22 April 2025

Ricardo plc ("Ricardo" or the "Company")

Business and strategy update

Further to its announcement on 28 March 2025, the Board of Ricardo (the "Board") is pleased to provide an update on the financial performance of the Company and the strategic initiatives being undertaken to create shareholder value.

Highlights

Building on the good progress made with its strategy to transform the portfolio, the Board believes that the Company remains well positioned to deliver significant value creation for Ricardo's shareholders. Key highlights include:

- Ricardo expects to deliver trading within the range of analyst expectations for FY24/25. Management's confidence is supported by the high level of FY24/25 net revenue already secured and in the pipeline across each of Ricardo's business units. In addition, whilst there has been a significant level of market uncertainty in recent months, which has created short-term order and currency volatility, Ricardo has identified additional cost actions in the second half to largely offset the impact of this market turbulence;
- Cash conversion in the second half of FY24/25 is expected to materially exceed the Company's medium-term target. If the 2 years ending 30 June 2025 are taken together to lessen the impact of seasonality, cash conversion for the Company's continuing operations is expected to be above 85%;
- Net debt is expected to be towards the lower end of analyst guidance for FY24/25, before the impact of restructuring costs required to deliver the identified cost reductions. The Board is confident that the Company will remain compliant with its leverage and interest cover covenants;
- In addition to the cost savings and gross margin improvements being delivered in FY24/25, management expects to achieve at least an incremental £10m of cost savings in FY25/26;
- Enhanced collaboration is being achieved between the A&I and PP business units, which leverages their unique end-to-end service capabilities and supports continued diversification into broader industrial sectors; and
- Good progress delivered on portfolio transformation towards environmental and energy transition solutions, creating a simpler, more focused and efficient business.

Graham Ritchie, Chief Executive Officer, commented:

"Despite the increased global and market uncertainty in the last few months, Ricardo expects to deliver trading within the range of analyst estimates for FY24/25. This reflects the continued focus on prioritising growth in resilient end markets, delivering an efficient cost base and focused cash management. Ricardo continues to transform its portfolio leading to a simpler, more efficient business with higher growth and higher margins which will create significant value for all shareholders. We have a clear strategy, underpinned by targeted cost savings in the short term, and a focus on resilient services and markets for value creation in the medium term."

A separate presentation has been released on Ricardo's website, which provides additional information and should be read in conjunction with this announcement. The presentation is available for all investors at www.ricardo.com/en/investors/results-centre.

Current trading and outlook

Certain end markets have seen increased uncertainty in recent months along with increased currency volatility, but the Board remains confident in the delivery of the Company's full year FY24/25 results within the range of analyst estimates. FY24/25 performance is underpinned by the high percentage of revenue already secured and in the pipeline across each of Ricardo's segments and additional cost actions taken in the second half:

- **Energy & Environment (EE):** Over 100% of FY24/25 net revenue is either secured or in the pipeline, an improvement to the level at this time in FY23/24 (96%). Of this 94% is secured compared to 85% at this time in FY23/24. In March, the business unit won several notable contracts including an air quality project in the Middle East as well as various energy and water infrastructure related projects in the UK. The outlook is supported by a number of short-cycle high probability prospects identified for the rest of the fiscal year;
- **Rail & Mass Transit (Rail):** Over 100% of FY24/25 net revenue is either secured or in the pipeline, of which 93% is secured revenue, materially exceeding 87% at this time in FY23/24. The Rail business continues to successfully win contracts across its global footprint with major projects in the Netherlands, US and Australia won during March. In addition, a number of significant contracts with clients, principally in Europe and the Middle East, are expected to be secured in April and May;
- **Performance Products (PP):** All net revenue is either secured or in the pipeline for FY24/25, including 95% secured compared to 91% at this time in FY23/24. Looking ahead, the new multi-year marine framework programme remains on track. In addition, Ricardo has recently won a major contract extension with a major European OEM and has a high probability prospect for further extension with a high-performance automotive customer supporting the business unit's outlook; and
- **Automotive & Industrial (A&I):** All net revenue is either secured or in the pipeline for FY24/25, with 86% secured, compared to 89% at this time in FY23/24. The business unit has also been confirmed as sole source on three major projects in the defence and automotive sectors with final orders expected in April and May. In addition, there is a pipeline of high probability prospects across a broad range of end markets, including marine and stationary power, which are expected over the coming months.

