ARCADIS Design & Consultancy for natural and built assets

PRESS RELEASE

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ARCADIS REPORTS FOURTH QUARTER AND FULL YEAR RESULTS 2019

Sustained revenue growth and improved margin

Operational
- Continued growth on the back of megatrends urbanization, sustainability and digitalization
- Improvement areas Asia, Middle East and Latin America delivered better results
- Growth investments in sustainable solutions and digital offerings
- People First focus improves voluntary employee turnover

Fourth quarter financials
- Organic net revenue growth of 5% to €660 million (Q4 2018: €607 million)
- Strong operating EBITA margin of 9.0% (Q4 2018: 7.2%)

Full year 2019
- Organic net revenue growth of 3% to €2.6 billion (gross revenues of €3.5 billion)
- Operating EBITA increased by 18% to €209 million (2018: €177 million); Operating EBITA margin improved to 8.1% (2018: 7.3%)
- Free cash flow of €97 million (2018: €149 million), temporarily held back by higher working capital due to the implementation of the new Oracle Cloud solution in North America
- Net working capital at 16.6% (2018: 15.1%); DSO at 88 days (2018: 80 days)
- Reduction of net debt to € 310 million, resulting in a Net debt/EBITDA ratio of 1.3
- Proposal to increase dividend to €0.56 per share (2018: €0.47). Pay-out ratio at 40%
- Share buy back up to 3 million shares to cover employee incentive plans and stock dividend

Amsterdam, 13 February 2020 – Arcadis (EURONEXT: ARCAD), the leading global Design & Consultancy organization for natural and built assets, reports a strong fourth quarter with 5% organic revenue growth and an operating EBITA margin of 9.0% (Q4 2018: 7.2%). Organic revenue growth for the year was 3% with an operating EBITA margin of 8.1%, up from 7.3% last year.

CEO STATEMENT

Peter Oosterveer, CEO Arcadis comments: “We are on track to achieve our strategic targets set for 2020. Our revenue and margin growth in the fourth quarter contributed to an improved performance for the full year. We are also pleased with the results in Asia, the Middle East and Latin America, following the actions we took. Our balance sheet is strong despite a lower free cash flow due to residual delays in cash collection in North America, resulting from the Oracle Cloud implementation.

I have always been convinced that the foundation for better business results starts with our people. To create an environment for people to grow, perform and succeed it is vital to attract, develop and retain the workforce of the future for Arcadis. I’m therefore proud to see that our People First approach significantly lowered our voluntary employee turnover rate compared to last year.

We continue to invest in our Innovation & Growth agenda, through the recent launch of our new digital business, “Arcadis Gen”, focused on developing digital products and services and delivering them through new business models. Arcadis Gen already demonstrated the global scalability of our enterprise asset management platform by winning a major project for Amtrak, the passenger railway operator in North America, which follows the win of a project for Transport for London late last year. In addition, we continue to enhance the digitalization of our core business. In the Netherlands we strengthened our business with the acquisition of “Over Morgen”, a consultancy focused on urban planning and energy transition.

When we announced our strategy “Creating a sustainable future” in 2017, we defined a clear path on long-term value creation, we are pleased to see that our efforts deliver results.”

