SIGNIFICANT INCREASE IN ORDER INTAKE SUPPORTS FUTURE GROWTH

A good performance in the year with order intake up 23% to £522m and good growth in revenue and underlying operating profit supported by a strong performance in our Environmental and Energy Transition portfolio.

IAN GIBSON
CHIEF FINANCIAL OFFICER

Group results

Overall, Ricardo has performed in line with the board's expectations in FY 2022/23. Revenue from continuing operations, excluding Ricardo Software, which was sold in August 2022, was £445.2m, an increase of 17% on the prior period (14% on a constant-currency basis). Underlying operating profit from continuing operations was £34.0m and underlying profit before tax from continuing operations was £27.9m, representing growth of 21% and 15% on the prior period respectively (16% and 10% on a constant-currency basis). The underlying results are reflective of strong order intake in the year. The Group won £521.5m of new orders from continuing operations, up 23% on the prior period (19% on a constant-currency basis).

Reported operating loss from continuing operations, after taking specific adjusting items into consideration, was £1.9m (FY 2021/22: profit £16.2m) and reported loss before tax from continuing operations was £8.0m (FY 2021/22: profit £12.4m). FY 2022/23 reported operating profit and profit before tax included £23.4m of largely non-cash charges for the impairment of goodwill and other assets, including decommissioning costs, in the Automotive and Industrial Established Mobility (A&I Established) operating segment, stemming from a downturn in performance in this segment. Restructuring charges totalling £25.1m were booked in A&I Established, Rail and Group. In addition, £4.6m of amortisation on acquired intangibles and £6.2m of acquisition related expenditure were booked in the period. This was partially offset by a £7.4m gain on the disposal of Ricardo Software.

Net debt at 30 June 2023 was £62.1m, an increase of £26.7m on the 30 June 2022 position of £35.4m. The Group received £13.1m of proceeds (net of cash disposed) for the sale of Ricardo Software and paid £0.8m of fees in relation to the completion of the transaction in the period. Underlying working capital increased by £12.8m with underlying cash conversion of 75.3%. Reported cash conversion was 60.4%, after taking into account the cash impact of specific adjusting items.

Headline trading performance

	Underlying[1]			Reported	
	External revenue £m	Operating profit £m	Profit before tax £m	Operating profit/(loss) £m	(Loss)/profit before tax £m
2023					
Total	**446.0**	**34.5**	**28.4**	**6.0**	**(0.1)**
Less: discontinued operation	**(0.8)**	**(0.5)**	**(0.5)**	**(7.9)**	**(7.9)**
Continuing operations[2]	**445.2**	**34.0**	**27.9**	**(1.9)**	**(8.0)**
Less: performance of acquisitions	**(4.8)**	**(1.1)**	**(1.1)**	**4.4**	**4.4**
Continuing operations – organic[3]	**440.4**	**32.9**	**26.8**	**2.5**	**(3.6)**
2022					
Total	387.3	30.1	26.3	17.0	13.2
Less: discontinued operation	(7.1)	(2.1)	(2.1)	(0.8)	(0.8)
Continuing operations	380.2	28.0	24.2	16.2	12.4
Continuing operations at current year exchange rates	392.2	29.2	25.4	17.0	13.2
Growth (%) – Total	15	15	8	(65)	(101)
Growth (%) – Continuing operations	17	21	15	(112)	(165)
Growth (%) – Continuing organic	16	18	11	(85)	(129)
Constant-currency[4] growth (%) – Continuing operations	14	16	10	(111)	(161)

(1) Underlying measures exclude the impact on statutory measures of specific adjusting items as set out in Note 2 and Note 7 to the Group financial statements. Underlying measures are considered to provide a useful indication of underlying performance and trends over time.
(2) Growth from continuing operations excludes the results of Ricardo Software, which was sold on 1 August 2022.
(3) Organic growth excludes the performance of current year acquisitions (see **Note 14** to the Group financial statements) from the results of 2023.
(4) The Group generates revenues and profits in various territories and currencies because of its international footprint. Those results are translated on consolidation at the foreign exchange rates prevailing at the time. Constant currency growth/decline is calculated by translating the result for the current year using foreign currency exchange rates applicable to the prior year. This provides an indication of the growth/decline of the business, excluding the impact of foreign exchange (see Note 2 to the Group financial statements).