Overall, Ricardo has 91% of its consultancy net revenue secured for FY24/25, compared with 87% at this time in FY23/24, and is expected to deliver good order intake in the second half. This momentum supports the Board's confidence both in Ricardo's short-term financial performance and delivery of its medium-term targets.

Cost savings and efficiency

The Company has continued to take action to reduce costs and improve the efficiency of its overall business, which remains a key component of its strategy. By way of example, Ricardo's indirect costs as a proportion of revenue have fallen in its continuing operations from 27% in FY21/22 to the current level of 23%. This reflects a significant absolute reduction despite the high levels of inflation seen during this period. Additional actions underway are expected to reduce this level to 22% in FY25/26, representing significant progress towards the Company's publicly stated objective of 20% over the medium term.

In summary, £3m of year-on-year cost savings have been delivered in the first half of FY24/25 through a reduction in indirect costs as a result of actions to centralise enabling functions and improve operational efficiency. Continued cost actions in the second half of FY24/25 are expected to deliver an incremental £2m of indirect cost savings from property consolidation and continued focus on reducing discretionary spend.

Furthermore, in its latest interim results for the 6 month period ended 31 December 2024, Ricardo reported an improvement in gross margin of 200 bps over the prior period as a result of improvements in utilisation across all business units.

As announced in its latest interim results, Ricardo is also targeting further improvements in the cost base in FY25/26 following the recent reshaping of the Group's portfolio, which includes the sale of the Defense business unit. Ricardo's cost reduction plan is expected to achieve at least an additional £10m per year of cost savings across both its direct and indirect cost bases. These savings are expected to underpin the delivery of profit in FY25/26 despite the increased market uncertainty and order volatility in the short term.

The Company has identified three main areas in which these cost savings will be delivered:

- **Gross margin improvement *(c.60% of total)*:** Key initiatives include the right-sizing of direct resource in identified markets, improving efficiency, increased use of variable resources and low-cost delivery centres, and increasing billable time to reduce recruitment requirements.

  These initiatives are a continuation of actions Ricardo has been implementing to drive productivity and increase utilisation rates across the Company, as seen recently in the ongoing turnaround of the A&I business. These initiatives have already led to significant improvements in underlying business performance. Key highlights include:

  - **EE:** Utilisation of 72% for FY24/25 (up 3ppts on FY23/24). Improvement in FY23/24 from bid process enhancements and driving operational efficiency. Further improvement expected of 5ppts in FY25/26 with increased use of variable resourcing and cost reduction from focus on resilient services;
  - **Rail:** Utilisation of 81% for FY24/25 (up 1ppts on FY23/24). Reflects an uptick in FY24/25 driven by operating model improvement, particularly in growth markets of Asia and North America and mature markets of the UK and Europe. However, this recent improvement was partially offset by a short-term reduction in Australia where certain projects reached completion. A further small improvement in utilisation is expected in FY25/26; and
  - **A&I:** Utilisation of 70% for FY24/25 (up 6ppts on FY23/24). Material improvement in FY24/25 as a result of operating model changes and focus on variable resourcing. Further improvement of 2ppts is expected in FY25/26 with cost reduction focused in lower growth areas.

- **Business unit overheads *(c.10% of total)*:** Key cost reduction initiatives include prioritisation of business development and operational costs to more resilient growth markets, and more targeted digital investment; and
- **Enabling functions *(c.30% of total)*:** Key initiatives include continued consolidation and efficiency in enabling function structures as the Company continues to scale and mature its operations globally and reduced discretionary spend.

The Board has high confidence in the deliverability of its cost reduction plan which underpins the operating profit outlook for FY25/26 and has been working with an external third party to validate these savings and to identify further areas for additional incremental efficiencies over the medium term.

