

Why We Own Arcadis

Outside Washington, D.C., a retired rock quarry is being turned into a reservoir that will hold more than one billion gallons of raw water. When it is complete, Loudoun Water expects the stored supply to protect customers when drought reduces the Potomac River's flow or a storm makes the river temporarily harder to treat. It is infrastructure at its most tangible: a deep shaft, intake tunnels and a 40-million-gallon-a-day pumping station designed to give a growing community another source of resilience.

Arcadis is leading the planning and design work. For us, that project captures why an engineering and consultancy business belongs in a long-term portfolio. Climate change does not become investable simply because it is urgent. It becomes investable when cities, utilities and companies turn physical risks into funded programmes, and when a specialist can help them design, permit and deliver those programmes well.

From structural pressure to paid work

The structural demand is broad. Water systems must cope with drought, flood and contamination. Cities need coastal protection and transport networks that can withstand more extreme conditions. Grid connections, data centres and industrial sites require more power and tighter environmental controls. Ageing assets need renewal at the same time as clients face cost inflation, skills shortages and more complex regulation.

Those pressures do not guarantee revenue for Arcadis. Projects must be approved, financed and won. But they create a long pipeline of problems for which technical judgement, local permitting knowledge and delivery discipline matter. Arcadis brings together more than 34,000 engineers, designers, data specialists and project managers in over 30 countries. Its work spans water, environmental remediation, mobility, buildings, energy and digital asset management.

Our primary Delta theme for Arcadis is Climate Action. The company helps clients adapt infrastructure to physical climate risk and reduce emissions from the built environment. Nature Innovation is also present in work on water, land, pollution and ecosystem-sensitive design. Human Advancement is the practical result when people gain safer water, more reliable transport, healthier places and infrastructure that keeps working in an emergency. The three themes overlap, but climate resilience is the clearest route from need to Arcadis's expertise and earnings.

Where the advantage may sit

Engineering advice is a people business, so its competitive advantage is less visible than a patent or a factory. We look for accumulated expertise, trusted client relationships, a record of delivery and the ability to combine disciplines across a complex programme. A reservoir, railway or flood-defence scheme can run for years and pass through planning, design, procurement, construction and operation. The adviser that understands the asset and the client can remain valuable throughout that cycle.

Arcadis's Global Excellence Centres add another dimension. Work can be shared across geographies, allowing scarce technical skills to support local teams and giving the company a route to better utilisation. Its data and digital tools may help clients model risks, manage assets and make earlier design choices. These are plausible advantages, not permanent entitlements. They endure only if Arcadis retains talented people, protects quality and converts expertise into better outcomes for customers.

The current order book gives some evidence that clients value the offer. In its Q2 and half-year 2026 results, Arcadis reported second-quarter order intake of €1.10 billion, organic growth of 13.5%, and a group backlog of €3.95 billion. The half-year book-to-bill ratio was 1.16. Resilience, the business area most directly connected to water, energy, climate and environmental work, generated €733 million of first-half net revenue, grew 5.2% organically and delivered a 15.1% operating EBITA margin.

How demand can become earnings

The earnings mechanism is straightforward in outline but demanding in practice. Structural need produces funded projects. Arcadis wins design, advisory, programme-management and digital work. Skilled employees turn their time and judgement into fee revenue. Good project selection, utilisation, pricing and global delivery can then convert that revenue into margin and cash. A growing backlog provides visibility, while repeat work can lower the cost and risk of winning the next assignment.

The first half showed both the promise and the friction. Group net revenue was €1.91 billion, up 1.5% organically, and the operating EBITA margin reached 11.2%. Arcadis raised its 2026 revenue guidance to low-single-digit organic growth while retaining a margin range of 11.7% to 12.0%. Yet reported first-half net revenue fell because currency movements offset organic progress, free cash flow was negative €149 million and net debt stood at €1.04 billion. The Places division also remained weak in parts of Canadian and Chinese property and investment work.

That contrast matters. Backlog is not profit, and profit is not cash until projects are executed and clients pay. Arcadis is simplifying the organisation, reducing costs and moving people towards higher-growth markets. Management's 2027–2029 targets call for mid-single-digit organic net-revenue growth through the cycle and a mid-to-high-teens operating EBITDA margin by 2029. These are ambitions, not evidence already earned. We will judge them through backlog conversion, project quality, cash generation and returns on investment.