REVIEW OF PERFORMANCE

Key Figures

in € millions		FULL YEAR			FOURTH QUARTER		
Period ended December 31	**2019[1)]**	**2019**	**2018**	change	**2019**	**2018**	change
Gross revenues	*3,473*	*3,473*	*3,256*	*7%*	*930*	*862*	*8%*
Organic growth	*4%*	*4%*			*5%*		
Net revenues	2,577	2,577	2,440	*6%*	660	607	*9%*
Organic growth	*3%*	*3%*			*5%*		
EBITDA	309	235	204	*15%*	61	51	*20%*
EBITA	192	189	162	*17%*	49	39	*24%*
EBITA margin	*7.5%*	*7.3%*	*6.6%*		*7.4%*	*6.5%*	
Operating EBITA [2)]	213	209	177	*18%*	60	44	*36%*
Operating EBITA margin	*8.2%*	*8.1%*	*7.3%*		*9.0%*	*7.2%*	
Net income	12	18	-27				
Net income from operations (NIFO)	120	125	88	*43%*			
NIFO per share (in €)	1.36	1.42	1.01	*41%*			
Dividend (proposal) per share (in €)	0.56	0.56	0.47	*19%*			
Avg. number of shares (millions)	88.4	88.4	87.1				
Net working capital %	16.6%	16.6%	15.1%				
Days sales outstanding	88	88	80				
Free cash flow	97[3)]	97	149	*-35%*	85	132	*-35%*
Net debt	601[4)]	310	342				
Backlog net revenues (billions)	2.0	2.0	2.0	*2%*			
Backlog organic growth	0%	0%			2%		
Employee turnover rate		13.5%	15.6%				

1) 2019 figures based on IFRS 16
2) Excluding acquisition, restructuring and integration-related costs
3) Cash flow from operating activities minus investments in (in)tangible assets, including lease payments
4) For bank covenant purposes the EBITDA and net debt are lease-adjusted

IFRS 16: APPROACH AND IMPACT

The 2019 and 2018 figures in this press release are based on IAS 17, for comparison reasons, apart from the Key Figures section, where we presented the 2019 figures based on IFRS 16. The 2019 financial statements based on IFRS16, including transition disclosures, can be found in the Annual Integrated Report that will be published on 21 February 2020 on our website.

REVIEW OF PERFORMANCE FOR THE FOURTH QUARTER

Net revenues totaled €660 million for the fourth quarter; organic growth was 5%. All segments generated strong growth except for CallisonRTKL.

Operating EBITA increased to €60 million (Q4 2018: €44 million), the currency translation effect was 3%. The operating EBITA margin improved to 9.0% (Q4 2018: 7.2%) driven by better performance in all segments except for CallisonRTKL, whose margin declined to 7.8%.

REVIEW OF PERFORMANCE IN 2019

Net revenues totaled €2,577 million and increased organically by 3%, the currency impact was 3%. Revenues increased in all regions except for the Middle East and CallisonRTKL.

Operating EBITA increased by 18% to €209 million (2018: €177 million) including a currency impact of 3%. Operating EBITA margin increased to 8.1% (2018: 7.3%).

Non-operating costs were €21 million (2018: €16 million); €9 million mainly related to restructuring in Europe & the Middle East, €10 million provided for an orderly wind-down of ALEN, and €2 million for other acquisition & divestment related costs. EBITA was €189 million, 17% higher than last year (2018: €162 million).

The effective tax rate, excluding the total impact of ALEN was 26.8% (2018: 27.2%). 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 €29.7 million (2018: €27.1 million). The interest expense on loans and borrowings of €25.2 million was in line with last year due to lower average gross debt, offset by higher amortization of transaction fees.

The expected credit loss on shareholder loans and corporate guarantees related to the non-core clean energy assets in Brazil was €82.4 million (2018: €53.9 million).

Net income for the year was €18 million and was impacted by the provision to cover the full exposure on the Brazilian energy assets, compared to a loss of €27 million in 2018.

Net income from operations increased 43% to €125 million (2018: €88 million) or €1.42 per share (2018: €1.01).

REVIEW BY SEGMENT

AMERICAS

(33% of net revenues)

in € millions	FULL YEAR			FOURTH QUARTER		
Period ended 31 December	**2019**	**2018**	*change*	**2019**	**2018**	*change*
Gross revenues	1,394	1,186	*18%*	390	334	*17%*
Net revenues	860	755	*14%*	219	199	*10%*
Organic growth	*9%*			*7%*		
EBITA	56.2	51.7	*9%*			
Operating EBITA[1)]	70.5	54.9	*28%*			
Operating EBITA margin	*8.2%*	*7.3%*				

[1)] *Excluding acquisition, restructuring and integration-related costs*

NORTH AMERICA

In North America, net revenues increased organically by 8% in the year and 6% in the fourth quarter, driven by all business lines. The operating EBITA margin improved to 9.2% (2018: 8.8%), while absorbing additional cost related to the Oracle implementation. The voluntary turnover rate further improved to 9.4% (2018: 9.9%). The market in North America remains attractive with many opportunities, which is reflected in a strong pipeline and backlog growth of 5%.