Cash management

As a result of the Company's focus on cash generation and working capital management, cash conversion in the second half of FY24/25 is expected to materially exceed Ricardo's medium-term cash conversion target of 90%. This strong performance follows a challenging first half of FY24/25 in which cash conversion was temporarily depressed following delays in the receipt of R&D tax credits, a build-up in inventory in the Defense business unit, delayed customer payments and changes to the profile of invoicing milestones. However, when assessed on a two-year timescale to lessen the impact of seasonality, the combined cash conversion for FY23/24 and FY24/25 is expected to be above 85% and hence trending back towards the Company's 90% cash conversion target. The expected improved performance on cash reflects continued management focus on invoicing and collections. In addition, in the second half of FY24/25 the Company has recovered £5m of R&D tax credits with a further £1m expected before year-end and has received an increase in the Defense disposal proceeds to reflect the collection of a major delayed customer receipt.

Ricardo has also been taking actions to manage the phasing of its capital expenditure. As a result of these actions, the Company expects reduced capital expenditure in FY24/25 and capital spend to be towards the lower end of its medium-term target range of 3% to 4% of sales in FY25/26, a period which includes material initial investment for the large marine framework contract. Key actions include realigning elements of the marine framework expenditure to better match the timing of project cash inflows, which will not impact the overall project timeline, as well as prioritising capital expenditure in other business units.

The Board expects the strong second half cash performance and the rephasing of the capital expenditure profile to support a year-end net debt towards the lower end of analyst estimates at year-end FY24/25, before any exceptional restructuring charges.

Against this background, the Board is confident that the Company will remain compliant with its leverage and interest cover covenants.

Portfolio transformation

In May 2022, the Board announced a 5-year strategy to transition the business to become a world-leading strategic and engineering consultancy focused on its Environmental and Energy Transition portfolio. The Company's strategy is to focus on strategic, technical, and engineering solutions at the intersection of transport, energy and global climate agendas.

Consistent with the Company's strategy, Ricardo has completed a series of strategic acquisitions and disposals to reposition its portfolio:

- **Environmental & Energy Transition:**
    - Acquisition E3 Advisory (January 2025)
    - Acquisition of Aither (March 2023)
    - Acquisition of E3 Modelling (January 2023)
    - Acquisition of Inside Infrastructure (March 2022)
- **Established Mobility:**
    - Divestment of the Defense business unit (January 2025)
    - Divestment of Ricardo Software (August 2022)

In addition, the Rail business unit has accelerated growth in the new markets of North America, Asia and the Middle East, offsetting slower growth in more mature markets. These growth markets now represent 48% of the Rail business unit's orders compared to 38% in 2022.

Overall, the Company has made good progress in implementing its portfolio strategy and today Ricardo's Environmental and Energy Transition portfolio accounts for approximately 85% of the Company's underlying operating profits.

Alongside the transformation of the EE and Rail business units, Ricardo has proactively diversified its sector exposure in its engineering (A&I) and production (PP) businesses away from automotive end markets and expanded to broader industrial sectors. As a result, the non-automotive mix of orders in

A&I has increased from 25% in 2022 to 60% in H1 2025, including new orders in marine, aerospace & defence and commercial vehicle markets.

The success in developing the engineering and production businesses in targeted industrial end markets has been achieved through increased collaboration and joint go-to-market strategies between the Company's business units. The combination of the design engineering capabilities in A&I, and the ability to take the design into production in PP, creates a unique end-to-end service capability for small volume niche manufacturing. This was the key differentiator that enabled the successful award of the new marine framework contract. Ricardo is seeing an increased pipeline of opportunities to continue this momentum and will be looking at ways to accelerate this alignment between the two business units.

Ricardo's strategy to reorientate the business to focus on its Environmental and Energy Transition portfolio, and more closely align our engineering and production portfolio, is leading to a simpler, more efficient, faster growing business with greater exposure to higher divisional margins. The Board believes that this transformation offers a significant value creation opportunity for shareholders.

Following the recent completion of the divestment of the Defense business unit, and the acquisition of E3 Advisory, the Board has been proactively evaluating a range of options for the next steps in its strategic transformation to maximise shareholder value.

Science Group

On 28 February 2025, Science Group plc ("Science Group") announced it owned an 8.46% stake in Ricardo. Since then, Science Group has continued to build its stake and as of 8 April 2025 it owned approximately 20.08% of Ricardo's issued share capital.

