Ricardo plc

Preliminary Results Presentation

Year ended 30 June 2015

September 2015

HIGHLIGHTS – for the year ended 30 June 2015

- Good financial performance and busy operational year
- Revenue up 9% to £258m (2014: £236m)
- Underlying[(1)] profit before tax up 9% to £26.8m (2014: £24.6m)
- Underlying[(1)] basic earnings per share up 10% to 42.4p (2014: 38.7p)
- Net funds up £1.7m to £14.3m after £3.6m acquisition related payments (2014: £12.6m)
- Full year dividend up 9% to 16.6p per share (2014: 15.2p)
- Acquisitions of Vepro and PPA Energy completed in year; LR Rail and Cascade completed post year end
- Outlook remains positive, strong platform for further growth

[(1)] excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition-related costs.

Key indicators

	Year ended 30 June 2015	Year ended 30 June 2014	Year on Year Movement
Order intake (£m)	£252m	£259m	£(7)m
Order book (£m)	£140m	£142m	£(2)m
Operating profit [(1)] (%)	10.8%	10.8%	0.0%
Effective tax rate (%)	18.8%	18.3%	0.5%
Basic earnings per share (pence) [(1)]	42.4p	38.7p	3.7p
Full year dividend (pence)	16.6p	15.2p	1.4p
Net funds (£m)	£14.3m	£12.6m	£1.7m
Pre-tax pension deficit (£m)	£20.7m	£19.5m	£1.2m
Closing headcount incl. subcontractors (no.)	2,308	2,143	165

[(1)] excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition-related costs.

Note: Underlying performance to 30 June 2015 includes the Vepro and PPA acquisitions which completed during the year. The LR Rail and Cascade acquisitions completed after the year end and therefore are not included.

Income statement

	Year ended 30 June 2015 Underlying [1] (£m)	Year ended 30 June 2014 Underlying [1] (£m)	Year on Year Movement Underlying [1] % change
Revenue	257.5	236.2	9%
Gross profit	101.8	93.6	9%
Administration costs	(74.1)	(68.0)	9%
Operating profit	27.7	25.6	8%
Net finance costs	(0.9)	(1.0)	(10%)
Profit before tax	26.8	24.6	9%
Taxation charge	(4.6)	(4.5)	2%
Profit for the year	22.2	20.1	10%

[1] excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition-related costs.

A full income statement including these items is included in the Appendix.

Revenue by customer location

External Revenue £m	Year ended 30 June 2015	Year ended 30 June 2014
UK	120.8	97.4
Germany	25.6	27.1
Rest of Europe	20.8	27.7
Europe total	167.2	152.2
US	39.2	38.0
China	20.0	14.0
Japan	17.6	17.0
Rest of Asia	9.9	13.9
Asia total	47.5	44.9
Rest of the World	3.6	1.1
Total	**257.5**	**236.2**

Segmental results

	Year ended 30 June					
	Revenue earned (£m)		Underlying operating profit [1] (£m)		Underlying operating profit [1] margin (%)	
Operating segment	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Technical Consulting	196.6	181.0	20.0	17.8	10.2%	9.8%
Performance Products	60.9	55.2	7.7	7.9	12.6%	14.3%
Unallocated Head Office costs [2]	n/a	n/a	0.0	(0.1)	n/a	n/a
Total	**257.5**	**236.2**	**27.7**	**25.6**	**10.8%**	**10.8%**

[1] excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition-related costs.