During the year Ricardo divested its Software business unit, Ricardo Software, which contributed £0.8m of revenue and £0.5m of underlying operating profit and profit before tax in the current period.

FY 2022/23 also includes the results of E3-Modelling S.A. (E3M) and Aither Pty Ltd (Aither) which were acquired in January 2023 and March 2023 respectively. In the current year E3M contributed £2.0m of revenue and £0.7m of operating profit. During FY 2022/23 Aither contributed £2.7m of revenue and £0.4m of operating profit.

Operating segments summary: Order intake and revenue

	2023		2022 Restated*		2022 at constant currency	
	Order intake £m	Revenue £m	Order intake £m	Revenue £m	Order intake £m	Revenue £m
EE	111.5	88.5	74.1	67.2	74.4	67.4
Rail	89.2	73.5	85.0	74.3	87.9	76.7
A&I – Emerging	84.3	82.3	101.3	69.1	104.6	71.1
Environmental and Energy Transition	285.0	244.3	260.4	210.6	266.9	215.2
Defense	85.0	88.6	55.1	45.0	60.9	49.8
PP	115.3	84.7	75.1	73.7	75.1	73.7
A&I – Established	36.2	27.6	34.7	50.9	37.0	53.5
Established Mobility	236.5	200.9	164.9	169.6	173.0	177.0
Total – continuing operations	521.5	445.2	425.3	380.2	439.9	392.2
Discontinued operation	0.5	0.8	6.9	7.1	7.6	7.7
Total	522.0	446.0	432.2	387.3	447.5	399.9

* The A&I Established and A&I Emerging operating segments were previously reported as the A&I operating segment. Comparative numbers have been restated. See also Note 5.

Operating segments summary: Operating profit

	2023		2022 Restated*		2022 at constant currency	
	Underlying operating profit/ (loss) £m	Underlying operating profit/ (loss) margin %	Underlying operating profit/ (loss) £m	Underlying operating profit/ (loss) margin %	Underlying operating profit/ (loss) £m	Underlying operating profit/ (loss) margin %
EE	16.0	18.1	11.0	16.4	11.0	16.3
Rail	8.0	10.9	9.4	12.7	9.7	12.6
A&I – Emerging	10.6	12.9	2.7	3.9	2.8	3.9
Environmental & Energy Transition	34.6	14.2	23.1	11.0	23.5	10.9
Defense	13.4	15.1	6.6	14.7	7.2	14.5
PP	9.0	10.6	8.8	11.9	8.8	11.9
A&I – Established	(5.8)	(21.0)	4.9	9.6	5.1	9.5
Established Mobility	16.6	8.3	20.3	12.0	21.1	11.9
Operating segments – continuing operations	51.2	11.5	43.4	11.4	44.6	11.4
Plc costs	(17.2)		(15.4)		(15.4)	
Total – continuing operations	34.0	7.6	28.0	7.4	29.2	7.4
Discontinued operation	0.5	62.5	2.1	29.6	2.1	27.3
Total	34.5	7.7	30.1	7.8	31.3	7.8

* Prior period results have been restated to reflect the fact that a share of central plc costs are no longer included in the operating profit measure for operating segments. This has increased the operating segment underlying operating profit shown above by £9.8m for FY 2021/22. There is no impact on the Group's operating profit.

