share in the first half of 2018.

## REVIEW OF PERFORMANCE FOR THE FIRST HALF YEAR BY SEGMENT

### AMERICAS

(33% of net revenues)

in € millions	HALF YEAR			SECOND QUARTER		
	2019	2018	change	2019	2018	change
Period ended 30 June						
Gross revenues	679	551	23%	360	288	25%
Net revenues	426	365	17%	222	189	18%
Organic growth	10%			11%		
EBITA	35.3	25.9	36%			
Operating EBITA <sup>1)</sup>	37.1	28.2	32%			
Operating EBITA margin	8.7%	7.7%				

<sup>1)</sup> Excluding acquisition, restructuring and integration-related costs

Organic net revenue growth of 10% in both North America as well as in Latin America. The operating EBITA margin improved significantly from 7.7% to 8.7%, with North America delivering 9.6%, driven by a strong performance in environmental consultancy and continued solid results in Water and Infrastructure. Operating EBITA in Latin America improved by €2 million compared to a close to break-even result last year.

#### EUROPE & MIDDLE EAST (45% of net revenues)

in € millions Period ended 30 June	HALF YEAR			SECOND QUARTER		
	2019	2018	change	2019	2018	change
Gross revenues	692	708	-2%	345	360	-4%
Net revenues	574	586	-2%	283	294	-4%
Organic growth	-2%			-2%		
EBITA	35.3	33.7	5%			
Operating EBITA <sup>1)</sup>	38.1	39.3	-3%			
Operating EBITA margin	6.6%	6.7%				

<sup>1)</sup> Excluding acquisition, restructuring and integration-related costs

Organic net revenue decline of 2%, which included an increase of 1% in Continental Europe, and the UK, and a 19% decrease in the Middle East due to continued selective bidding. While our buildings business in the UK remained fairly stable, the continued uncertainty around Brexit is impacting the timing of infrastructure spending.

The operating EBITA margin in the Netherlands continues to be robust and improved in the Middle East. Operating EBITA margin in the segment declined to 6.6% (H1 2018: 6.7%) due to the impact of one less working day and lower results in France.

#### ASIA PACIFIC (13% of net revenues)

in € millions Period ended 30 June	HALF YEAR			SECOND QUARTER		
	2019	2018	change	2019	2018	change
Gross revenues	188	186	1%	98	98	-1%
Net revenues	165	164	1%	86	84	2%
Organic growth	-1%			0%		
EBITA	10.9	11.8	-8%			
Operating EBITA <sup>1)</sup>	12.5	11.1	12%			
Operating EBITA margin	7.6%	6.8%				

<sup>1)</sup> Excluding acquisition, restructuring and integration-related costs

Organic net revenue growth in Asia was slightly positive. In Australia the organic net revenue declined by 2%, driven by timing of the ramp-up of large projects.

The measures taken in Asia in 2018 resulted in greater selectivity, increased business transparency and an improved margin in Q2. In June 2019 a share purchase agreement was signed for the sale of the Design & Engineering activities in China. Operating EBITA margin in Australia improved in the second quarter and remained very strong.

#### CALLISONRTKL (9% of net revenues)

in € millions Period ended 31 December	HALF YEAR			SECOND QUARTER		
	2019	2018	change	2019	2018	change
Gross revenues	148	141	5%	76	73	4%
Net revenues	111	105	5%	57	54	4%
Organic growth	-1%			-3%		
EBITA	8.6	8.0	7%			
Operating EBITA <sup>1)</sup>	8.9	9.3	-4%			
Operating EBITA margin	8.1%	8.8%				

<sup>1)</sup> Excluding acquisition, restructuring and integration-related costs

Organic net revenues declined by 1%. Under new leadership the full focus is on winning work, reducing employee turnover and improving operating EBITA.