[2] unallocated head office costs represent central costs not allocated to business segments

Cash flow

£m	Year ended 30 June 2015	Year ended 30 June 2014
Underlying operating profit	27.7	25.6
Depreciation and amortisation	9.2	8.4
Working capital increase	(3.3)	(7.4)
Dividends paid to shareholders	(8.1)	(7.5)
Tax paid	(1.3)	(1.7)
Capital expenditure	(15.8)	(9.0)
Defined benefit pension obligation payments	(4.4)	(4.5)
Net share related (costs)/credit	(0.4)	1.2
Other movements	1.7	1.4
Net cash inflow excluding consideration for acquisitions	**5.3**	**6.5**
Acquisition related payments	(3.6)	-
Net cash inflow	**1.7**	**6.5**

Statement of financial position

£m	30 June 2015	30 June 2014
Tangible non-current assets	49.6	48.3
Intangible non-current assets	44.9	41.8
Inventories, trade and other receivables	86.4	74.5
Net funds	14.3	12.6
Trade and other payables	(63.8)	(56.3)
Pension deficit (net of tax)	(16.6)	(15.6)
Other	1.2	2.3
Net assets	**116.0**	**107.6**

Acquisitions

Company	Date Acquired	No. people	Net Cash Paid	FY14/15 Revenue	FY14/15 Operating Profit	Annualised Revenue	Annualised Operating Profit
Vepro	8 Oct 14	15	£2.4m	£1.5m	£0.2m	c. £3m	c. £0.4m
PPA	13 Nov 14	25					
LR Rail	1 Jul 15	440	£40.6m[1]	Nil	Nil	c. £50m	c. £4m
Cascade	18 Aug 15	32	£3.2m	Nil	Nil	c. £3m	c. £0.4m

[1] LR Rail consideration £42.5m; £40.6m paid to date and £1.9m to pay on completion of J.V. subject to final working capital adjustments

Impact of acquisitions and major investments in FY15/16

Acquisitions

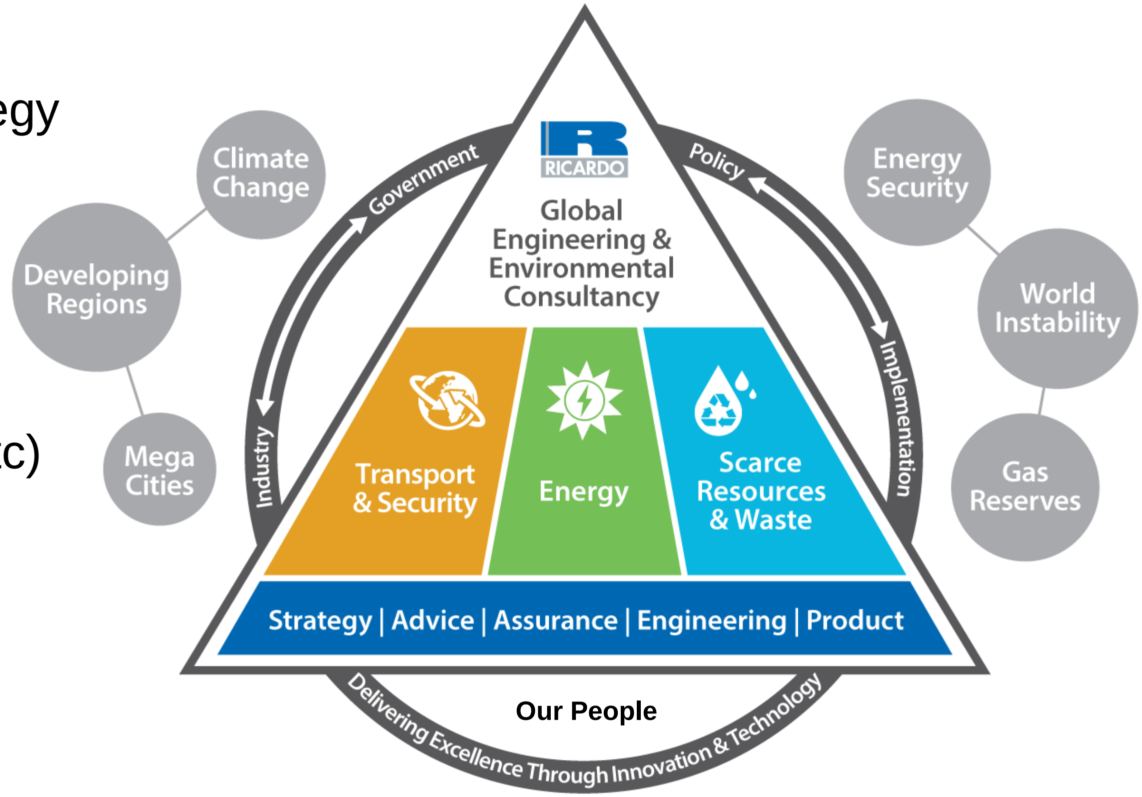
- Specific adjusting items for FY15/16 is expected to be in the region of £5.7m including amortisation of acquisition related intangibles £3.3m and acquisition, integration and earn out costs of £2.4m
- Additional net interest of c. £1.1m is expected in FY15/16 to fund the borrowings used to acquire LR Rail