Since it became a shareholder, Science Group has engaged in a hostile campaign to attack Ricardo's performance and change members of its Board. It initially threatened to requisition a general meeting to replace three members of the Board and since that time has seemingly amended its position to focus on replacing the Chairman of Ricardo with the Executive Chairman of Science Group. The Board believes the replacement of the Chairman would be a first step only and attempts by Science Group to make further changes to the Board would soon follow with the intention of taking full control. If successful, this would give Science Group effective control of the Company without paying a premium for that control.

The Board notes that Science Group adopted similarly aggressive tactics, including stakebuilding and driving through board changes, in two prior situations which resulted in Science Group subsequently forcing through takeovers of each of those companies on terms which the Board believes were unattractive to those companies' respective shareholders. For context:

- Acquisition of TP Group plc ("TP Group"), completed in 2023
    - In 2021, Science Group started building a stake in TP Group's shares and engaged in an aggressive campaign attacking the performance of the management and board
    - After building its stake, Science Group requisitioned a general meeting to replace two directors with its own nominees, and shortly thereafter requisitioned a second general meeting to replace TP Group's Chairman with Martyn Ratcliffe, Executive Chairman of Science Group
    - After having taken control of the board, Science Group oversaw a collapse in the company's share price prior to pursuing a takeover in 2023 at a price which was approximately 40% lower than the prevailing share price had been when Science Group announced the acquisition of its initial stake
- Acquisition of Frontier Smart Technology Group ("Frontier"), completed in 2019
    - In 2019, Science Group built a stake in Frontier's shares, submitted various proposals relating to a possible acquisition of Frontier, and employed aggressive tactics, similar to the TP Group situation, including installing its nominees on Frontier's board

- Science Group’s hostile campaign culminated in the takeover of Frontier at 25p per share, an approximately 30% discount to an unsolicited offer of 35p made by Science Group less than two months beforehand
- Frontier’s financial performance has significantly deteriorated under Science Group’s ownership with a 42% decline in revenue and a 97% decline in operating profit between the year ended 31 December 2020 (the first full year of ownership under Science Group) and 2024. This has resulted in Frontier’s operating margin declining from c.16% in 2020 to c.1% in 2024

Science Group's stakebuilding in Ricardo has come at a time when the Company has been facing significant market headwinds which have impacted its short-term financial performance and share price. Science Group has criticised Ricardo for citing challenging market conditions as a major reason for its recent trading issues and share price performance. The Board of Ricardo notes that Science Group itself, while present in different areas of the market, is hardly immune from challenges in global consulting markets currently being experienced. Science Group reported an (11)% year-on-year decrease in its consulting revenues for the year to 31 December 2024.

Conclusion

The Board continues to expect Ricardo to deliver trading within the range of analyst expectations for FY24/25, which reflects the adverse impact of increased market uncertainty on short-term orders and currency volatility being largely offset through additional cost actions in the second half of FY24/25.

Confidence in Ricardo’s medium-term outlook is underpinned by the encouraging order book, recent contract wins and the material cost saving and cash initiatives outlined in this announcement. Taken together, the Board believes that the Company has a robust underpin for trading in FY25/26 and beyond.

Management has continued to make good progress against the strategy announced in 2022, in particular to refocus the Company and reinforce its competitive differentiation by shifting its portfolio from mobility services towards environmental and energy transition solutions. The Board believes that the continued simplification of the Company’s portfolio over time will provide further significant value creation for all shareholders.

The Board believes that Science Group’s efforts to replace the Chairman of Ricardo with its own Executive Chairman would, if successful, give Science Group effective control of the Board without paying a premium for that control. The Board believes Science Group's actions are being taken solely for the benefit of Science Group and its own shareholders and are contrary to the interests of Ricardo’s other shareholders. The Board therefore urges the Company’s shareholders to support it in rejecting Science Group’s demands.

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The person responsible for arranging the release of this announcement on behalf of Ricardo is Harpreet Sagoo (Group General Counsel and Company Secretary).

About Ricardo plc

Ricardo plc is a global strategic, environmental, and engineering consulting company, listed on the London Stock Exchange. With over 100 years of engineering excellence and close to 3,000 employees in more than 20 countries, we provide exceptional levels of expertise in delivering innovative cross-sector sustainable outcomes to support energy transition and scarce resources, environmental services, together with safe and smart transport solutions. Our global team of consultants, environmental specialists, engineers, and scientists support our customers to solve the most complex and dynamic challenges to help achieve a safe and sustainable world.

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