Second quarter and half year results 2022

Arcadis reports solid set of results and sees continued strong client demand

SECOND QUARTER RESULTS

- Accelerated organic net revenue growth of 8.1%[1)], total net revenues of €729M
- Improved operating EBITA margin of 9.3% (Q2 '21: 9.1%)
- Free Cash flow of €41M (Q2 '21: €68M)
- Strong client demand results in organic backlog growth of 5.9%[1)]
- Net Working Capital improved to 13.3%, Days Sales Outstanding down to 69 days
- Intended acquisition of IBI Group to strengthen our Digital Leadership, enhance geographic presence in North America, and add strategic complementary capabilities to Places and Mobility

Amsterdam, 28 July 2022 – Arcadis (EURONEXT: ARCAD) reports organic net revenue growth of 8.1%, with an improved operating EBITA margin of 9.3%, and sees continued strong client demand resulting in organic backlog growth of 5.9% for the second quarter.

CEO STATEMENT

Peter Oosterveer, CEO Arcadis, comments: "I am pleased to report a solid set of results in the first half of 2022, fueled by growing client demand across our three Global Business Areas. This demand led to an organic net revenue growth of 8.1% in the quarter, continued strong order intake, resulting in an organic backlog growth of 5.9%, and a healthy pipeline of opportunities.

Our new operating model, launched in January 2022 and focused on the Global Business Areas (GBAs): Resilience, Places and Mobility, is yielding the expected results. We are seeing increased global collaboration, and scaling and cross selling of services across the business areas, which is helping to serve our clients more efficiently and effectively. We delivered continued strong performance particularly with clients in transportation, energy & resources, and industrial manufacturing, driving margin improvement to 9.3% for the quarter, while making further investments in Digital solutions for clients, and in the attraction, retention and development of key industry talent.

As we look to the remainder of the year, we are encouraged by increasing order intake from clients to support their Net Zero ambitions, the increased focus on global electric vehicle roll-out and the need for sustainable industrial manufacturing solutions, particularly in North America. In the current geopolitical reality, both public and private clients are looking to reduce their energy dependencies, leading to a growing appetite for energy transition solutions and sustainability advisory. The recently announced intended acquisition of the Canadian IBI Group will bring increased presence in the highly attractive North American market, enhances our Digital capabilities and positions us well for further acceleration of our profitable growth, all fully supporting our strategic agenda.

We will continue to closely watch the geo-political situation as well as the economic developments and outlook. I am confident that with the accelerated demand we are experiencing combined with the pipeline of private and public sector opportunities and our financial discipline, we are on track to deliver on our strategic targets."

[1)] Underlying growth excluding the impact of currency movements, acquisitions or footprint reductions, such as the Middle East, winddowns or divestments

KEY FIGURES

in € millions	Half year			Second quarter		
Period ended 30 June 2022	2022	2021	change	2022	2021	change
Gross revenues	1,847	1,660	11%	968	848	14%
Net revenues	1,418	1,276	11%	729	644	13%
Organic growth (%)[1)]	6.9%			8.1%		
EBITDA	178	167	7%	91	83	10%
EBITDA margin (%)	12.6%	13.1%		12.5%	12.9%	
EBITA	130	113	15%	65	57	13%
EBITA margin (%)	9.2%	8.9%		8.9%	8.9%	
Operating EBITA[2)]	133	116	14%	68	58	16%
Operating EBITA margin (%)	9.3%	9.1%		9.3%	9.1%	
Net Income	86	77	12%	44	31	40%
Net Income from Operations (NIfO)[3)]	93	80	16%	47	32	49%
Avg. number of shares (millions)	89.2	89.6	0%	89.2	89.6	0%
Net Working Capital (%)	13.3%	14.3%				
Days Sales Outstanding (days)	69	74				
Free Cash Flow	-10	29	-135%	41	68	-40%
Net Debt	283	368	-23%			
Backlog net revenues (millions)	2,331	2,125	10%			
Backlog organic growth (year on year)[1)]	5.9%					

REVIEW OF THE SECOND QUARTER 2022

Net revenues totaled €729 million and increased organically by 8.1%, driven by all GBAs. Growth was very strong in the UK, North America, and Australia, with Continental Europe and Brazil contributing as well. Organic growth was slightly offset by a decline in Greater China, as a result of ongoing lockdowns. The currency impact was 7.0%, mainly driven by a strong US Dollar. The operating EBITA improved to 9.3% (Q2 2021: 9.1%), driven by a better year-on-year performance from Places. Globally, the margin improved while we increased our investments in both Digital Solutions and People.