A financially strong business - the honest starting point

A compelling theme only matters if the company behind it can fund it, year after year. Here the honest starting point is that Arcadis's most recent full year was a genuinely difficult one, not a straightforwardly strong one - and the house standard is to say so plainly before turning to the evidence that gives us confidence the picture is turning.

Profitability. Arcadis's operating EBITA margin - the profit earned on every euro of fee revenue before financing and tax - improved for three consecutive years, from 9.8% in 2022 to 10.4% in 2023 and 11.5% in 2024, before slipping back to 11.1% in 2025 as growth stalled. Return on invested capital, the closest available measure of how much profit the business generates on

the capital tied up in it, has behaved similarly: independent estimates put it at around 9.2%-9.5% on average over the past three years - close to, rather than durably above, the roughly 9% cost of equity we hold Arcadis to - with a low of about 5.8% in mid-2023, a high of around 9.7% at the end of 2024, and a fall back toward 6%-7% through 2025. That is a business earning close to its cost of capital, not comfortably above it, in its most recent trading.

Earnings growth - the case ahead. Net income from operations per share grew steadily from €1.96 in 2021 to €3.00 in 2024, then fell 10.7% to €2.68 in 2025 as organic revenue growth turned negative - the pattern we do not want to see, and we say so plainly rather than dressing it up. The case ahead is more encouraging: organic net revenue growth has re-accelerated for two straight quarters into 2026, management has raised full-year guidance above analyst consensus while reaffirming a margin range that implies a clear step-up from the first half, and a record order backlog supports that trajectory into 2027-2029, when management targets mid-single-digit organic growth and a mid-to-high-teens EBITDA margin. These are guided expectations, not settled outcomes.

Shareholder returns - the case ahead. This is the weakest historical pillar: Arcadis's shares fell 40% in 2025, underperforming both peers and the broader index. The case ahead rests on real, if unproven, positives - a partial share-price recovery through 2026, sell-side consensus clustered around Buy with price targets meaningfully above where the shares trade today, and WSP Global's rejected €51.50-per-share takeover approach, which independent analysts judged to be in line with Arcadis's own historical valuation and at a discount to peers. Together these suggest others see standalone value the market has not yet awarded, though none of it is proof that value will be realised for shareholders.

Taken together, this gives us a credible, evidenced path back to the returns this thesis needs - a recovering revenue and margin trend, a strengthening backlog, and external validation of standalone value - though one that is not yet proven in the reported numbers. That is a materially different position from a company with an already-demonstrated record of compounding shareholder returns, and we will judge Arcadis on whether 2026 and 2027 close that gap.

Leadership we can trust - with a clear engagement priority

A good business also needs to be well led. Arcadis's Dutch two-tier board structure keeps the Supervisory Board and Executive Board separate, so the roles of Chair and Chief Executive cannot be combined - a check visibly exercised in 2025 and 2026 through board-led CFO and CEO succession processes. Seven of eight Supervisory Board members meet the stricter, tenure-based independence standard we apply, well above the two-thirds threshold we look for, and the board's own effectiveness is assessed annually with external facilitation and publicly disclosed. Executive pay is weighted toward the long term and visibly tracked a weaker year rather than protecting management from it: incentive pay-outs fell well short of target in 2025 on weak profitability and shareholder-return criteria.

Our clearest engagement priorities are narrower: returns on invested capital have run close to, and at times below, our cost-of-equity benchmark through a difficult trading year, and a legacy priority-share structure alongside a board tenure profile skewed to very recent appointees leave room for a fully independent, evenly refreshed structure over time.

Taken together, this gives us confidence that Arcadis is led by a board that holds management to account and links pay honestly to performance, alongside a clear and specific ask on capital returns and board structure that we will continue to watch as the recovery unfolds.

Measuring the outcome

The Milestone Reservoir shows what better evidence can look like. Loudoun Water says the project is in construction, is expected to be complete in 2028 and will store more than one billion gallons. FEMA's environmental assessment independently confirms the purpose: a safer, more reliable and sustainable drinking-water supply with less dependence on direct river withdrawals during emergencies. Future measurement should test storage delivered, pumping capacity, water availability during stressed conditions, cost and construction performance - not merely the quality of the design story.