Performance Products

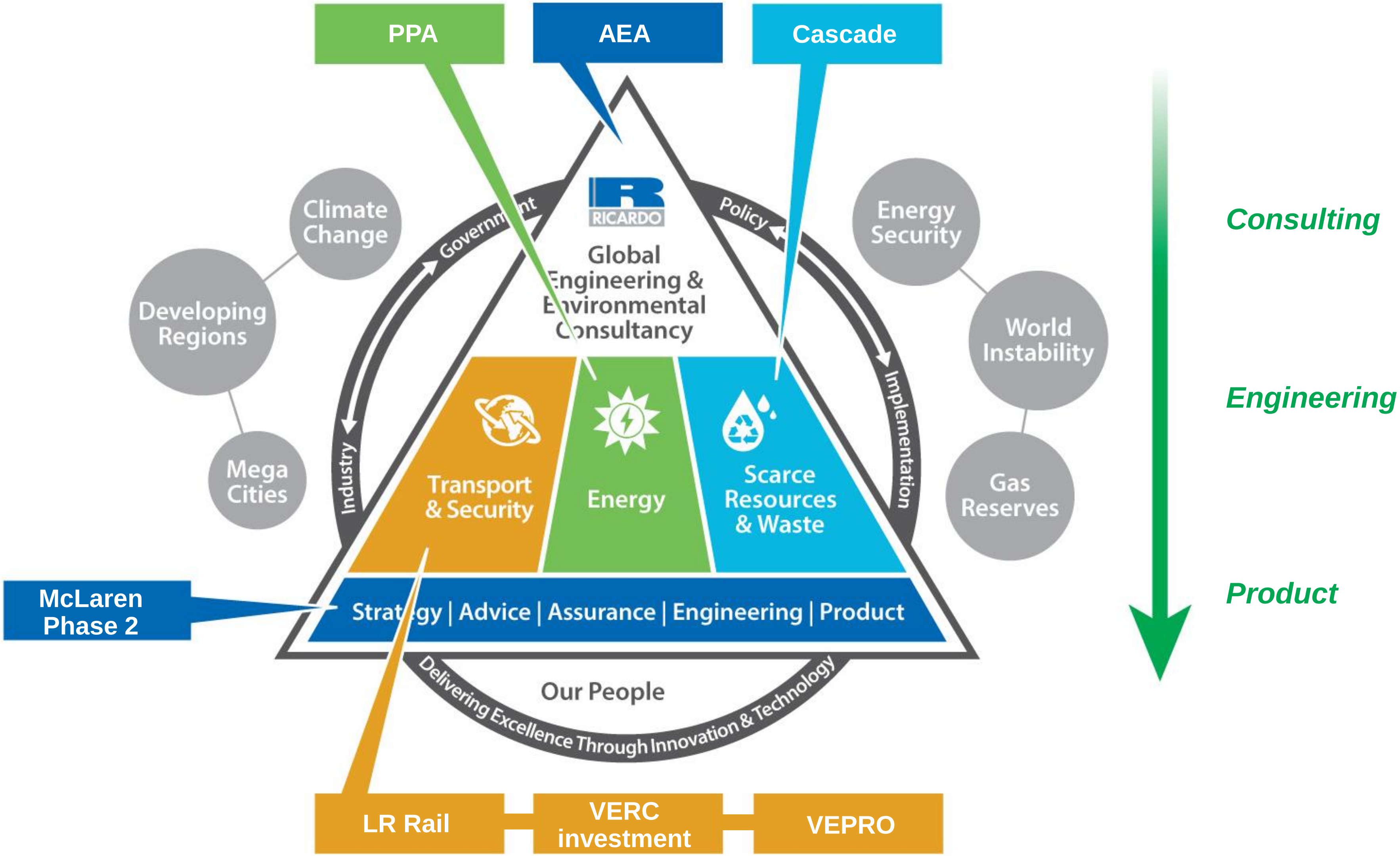
- New McLaren contract will commence in the second half of FY15/16, current contract winds down in H1, new contract ramps up in H2
- Operating profit in Performance Products will be more H2 weighted in FY15/16, with H1 anticipated to show a decline year on year
- Investment in working capital of c. £4m-5m in McLaren in the first half of FY15/16 as previously indicated