Environmental and Energy Transition portfolio

- Order intake: up 9% (constant currency: up 7%)
- Revenue: up 16% (constant currency: up 14%)
- Underlying operating profit: up 50% (constant currency: up 47%)
- Underlying operating profit margin: 14.2% (FY 2021/22: 10.9% at constant currency)

Energy and Environment (EE) performed strongly, with order intake, revenue and underlying operating profit all increasing compared to the prior period. Growth has been driven by energy and carbon regulation, climate action planning and transparency, clean water and air quality services.

There was good growth in the Automotive and Industrial Emerging Mobility (A&I Emerging) business. Whilst order intake was 17% down on the prior period, revenue and underlying operating profit both increased, driven by demand for hydrogen and electrification applications.

Rail revenue and underlying operating profit both declined period-on-period, as expected, due to the timing of large projects ending and new project wins and extensions commencing. Order intake was 5% up on the prior year. £1.5m of restructuring costs were recognised in Rail and EE in the period relation to the ongoing restructuring of its operating structure, aimed at creating a more streamlined and client-focused business. These costs were recognised as specific adjusting items.

Established Mobility portfolio

- Order intake: up 43% (constant currency: up 37%)
- Revenue: up 18% (constant currency: up 14%)
- Underlying operating profit: down 18% (constant currency: down 21%)
- Underlying operating profit margin: 8.3% (FY 2021/22: 11.9% at constant currency)

Defense performed very strongly in the period, with significant growth in order intake (up 54%), revenue (up 97%) and underlying operating profit (up 103%). Revenues of £56.5m (USD72.4m) for anti-lock braking systems/electronic stability control (ABS/ESC) programme were delivered in the year. Defense delivered 8,707 kits in FY 2022/23 (FY 2021/22: 3,602 kits). In addition, there was good growth in the Technical Solutions consultancy business, including Field Support Services (the sustainment of ABS/ESC kits in the field).

Performance Products (PP), excluding the results of Ricardo Software, won £115.3m of orders in FY 2022/23, (up 54% on the prior period). This reflects a number of new long-term contract wins in the period. Revenue increased by 15% on the prior period and underlying operating profit increased by 2% driven by a combination of supply chain challenges, which led to some inefficiency, and higher energy and operating costs.

Whilst orders increased by 4%, revenue significantly declined in the A&I Established business, driven by increased economic uncertainty and the continuing shift in the technological landscape in the automotive sector. The business made an underlying operating loss of £5.8m in the period, compared to a £4.9m profit in FY 2021/22. Given the performance of the business and the accelerating technological changes facing the segment, a non-cash impairment charge of £18.7m was recognised in the period in respect of goodwill, intangible assets, and property, plant and equipment (see discussion of Specific Adjusting Items below). In addition, £4.7m of costs relating to restructuring were recognised during the period. A restructuring programme, including headcount reductions was completed during the year. These actions are focused on returning the business to profitability. On a reported basis, after including the impairment charge and restructuring costs, the operating loss in A&I Established was £29.2m.

Cash performance

Net debt: increased £26.7m to £62.1m (FY 2021/22: £35.4m). The Group had a net cash inflow for the disposal of Ricardo Software (after current and prior year fees) of £11.9m. In addition, £1.1m was paid to external advisors on other M&A and strategic projects. £5.1m was paid out in relation to the ongoing restructuring actions in A&I Established and £1.9m was paid in relation to the ongoing management restructuring in Rail and EE. Excluding these specific adjusting items, the Group had a cash outflow of £4.1m.

In January 2023 the Group acquired 93% of the issued share capital of E3M for an initial cash consideration of £19.2m (EUR 21.9m). In March 2023 the Group acquired 90% of the share capital of Aither for an initial consideration of £9.4m (AUD 17.2m) which included an adjustment for the cash and normalised net working capital of £0.1m (AUD 0.1m). The composition of net debt is defined in **Note 25** to the Group financial statements.

Basis of preparation

These consolidated financial statements of the Ricardo plc Group (Group) have been prepared in accordance with UK adopted international accounting standards. The Group's principal accounting policies are detailed in **Note 1** to the Group financial statements. Those accounting policies that have been identified as being particularly sensitive to complex or subjective judgements or estimates are disclosed in **Note 1(d)** to the Group financial statements.