REVIEW OF THE HALF YEAR 2022

Net revenues totaled €1,418 million and increased organically by 6.9%, driven by all GBAs. The currency impact was 5.9% driven by a strong US Dollar. Non-operating costs were in line with last year and driven by restructuring costs for the wind-down of our business in the Middle East. The income tax rate was 28% (Q2 2021: 21%) and was impacted by, amongst others, non-deductible expenses and non-taxable income from divestitures. Net finance expenses decreased to €5.6 million (HY 2021: €12.5 million), driven by a lower net debt position. Net income from operations increased by 16% to €93 million (HY 2021: €80 million), or €1.04 per share (HY 2021: €0.89), driven by higher revenues, and lower interest expenses.

[1)] Underlying growth excluding the impact of currency movements, acquisitions or footprint reductions, such as the Middle East, winddowns or divestments
[2)] Excluding restructuring, acquisition & divestment costs
[3)] Net income before non-recurring items (e.g. valuation changes of acquisition-related provisions, acquisition & divestment costs, expected credit loss on shareholder loans and corporate guarantees and one-off pension costs)

OPERATIONAL HIGHLIGHTS

RESILIENCE

42% of net revenues

in € millions	Half year			Second quarter		
Period ended 30 June 2022	2022	2021	change	2022	2021	change
Net revenues	589	513	14.9%	308	261	17.8%
Organic growth (%)[1]	7.7%			8.5%		
Operating EBITA	60	55	7.8%			
Operating EBITA margin (%)	10.1%	10.8%				
Backlog net revenues (millions)	842	746				
Backlog organic growth (year on year)[1]	5.5%					

Resilience showed continued solid revenue and backlog growth for the second quarter, driven by both public and private clients in North America, UK, Australia and Brazil. Client demand and performance continues to be strong in environmental restoration, e.g. caused by clients adhering to their environmental obligations and tightening regulation around PFAS. The current economic and geopolitical unrest has further driven public as well as private investments in climate adaptation, energy transition and water optimization, which was reflected in solid organic backlog growth. The margin for the half year was in line with our strategic margin target set for 2023, and driven by good performance from North America and Europe. The margin decrease versus last year was to a large extent driven by increased investments in Digital Solutions and People, as we continue to invest in attracting and retaining key industry talent to execute our growing backlog.

PLACES

33% of net revenues

in € millions	Half year			Second quarter		
Period ended 30 June 2022	2022	2021	change	2022	2021	change
Net revenues	463	447	3.7%	235	228	3.1%
Organic growth (%)[1]	3.1%			5.1%		
Operating EBITA	41	30	36%			
Operating EBITA margin (%)	8.9%	6.8%				
Backlog net revenues (millions)	968	961				
Backlog organic growth (year on year)[1]	3.1%					

Places demonstrated good revenue growth in the second quarter in particular driven by UK, North America and Australia, further supported by good growth in Continental Europe and partially offset by COVID-19 lockdowns in China and CallisonRTKL. Key clients in Industrial Manufacturing (e.g. Life Sciences, Automotive and Technology), Government and Energy & Resources, were main contributors to the revenue and backlog growth, as they made investments in creating sustainable manufacturing facilities, EV giga factories, energy efficient data centres or resilient public transport places. The margin improved year-on-year and was driven by strong performance, and a higher contribution from UK and North America, last year’s margin was impacted by losses on projects in Asia. We see a healthy pipeline of opportunities across a resilient client and solutions portfolio, with very strong demand and investments in EV giga factory space for support in permitting, D&E and program management, but also increasing capex investments in industrial manufacturing driving resource efficiency and productivity.