Supported by a team of over 2,700, a strategy for growth focused on global technical consulting and longer cycle revenues

- Organic and acquisitive growth strategy driven by global megatrends
  - Air Quality
  - Climate Change
  - Resource Scarcity (Oil, Water etc)
  - Urbanisation
  - Energy Security



Populating the strategy – where the strategic investment fits



FY 2014/15 Market focus

- Autonomous vehicles, emissions compliance and urban mobility a core focus for passenger car markets.
- Commercial vehicles focusing on emissions compliance
- China order intake continues with industry focus on emissions and new product development
- Preparing for key global environmental conference in Paris generating business for Ricardo AEA

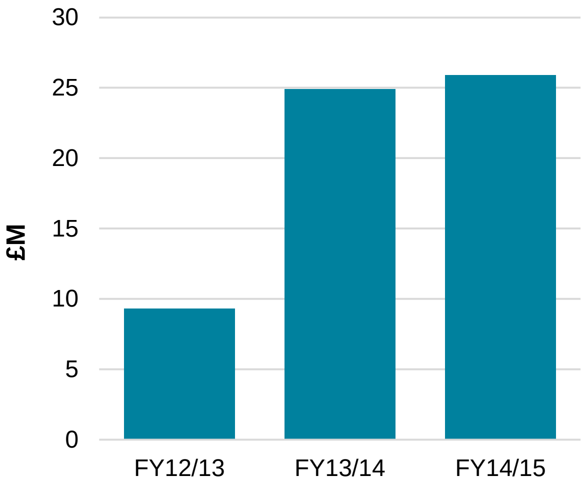



FY 2014/15 Operational highlights

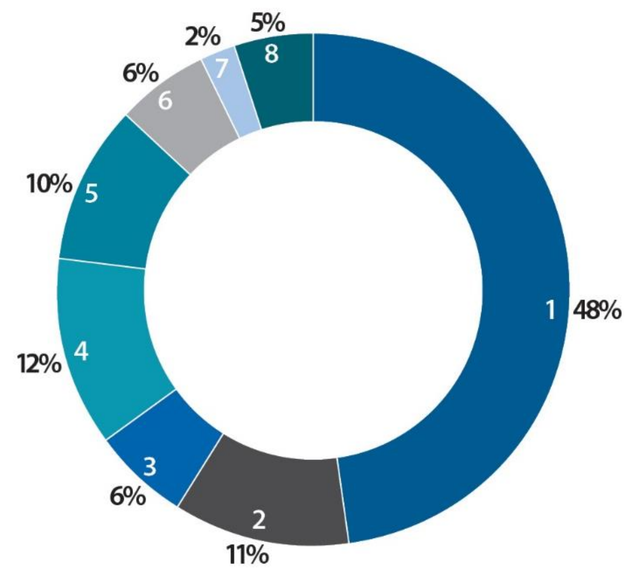
- Acquisitions – populating the strategy
- Integration of UK and Germany technical consulting businesses to operate on a European platform
- VERC operational and expansion of McLaren facility complete
- Established Motorcycle business
- Established a secure US defence business (RDS)
- Building a presence in Santa Clara (Silicon Valley)