Reported results represent the Group's overall performance in accordance with IFRS. The Group also uses a number of alternative performance measures (APMs) in addition to those reported under IFRS. Ricardo provides guidance to the investor community based on underlying results.

The underlying results and other APMs may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. Explanations of how they are calculated and how they are reconciled to an IFRS statutory measure are provided in **Note 2** to the financial statements.

Underlying results include the benefits of the results of acquisitions and major restructuring programmes but exclude significant costs (such as the amortisation of acquired intangibles, acquisition-related expenditure, reorganisation costs and other specific adjusting items). Ricardo believes that the underlying results, when considered together with the reported results, provide investors, analysts and other stakeholders with helpful complementary information to better understand the financial performance and position of the Group.

Specific adjusting items

As set out in more detail in **Note 7**, the Group's total underlying profit before tax excludes £35.9m of costs incurred during the period that have been charged to the income statement as specific adjusting items (FY 2021/22: £11.8m). In line with the Group's policy, these items have been recognised as specific adjusting items, due to their nature or significance of their amount, so as to provide further clarity over the financial performance.

	2023 £m	2022 £m
Underlying profit before tax from continuing operations	**27.9**	24.2
Amortisation of acquired intangibles	**(4.6)**	(4.5)
Acquisition-related expenditure	**(6.2)**	(0.8)
Restructuring costs		
– A&I: change in fair value of contingent consideration	**–**	(0.3)
– A&I: Impairment of non-financial assets	**(18.7)**	(2.0)
– A&I: restructuring costs	**(4.7)**	(2.9)
– Rail & EE: restructuring costs	**(1.5)**	(1.0)
– Group: restructuring costs	**(0.2)**	–
ERP implementation costs	**–**	(0.6)
Revaluation gain	**–**	0.3
Total specific adjusting items from continuing operations	**(35.9)**	(11.8)
Reported (loss)/profit before tax from continuing operations	**(8.0)**	12.4
Specific adjusting items from discontinued operation		
Gain on disposal and external fees relating to the disposal	**7.4**	(1.3)

Amortisation of acquired intangibles was £4.6m in the year, compared to £4.5m in FY 2021/22.

Acquisition-related costs of £6.2m were incurred in the year (FY 2021/22: £0.8m). These included £3.2m for deferred consideration and £0.4m of external fees and integration costs in relation to the acquisition of Aither pty (Aither), acquired in March 2023, and £0.9m for deferred consideration and £0.2m of external fees and integration costs in respect of the acquisition of E3-Modelling S.A. (E3M, acquired in January 2023), as well as £0.4m of deferred consideration and £0.4m of integration costs in relation to the acquisition of Inside Infrastructure pty (Inside Infrastructure), acquired March 2022 and £0.7m of external fees in relation to other M&A and strategic projects. Costs in the prior period reflected £0.4m of fees and integration costs for Inside Infrastructure and £0.3m of fees in relation to other strategic projects.

Restructuring costs

A&I: Change in fair value of contingent consideration: In the prior period a charge of £0.3m was recognised in relation to a reduction in the fair value of deferred consideration in respect of the sale of Ricardo's Detroit engine test business in June 2020. The reduction in the fair value reflects lower levels of traditional engine testing work than originally forecast at the time the business was sold.

A&I: Impairment of non-financial assets: Non-cash goodwill and asset impairment charges of £18.7m were recognised in the year within the A&I Established operating segment (FY 2021/22: £2.0m). As a result of the performance of this segment in the year to 30 June 2023, the impact of economic uncertainty and the continuing technological change in the automotive sector, the future projections and discounted cash flows for the operating segment were reassessed. The resulting value in use did not support the carrying value of the associated assets, resulting in an impairment of all of the goodwill associated with A&I Established segment (£5.2m), together with £1.8m of intangible assets and £11.7m of property, plant and equipment.