#### CASH FLOW AND BALANCE SHEET

Free cash flow in the second quarter was €60 million (Q2 2018: €54 million) leading to a free cash flow of €8 million (H1 2018: -€6 million). EBITDA increased by 12% to €112 million (H1 2018: €100 million). Net working capital as a percentage of gross revenues improved to

16.2% (H1 2018: 18.8%) and days sales outstanding decreased to 82 days (H1 2018: 91 days). Net debt was clearly lower year-on-year at €378 million (H1 2018: €468 million). The covenant leverage ratio further improved to 1.6 (H1 2018: 2.2) well within the 2020 strategic target range of between 1.0 and 2.0.

## BACKLOG

Backlog at the end of H1 2019 stood at €2.1 billion (H1 2018: €2.1 billion), representing 10 months of net revenues. Backlog increased organically year-to-date by 3%. In all segments the year-to-date backlog growth was positive, except for CallisonRTKL. Year-over-year the organic backlog growth was 3%, when excluding a 46% decrease in the Middle East due to more selective bidding.

## NON-CORE CLEAN ENERGY ASSETS BRAZIL (ALEN)

### Operational

For the renewable gas-to-gas plant 70% of the production has been contracted with two customers, with discussions ongoing to sell the remaining volume. Delivery to the first customer has started and delivery to the second customer is expected to start in August. The largest gas-to-power plant is fully operational, delivering maximum capacity to the grid. The last gas-to-power plant is under construction, with completion and commissioning expected to start in the fourth quarter.

### Divestment process

As part of the initiated divestment process led by financial advisor Itaú bank, the information memorandum was shared with potential buyers. The intention is to divest the energy assets in 2019.

### Financial performance

The loss for Arcadis in the second quarter was €2 million. As the completed two assets start to generate cash, the expectation is to be break-even towards the end of the year. As intended, ALEN refinanced its expiring debt and extended to June 2020.

## STRATEGIC PRIORITIES 2019

Our strategy is based on three pillars: People & Culture, Innovation & Growth, and Focus & Performance. In 2019, our objective is to make further progress towards our strategic targets set for 2020:

- | Revenue growth:
  - | Further build on the growth momentum and focus on profitable growth
  - | Leverage the streamlined client portfolio and digital solutions
- | Further margin improvement:
  - | Rigorous adherence to actions identified for the Middle East and Asia to further improve performance
  - | Leverage of "Make Every Project Count", growth of Global Excellence Centers
- | Further cost optimization
- | Continue strong cash collection and further strengthen the balance sheet
- | Non-core clean energy assets Brazil: intention to divest all assets in 2019

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## FINANCIAL CALENDAR 2019

24 October 2019      Trading update Q3 2019

## FOR FURTHER INFORMATION PLEASE CONTACT:

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## ANALYST MEETING

Arcadis will hold an analyst meeting and webcast to discuss the half year results for 2019. The analyst meeting will be held at 10.00 hours CET today. The webcast can be accessed via the investor relations section on the company's website at

<https://www.arcadis.com/en/global/investors/>.

## ABOUT ARCADIS

Arcadis is a leading global Design & Consultancy organization for natural and built assets. Applying our deep market sector insights and collective design, consultancy, engineering, project and management services we work in partnership with our clients to deliver exceptional and sustainable outcomes throughout the lifecycle of their natural and built assets. We are 27,000 people, active in over 70 countries that generate €3.3 billion in revenues. We support UN-Habitat with knowledge and expertise to improve the quality of life in rapidly growing cities around the world. [www.arcadis.com](http://www.arcadis.com).

## REGULATED INFORMATION

This press release contains information that qualifies or may qualify as inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

## FORWARD LOOKING STATEMENTS

Statements included in this press release that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions and are not guarantees. Actual events or the results of our operations

could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are typically identified by the use of terms such as “may,” “will,” “should,” “expect,” “could,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “continue,” “predict,” “potential” or the negative of such terms and other comparable terminology. The forward-looking statements are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements.

#### **Attachments**

- | [Arcadis first half year 2019 results - press release](#)
- | [Arcadis Interim Financial Statements 2019](#)
- | [Arcadis first half year 2019 results - analyst presentation](#)