Continued well-balanced worldwide order intake and pipeline

China Order Intake

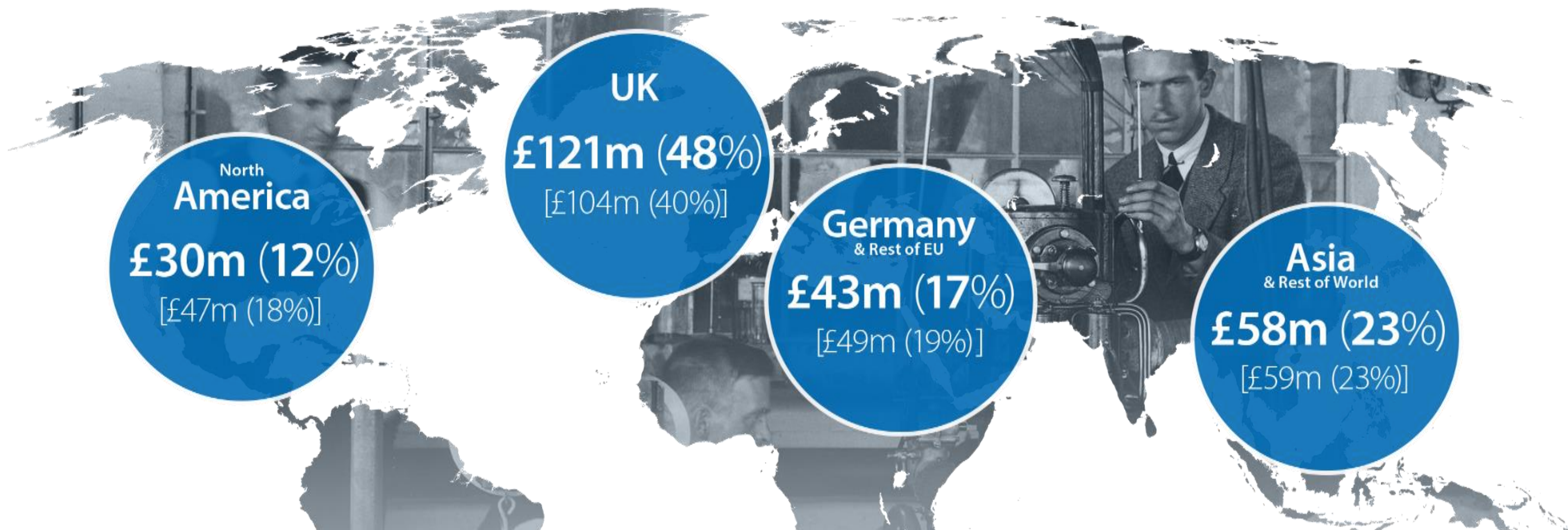


1. UK
2. Germany
3. Rest of Europe
4. North America
5. China
6. Japan
7. India
8. Rest of Asia



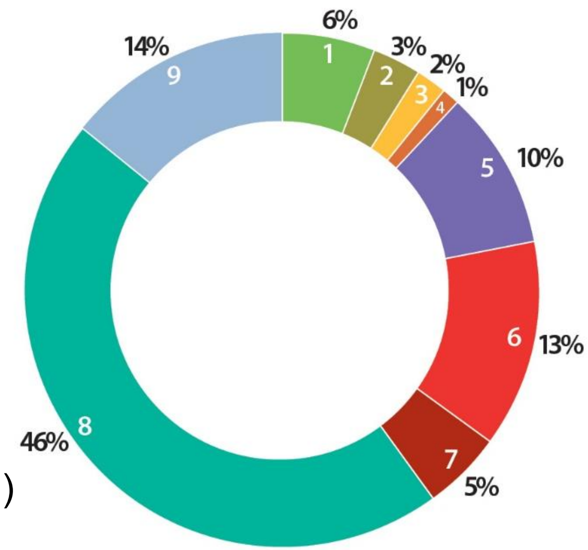
FY 2014/15
Order Intake: £252m

[FY 2013/14
Order Intake: £259m]



