MID-TERM FINANCIAL OUTLOOK

Fugro's 'Path to Profitable Growth' strategy was announced in November 2018. It is based on three objectives: capture the upturn in energy and infrastructure, differentiate by integrated digital solutions, and leverage core expertise in new growth markets.
The implementation will target volume growth, while operating leverage, improved pricing conditions and higher productivity will push our margins.

Based on the global and market trends as described in the Strategy chapter, we expect revenue of EUR 2 – 2.5 billion for the mid-term (2021-2023). The implementation of our strategy will drive substantial improvements in profitability and cash flow generation, resulting in the following targets for the mid-term (all figures before the impact of the implementation of the new IFRS 16 standard on leasing on 1 January 2019):

- ROCE of 10 – 15%
- EBIT margin of 8 – 12%
- Free cash flow of 4 – 7% of revenue.

Drivers for the projected improvement in profitability are:

- Volume growth in combination with continued disciplined cost management, benefiting from operating leverage
- Price recovery, driven to a large extent by the oil and gas and renewables markets
- Improved productivity and operational excellence through:
  - Fully leveraging technology developments
  - Increasing efficiencies of transactional and businesses processes through digitalisation
  - Strengthening procurement
  - Driving uptime of assets and equipment
  - Further leveraging of the shared service centres.

Updated mid-term targets (2021 – 2023)	ROCE	EBIT	Free cash flow*
Group	10–15%	8–12%	4–7%
Marine	>10%	10–13%	
Land	>10%	6–9%	
Seabed	>10%	8–12%	

* As percentage of revenue.

Regarding capital allocation, Fugro prioritises organic growth and deleveraging. In light of Fugro's current asset base and less capital intensive business model going forward, Fugro expects average annual capital expenditure of around EUR 100 to 130 million to support profitable organic growth. As a result of the gradual improvement in profitability and disciplined asset management, Fugro targets an annual positive free cash flow resulting in deleveraging of the balance sheet, and consequently a net debt/EBITDA ratio below 1.5. Dividend payments will be resumed once leverage allows.

IMPLEMENTATION OF IFRS 16 STANDARD

The implementation of the new IFRS 16 standard on leasing on 1 January 2019 is expected to result in increase in debt from lease liabilities of EUR 210 million. The reclassification of related lease expenses is expected to have a positive impact on EBITDA of EUR 45 to 50 million and on EBIT of EUR 5 to 10 million. In addition, due to front loading of interest expenses, profit before income tax will decrease in the early years by around EUR 5 million per year. For more information on IFRS 16, see note 5.3.5 of the financial statements.

This change is an accounting change and has no impact on Fugro's business or cash flows. Furthermore, there is also no impact on covenants as these are based on previous accounting principles on operating leases ("frozen GAAP").