LATIN AMERICA

Organic net revenue growth in the fourth quarter was 27% and 16% for the year driven by an excellent performance in Environment and a turnaround in our infrastructure business. The operating EBITA margin for the quarter was strong, leading to an operating EBITA margin for the year of 5.3% (2018: -1.8%). The macro indicators for Brazil continued to improve in the fourth quarter.

EUROPE & MIDDLE EAST

(44% of net revenues)

in € millions	FULL YEAR			FOURTH QUARTER		
Period ended 31 December	**2019**	**2018**	*change*	**2019**	**2018**	*change*
Gross revenues	1,390	1,392	*0%*	369	349	*6%*
Net revenues	1,145	1,133	*1%*	294	267	*10%*
Organic growth	*1%*			*7%*		
EBITA	84.7	68.4	*24%*			
Operating EBITA[1)]	87.0	77.4	*12%*			
Operating EBITA margin	*7.6%*	*6.8%*				

[1)] Excluding acquisition, restructuring and integration-related costs

CONTINENTAL EUROPE

Organic net revenue growth for the year was 3%, and 5% in the fourth quarter. The operating EBITA margin was slightly lower at 8.3% (2018: 8.4%). The performance in the Netherlands continued to be strong. The nitrogen and PFAS situation has a negative impact on the buildings and infrastructure market, although initially also creating opportunities for environmental consultancy, which partially offset the negative impact. Furthermore, the Dutch government plans to significantly invest in sustainable economic transformation, an area in which Arcadis strengthened its capabilities by the acquisition of “Over Morgen”. The performance of Germany and Belgium remained strong, while in France we continue with improvement measures. Backlog increased by 2%, especially in Germany and France.

UNITED KINGDOM

The United Kingdom delivered continued strong organic net revenue growth, with 4% in the quarter and 2% for the year. The operating EBITA margin of our core activities was 8.8% (2018: 8.7%); including the costs associated with the start-up of our new digital business Arcadis Gen, the overall operating EBITA margin was 8.2%. Post elections and with clarity about Brexit, conditions for investment have improved. The government commits to a £120 billion, 5-year investment program including economic and social infrastructure in regions where Arcadis has a strong presence. Backlog increased 4% and was particularly strong in the fourth quarter.

MIDDLE EAST

Our increased selectivity led to lower organic net revenues in the Middle East of -10% in the year, but for the first-time since the strategic re-orientation in 2018 the business showed organic revenue growth in the quarter. The operating EBITA margin increased to 7.1% (2018: -2.5%). The backlog declined year-over-year with 9%.

ASIA PACIFIC

(14% of net revenues)

in € millions	FULL YEAR			FOURTH QUARTER		
Period ended 31 December	**2019**	**2018**	*change*	**2019**	**2018**	*change*
Gross revenues	388	375	*3%*	98	97	*1%*
Net revenues	350	331	*6%*	91	82	*11%*
Organic growth	*3%*			*9%*		
EBITA	31.3	24.2	*30%*			
Operating EBITA[1)]	34.9	25.4	*37%*			
Operating EBITA margin	*10.0%*	*7.7%*				

[1)] Excluding acquisition, restructuring and integration-related costs

ASIA

Net revenues in Asia increased organically by 1% for the year and 3% in the quarter. The operating EBITA margin increased to 8.8% (2018: 4.9%) as a result of the actions taken to improve profitability. The Coronavirus in China and the actions taken by the Chinese government has started to create an impact, which is expected to worsen given the current outlook.