Value, decision, and tension

We own Arcadis because three things need to line up, and at this point they are lining up unevenly rather than uniformly: a durable, structural need for resilient water, transport and energy infrastructure that appears in no danger of easing; a financial picture that, after a genuinely difficult 2025, shows real and credible early signs of recovering revenue growth, margin and cash generation into 2026 and beyond; and a board whose independence, evaluation practice and pay discipline we substantially trust, even as we press for further progress on tenure and share structure. Few of the businesses we own ask us to hold a turnaround judgement open on two of three pillars so explicitly. Our decision is not based on the idea that every climate project will succeed, that a full order book makes valuation irrelevant, or that a rejected takeover price is proof of fair value.

That discipline has become unusually visible. In July, WSP Global made two unsolicited, conditional and non-binding approaches. Arcadis's boards rejected the second proposal, worth €51.50 per share in cash and WSP shares, saying it undervalued the company and its standalone prospects. The proposal is a public signal that another industry participant sees strategic value in Arcadis's capabilities, and sell-side commentary noted the implied multiple was in line with Arcadis's own historical valuation and a discount to peers - a reason to take the standalone case seriously rather than dismiss it. It is not proof that the board's valuation is right, nor a reason to ignore the risks of a no-deal outcome or the possibility that guided growth and margin recovery simply do not arrive on schedule. Shareholders still need to compare the certain and uncertain elements of any proposal with the cash that Arcadis can generate independently, and valuation discipline - not the WSP premium, and not enthusiasm for the resilience theme alone - is what should govern position sizing here.

What could break the chain

A number of things could weaken this thesis, spanning execution, the balance sheet, governance and the impact case itself. We watch for all of them:

- Execution risk. Fixed-price or poorly scoped work can turn growth into losses. Hiring too slowly can delay delivery; hiring ahead of demand can depress utilisation. Wage inflation, staff turnover and weak project controls can erode the advantage Arcadis is meant to possess.

- Demand and cyclical risk. Public-sector budgets and permitting can move slowly, and property markets can weaken further - Places has already been in organic decline for over a year on Canadian and Chinese property and investment weakness. A backlog can be delayed, reduced or cancelled even after it is won.
- Integration and capital-structure risk. Restructuring can distract the organisation, and bolt-on moves such as the SATEL Iberia acquisition or the Nomic AI investment can consume capital without producing the expected skills or growth. Net debt of a little over €1 billion makes cash conversion more important, and the WSP approaches add uncertainty around employee retention, strategy and capital allocation even if no transaction follows.
- Financial-quality durability risk. FY2026 margin guidance of 11.7%-12.0% implies a substantial step-up from the first half's 11.2%, and depends on cost actions landing on the timetable management describes. Returns on invested capital have only recently begun to move back toward our cost-of-equity benchmark, and a renewed slowdown would delay, rather than confirm, that recovery.
- Governance risk. The tenure and priority-share questions noted above remain open, and slower-than-expected progress on either would leave shareholders more dependent on the board's judgement in exactly the kind of contested situation - a rejected takeover approach - where full independence matters most.
- Impact-case risk. Arcadis's 2025 Impact Report introduces a framework spanning carbon, nature, water, circularity and social outcomes, which is useful progress, but many outcomes remain company-reported or dependent on project boundaries and client data. We need measures that show what changed in the real world, not only the value of work sold or the number of projects labelled sustainable.

The thesis would weaken materially if the guided FY2026 margin step-up failed to materialise, if record order intake and backlog did not convert into cash at the pace management expects, if board refreshment and the priority-share question showed no further progress, or if the WSP situation - resolved or not - left shareholders worse off than the board's own valuation judgement implies they should be. It would also weaken if verified project outcomes failed to support Arcadis's own resilience and sustainability claims.

That is the full causal chain we test: rising climate and infrastructure pressure creates a durable, structural source of demand; Arcadis's expertise, client relationships and delivery record help it convert that demand into fees, margins and cash; a genuinely difficult 2025 is giving way, on the early 2026 evidence, to firmer growth, recovering margins and record cash generation; valuation discipline determines whether that recovery, once delivered, justifies ownership at today's price; and a board we substantially trust - while we continue to press for progress on tenure and share structure - is charged with converting that recovery into value for shareholders rather than for a rival bidder. Execution, balance-sheet, governance and evidence risks can each break that chain, and measurable customer outcomes tell us whether the work created the resilience promised.

Arcadis is compelling because its social purpose, its commercial mechanism and its financial and governance record can all be examined together, honestly, on the same page. A billion gallons of stored water is not a slogan. It is a testable outcome - and, alongside a recovering

profit-and-loss account and a board earning continued trust, exactly the kind of evidence on which a long-term investment story should be built.

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