MOBILITY

25% of net revenues

Period ended 30 June 2022	2022	2021	change	2022	2021	change
Net revenues	366	317	15.4%	187	155	20.2%
Organic growth (%)[1]	10.2%			11.1%		
Operating EBITA	35	33	6.6%			
Operating EBITA margin (%)	9.5%	10.3%				
Backlog net revenues (millions)	521	418				
Backlog organic growth (year on year)[1]	11.9%					

Revenue and backlog growth was very strong in Mobility for the first half year, particularly for public and private clients in the UK and Australia, with additional contribution from North America and Continental Europe. Highways and Rail clients increasingly looked to improve efficiency and reliability of travel with the use of digital tools to reduce disruption and congestion, ultimately lowering cost and improving quality of life. The client demand for New Mobility was also strong, with increased investments in additional capacity for EV charging infrastructure, amongst others. We experienced increased GBA cross selling as Mobility clients look for Resilience solutions, driving transport decarbonization for highways, ports, airports, and rail. The margin was very strong in UK and Australia, and slightly offset by performance in Greater China, again caused by ongoing lockdowns. The margin decrease versus last year was driven by increased investments in Digital Solutions and People, as well as the ramp up of large projects.

BALANCE SHEET & CASH FLOW

Net working capital as a percentage of annualized gross revenues improved to 13.3% (Q2 2021: 14.3%) and Days Sales Outstanding (DSO) improved to 69 days (Q2 2021: 74 days), resulting from disciplined working capital management. Both well within the strategic targets set for 2023. The balance sheet strengthened year-on-year, resulting in a significantly lower net debt of €283 million (Q2 2021: €368 million).

Free cash flow was €41 million during the second quarter (Q2 2021: €68 million), improved EBITDA performance versus last year was offset by cash outflow from high unbilled receivables, a result of a sharp increase in gross revenues for June 2022.

STRATEGIC HIGHLIGHTS

On July 18, 2022, Arcadis announced the acquisition of IBI Group: a forward thinking, technology-driven design firm, which will:

- Accelerate Arcadis' Digital Leadership strategy with technology driven industry talent from IBI Group, and enable Arcadis to combine all of its digitally enabled client solutions and software products in a new fourth Global Business Area "Intelligence"
- Complement and strengthen our position in North America, leveraging on the Global Key Client program and use of GECs.
    - Our **Places** clients in Industrial Manufacturing, Government and Energy & Resources are key drivers of revenue and backlog growth, which will be a strong match with IBI Buildings' expertise in master planning, smart city design and structural & electrical engineering (e.g. in Automotive and Aerospace)
    - In our **Mobility** GBA we see very strong demand across our client base with, for example, a critical ask for more efficient and reliable Highways and Rail solutions and public transport places. IBI Group's solutions such as Transport Planning and -Engineering and -Management with a strong digitally-enabled solutions and state of the art Transport Information Systems are expected to improve our client proposition
    - Our **Resilience** GBA will benefit from increasing further scale through IBI Group's water and wastewater as well as its environmental services activities
- Provide a strong position in the highly attractive Canadian market

During the first half 2022 and as part as its ‘Focus and Scale’ strategic axis, Arcadis divested its activities in Czech Republic, Slovakia, and Thailand. Given the limited financial size of these businesses, these divestments have no significant impact on group metrics.

FINANCIAL CALENDAR

27 October 2022	2022 Q3 Trading update
16 February 2023	2022 Q4 & full year Results

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ABOUT ARCADIS

Arcadis is the leading global design & consultancy organization for natural and built assets. We maximize impact for our clients and the communities they serve by providing effective solutions through sustainable outcomes, focus and scale, and digitalization. We are 29,000 people, active in more than 70 countries that generate €3.4 billion in revenues. We support UN-Habitat with knowledge and expertise to improve the quality of life in rapidly growing cities around the world.
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