AUSTRALIA PACIFIC

In Australia, organic growth was 7% in the year and 21% in the quarter. The operating EBITA margin improved further to 13.3% (2018: 11.7%) on the back of a higher billability. The infrastructure market in the major urban areas remains strong. The bush fire disaster impact on government spending is yet to be fully understood. The backlog was in line with last year.

CALLISONRTKL

(9% of net revenues)

in € millions	FULL YEAR			FOURTH QUARTER		
Period ended 31 December	**2019**	**2018**	*change*	**2019**	**2018**	*change*
Gross revenues	301	301	*0%*	73	81	*-10%*
Net revenues	222	220	*1%*	56	59	*-6%*
Organic growth	*-5%*			*-12%*		
EBITA	16.7	17.3	*-3%*			
Operating EBITA[1)]	17.0	19.4	*-13%*			
Operating EBITA margin	*7.6%*	*8.8%*				

[1)] Excluding acquisition, restructuring and integration-related costs

CallisonRTKL is implementing a new operating model to improve profitability, including measures to address underperforming offices. Net revenues declined organically with 5% in the year and 12% in the quarter. The operating EBITA margin was 7.6% (2018: 8.8%). Key priority in the new model is the strengthening of business development, client engagement and to invest in talent. The backlog grew by 3% in the fourth quarter.

CASH FLOW, WORKING CAPITAL AND BALANCE SHEET

EBITDA improved by 15% to €235 million (2018: €204 million). Free cash flow generated €97 million (2018: €149 million). The cash flow was held back by the implementation of the new Oracle Cloud solution in North America. Despite the good progress made in the fourth quarter, the return to normalized working capital and DSO levels takes more time than earlier anticipated. As monthly billings are now higher than gross revenue this situation will be resolved in due course. Due to the temporary arrears in North America, working capital as a percentage of gross revenues was 16.6% (2018: 15.1%), while the days sales outstanding increased to 88 days (2018: 80 days). Net debt at the end of December was €310 million (2018: €342 million), resulting in an improved leverage ratio at year-end of 1.3 (2018: 1.7). The covenant leverage ratio improved to 1.4 (2018: 2.0).

The dividend proposal is to increase the dividend by 19% to €0.56 (2018: €0.47) with a pay-out ratio of 40% of the net income from operations, in line with Arcadis policy. Arcadis intends to start a share buyback program up to 3 million shares to cover employee incentive plans and stock dividend.

BACKLOG

Backlog at the end of December 2019 was €2.0 billion (2018: €2.0 billion), in line with last year, representing nine months of net revenues. The backlog improved most in North America and the UK and was offset by an expected decline in Asia, the Middle East and CallisonRTKL. In the fourth quarter the backlog improved by 2%.

STRATEGIC PRIORITIES 2020

Our strategy is based on three pillars: People & Culture, Innovation & Growth, and Focus & Performance. We are on track to achieve our strategic targets set for 2020. Our strategic targets set for 2020 are:

- Organic revenue growth to surpass GDP growth in our markets
- Operating margin between 8.5% - 9.5% of net revenues for 2020
- Net working capital as percentage of gross revenues <17.0% and DSO (days sales outstanding) < 85 days
- Return on invested capital to exceed 10%
- Leverage: Net debt/EBITDA between 1.0 and 2.0
- Voluntary turnover is lower than the market

FINANCIAL CALENDAR 2020

21 February 2020	Publication Annual Integrated Report 2019
24 April 2020	Trading update Q1
6 May 2020	Annual General Meeting of Shareholders
28 July 2020	First half year results
29 October 2020	Trading update Q3
19 November 2020	Capital Markets Day

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ANALYST MEETING

Arcadis will hold an analyst meeting and webcast to discuss the full 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/investor-calendar/2019/q4-and-full-year-2019-results-publication/.

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 €3.5 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.

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.