A&I: Restructuring costs: £4.7m of restructuring costs were booked in A&I Established in the period (FY 2021/22 £2.9m). Of this amount, £0.7m of loss on disposal was recognised during the period for under-utilised engine testing assets in the UK associated with the restructuring actions above. In addition to the loss on disposal, redundancy costs of £2.5m were incurred to further right-size the business.

Rail and EE: Restructuring costs: A charge of £1.5m was recognised in Rail and EE in respect of the restructuring of the senior management structure, which commenced in the second half of FY 2021/22.

Gain on sale of Ricardo Software (recognised within the discontinued operation): A net gain of £7.4m was recognised in the current year in relation to the disposal of Ricardo Software, completed on 1 August 2022. Total consideration for the sale was £14.9m (USD 17.5m), of which £14.8m was satisfied in cash in the current period. £7.5m of net assets were disposed of, and £0.9m of cumulative currency gains were reclassified to the income statement. £0.9m of costs directly attributable to the disposal were incurred in the current period. Per the terms of the sale, up to a further £2.4m (USD 3.0m) is receivable based on Ricardo Software achieving certain revenue targets in the 12-month period post-sale. The fair value of this contingent consideration has been assessed to be nil as it is unlikely that these revenue targets will be achieved.

Research and Development (R&D) and capital investment

The Group continues to invest in R&D and spent £14.6m (FY 2021/22: £13.3m) before government grant income of £6.8m (FY 2021/22: £2.2m). Development costs capitalised in this year were £5.4m (FY 2021/22: £7.3m, including development costs capitalised in Ricardo Software of £1.5m), reflecting continued investment in electrification and hydrogen solutions within the A&I Emerging segment, together with technology, tools and processes in the EE segment.

Capital expenditure on property, plant and equipment, excluding right-of-use assets, was £6.2m (FY 2021/22: £4.7m), reflecting targeted investment in our business operations, including hydrogen and electrical test capability in the A&I Emerging segment.

Net finance costs

Finance income was £1.0m (FY 2021/22: £0.6m) and finance costs were £7.1m (FY 2021/22: £4.4m) for the year, giving net finance costs of £6.1m (FY 2021/22: £3.8m). The increase in costs reflects an increase in the SONIA interest rate during the current year.

Taxation

The underlying effective tax rate for the year was 26.1% for the year (FY 2021/22: 26.0%). The reported effective tax rate was 5,100% (FY 2021/22: 35.3%). This unusually high reported effective rate reflects a number of non-deductible or non-taxable specific adjusting items, including impairments and the disposal of the Software business, resulting in a tax expense of £5.1m against a loss before tax of £0.1m.

Earnings per share

Basic loss per share was 8.7p (FY 2021/22: earnings 13.8p). The Directors consider that underlying earnings per share provides a useful indication of underlying performance and trends over time. Underlying basic earnings per share for the year was 33.4p (FY 2021/22: 31.2p). The calculation of basic earnings per share, with a reconciliation to an underlying basic earnings per share, which excludes the impact (net of tax) of specific adjusting items, is disclosed in Note 8 to the Group financial statements.

Dividend

As set out in more detail in **Note 9** to the Group financial statements, the Board has declared a final dividend of 8.61p per share (FY 2021/22: 7.49p). The dividend will be paid gross on 24 November 2023 to holders of ordinary shares on the Company's register of members on 3 November 2023.

Goodwill

At 30 June 2023, the Group had total goodwill of £96.1m (FY 2021/22: £90.6m). The acquisition of Aither and E3M added goodwill of £5.1m and £8.5m respectively to the Ricardo Energy and Environment cash generating unit (CGU) as synergies from the acquisition are expected to benefit EE operating segment. The carrying value of goodwill is fully supported by the value-in-use calculations for all other operating segments.