Well-balanced market sector order intake

1. Clean Energy & Power Generation and Marine ('CE&PG and Marine')
2. Defence
3. Agriculture & Industrial Vehicles ('AIV')
4. Rail
5. Commercial Vehicles ('CV')
6. High Performance Vehicles & Motorsport ('HPV&M')
7. Motorcycle & Personal Transportation ('M&PT')
8. Passenger Car ('PC')
9. Government & Environmental ('G&E')



FY 2014/15
Order Intake: £252m

[FY 2013/14
Order Intake: £259m]

PC

£116m (46%)
[£90m (35%)]

CV

£25m (10%)
[£18m (7%)]

CE&PG and Marine

£15m (6%)
[£11m (4%)]

G&E

£35m (14%)
[£34m (13%)]

AIV

£5m (2%)
[£5m (2%)]

M&PT

£13m (5%)
[£15m (6%)]

Defence

£8m (3%)
[£13m (5%)]

Rail

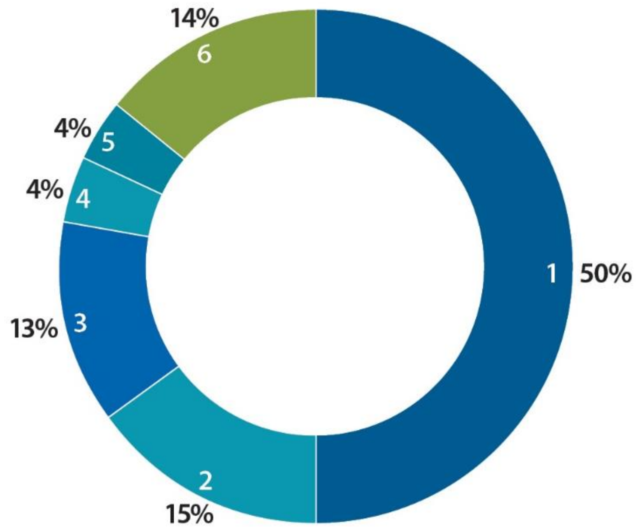
£2m (1%)
[£8m (3%)]

HPV&M

£33m (13%)
[£65m (25%)]

Orders and pipeline well-balanced across products and services

1. Engines
2. Driveline & Transmission Systems ('DTS')
3. Vehicle Systems ('VS')
4. Hybrid & Electric Systems ('HES')
5. Strategic Consulting ('RSC')
6. Environmental Consulting



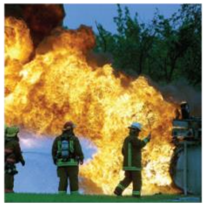
FY 2014/15
Order Intake: £252m

[FY 2013/14
Order Intake: £259m]

VS

£33m (13%)
[£26m (10%)]

Environmental Consulting



£35m (14%)
[£33m (13%)]

RSC

£10m (4%)
[£8m (3%)]

Engines

£126m (50%)
[£130m (50%)]

HES

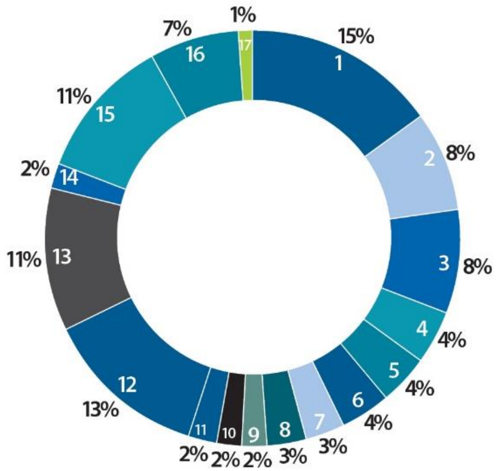
£10m (4%)
[£13m (5%)]