Net debt and banking facilities

Net debt at 30 June 2023 comprised cash and cash equivalents of £49.8m (FY 2021/22: £50.5m), and borrowing and overdrafts, including hire purchase liabilities and net of capitalised debt issuance costs, of £111.9m (FY 2021/22: £85.9m).

The Group funds its operations via a Revolving Credit Facility (RCF) of £150m, with a £50m uncommitted accordion, which provides funding through to August 2026, alongside the Group's uncommitted overdraft facilities of £16.1m. At 30 June 2023, the amount undrawn on the RCF was £50.0m. This, together with the net cash held of £37.2m, and £16.1m of unutilised overdraft facilities, provided the Group with total cash and liquidity of £103.3m.

The Group's Adjusted Leverage ratio (defined as net debt over EBITDA for the last 12 months, excluding the impact of specific adjusting items and IFRS 16 Leases) was 1.4x as at 30 June 2023. The Adjusted Leverage covenant is a maximum of 3.0x.

The Interest Cover ratio (defined as EBITDA for the last 12 months, excluding the impact of specific adjusting items and IFRS 16, over net finance costs), was 8.3x at 30 June 2023. The Interest Cover covenant limit is a minimum of 4.0x.

Further details are provided in **Note 25** to the Group financial statements.

Foreign exchange

On consolidation, revenue and costs are translated at the average exchange rates for the year. The Group is exposed to movements in the Pound Sterling exchange rate, principally from work carried out with clients that transact in Euros, US Dollars, Australian Dollars and Chinese Renminbi.

Had the prior year results been translated at current year exchange rates, revenue from continuing operations would have been £12.0m (3.2%) higher, underlying operating profit would have been £1.2m (4.9%) higher and underlying profit before tax would have been £0.8m (6.5%) higher.

Pensions

The Group's defined benefit pension scheme operates within the UK. The fair value of the scheme's assets at the end of the year was £104.6m (FY 2021/22: £127.1m) and the present value of the scheme's obligations was £92.0m (FY 2021/22: £111.9m). The value of the scheme's assets reduced over the year due to movements in the stock market. However, this was partially offset by a reduction in the scheme's liabilities, due to increases in the discount rate. The pre-tax surplus, measured in accordance with IAS 19, at 30 June 2023 was £12.6m (FY 2021/22: £15.2m). Ricardo paid £1.8m of cash contributions into the scheme during the year (FY 2021/22: £3.0m).

Acquisition of E3-Modelling

On 24 January 2023, the Group acquired a 93% shareholding in E3-Modelling S.A. (E3M), a consulting company, based in Greece, that provides advanced empirical modelling services. The maximum cash consideration is £24m, of which £19m was paid on completion. The deferred consideration of £5m is based on the business achieving certain performance targets for the 12 months ending 31 December 2023 and the retention of key management. There is a commitment to acquire the remaining 7% stake in January 2025. The minimum cash consideration for the remaining 7% stake is £2m, and is reduced by 50% if the owners are not retained in the business. Ricardo has acquired full control and voting rights in E3M.

E3M provides digital modelling capabilities right across the markets that Ricardo serves, making the acquisition highly complementary to Ricardo's unique position at the intersection of the energy, environment and mobility agendas.

Acquisition of Aither

On 13 March 2023, Ricardo acquired a 90% shareholding in Aither Pty Ltd (Aither) from the founders and co-directors Chris Olszak and Will Fargher, for a cash consideration of up to £17m of which £9m was paid on completion. The deferred consideration is based upon the achievement of certain performance targets for the 10 months ended 31 December 2023 and the retention of the former owners of the business. The deferred consideration can range from nil to a maximum of £8m at an annualised EBITDA multiple of under 11 times. The remaining 10% shareholding will be acquired on the second or third anniversary of the Acquisition Closure Date, using the same EBITDA multiple as the deferred consideration, subject to a maximum. Ricardo retains full control and voting rights in Aither.