DTS

£38m (15%)
[£49m (19%)]

Diverse customer mix, with increasing multi-year business

Ricardo plc External Order Intake by Key Client
for Year Ended 30 June 2015



1. Key Client 1
2. Key Client 2
3. Key Client 3
4. Key Client 4
5. Key Client 5
6. Key Client 6
7. Key Client 7
8. Key Client 8
9. Key Client 9
10. Key Client 10
11. Key Client 11
12. Rest of UK
13. Rest of Asia
14. Rest of Europe
15. Rest of North America
16. UK Government
17. US Defense

FY 2014/15
Order Intake: £252m

[FY 2013/14
Order Intake: £259m]

Summary for period and outlook

- 9% growth in revenue and underlying profit before tax
- Four acquisitions completed since October 2014, integration activity in the year ahead
- LR Rail acquisition in line with expectations, early joint wins and pipeline building
- Good order book and pipeline providing platform for further growth and increasing diversity
- Improved long-term visibility with multi-year assembly contracts commencing in FY15/16
- Outlook remains positive, with a broader larger business

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Ricardo plc

Appendix

Income statement

£m	Year ended 30 June 2015 Underlying	Specific adjusting items[1]	Total	Year ended 30 June 2014 Underlying	Specific adjusting items[1]	Total	Year on Year Growth Underlying	Total
Revenue	257.5	-	257.5	236.2	-	236.2	9%	9%
Gross profit	101.8	-	101.8	93.6	-	93.6	9%	9%
Administration costs	(74.1)	(3.9)	(78.0)	(68.0)	(1.1)	(69.1)	9%	13%
Operating profit	27.7	(3.9)	23.8	25.6	(1.1)	24.5	8%	(3%)
Net finance costs	(0.9)	-	(0.9)	(1.0)	-	(1.0)	(10%)	(10%)
Profit before tax	26.8	(3.9)	22.9	24.6	(1.1)	23.5	9%	(3%)
Tax charge/(credit)	(4.6)	0.3	(4.3)	(4.5)	0.2	(4.3)	2%	-
Profit for the year	22.2	(3.6)	18.6	20.1	(0.9)	19.2	10%	(3%)

[1] excluding specific adjusting items, which comprise amortisation of acquired intangible assets and acquisition-related costs.

Specific adjusting items

£m	Year ended 30 June 2015	Year ended 30 June 2014
Amortisation of acquisition related intangible assets	1.3	1.1
Acquisition-related costs associated with LR Rail	2.1	0.0
Other acquisition-related costs	0.5	0.0
Total specific adjusting items	3.9	1.1

R&D Expenditure Credit (RDEC)

- The RDEC Scheme was introduced in the UK for qualifying expenditure incurred on or after 1 April 2013. A taxable credit is available on 10% (11% from 1 April 2015) of qualifying expenditure
- The scheme will be compulsory for large companies from 1 April 2016. Qualifying companies could have made the election into the regime from 1 April 2013
- The credit will no longer be a tax incentive benefitting the Corporation Tax line, but will become more like a grant which offsets R&D expenditure within Operating Profit
- Ricardo can elect to claim RDEC for the year ended 30 June 2014
- The Ricardo Income Statement for the year ending 30 June 2016 will reflect the new scheme
- Had RDEC been applied for the year ended 30 June 2015, the presentational effect on the Income Statement would have been to increase both the reported PBT and Tax charge by approx. £4m, with a marginal net improvement on PAT

Global tailpipe and CO_2 emissions legislation adherence are "must haves" in the development budget of many of our clients