

# Ricardo plc Interim Results 31 December 2006



DELIVERING VALUE THROUGH INNOVATION & TECHNOLOGY

- ❑ Revenue up 3% to £83.8m (June 2006: £173.1m)
- ❑ Profit before tax up 10% to £4.6m (June 2006: £14.5m)
- ❑ Order book up 15% to £77.7m (June 2006: £xm)
- ❑ Basic earnings per share up 20% to 8.9p (June 2006: 24p)
- ❑ Interim dividend increased by 7% to 2.9p ( June 2006: 9.4p )
- ❑ Profit turnaround in Germany; growth in Asia underpins the increase in UK profits but has driven increases in working capital
- ❑ A good start to the second half with good order intake from the key major markets of Europe, USA and Asia across all divisions of the company
- ❑ Pipeline of prospects remains healthy (£371m at end of January)

# INCOME STATEMENT



£ m	June 2007	June 2006	Pension Credit	Underlying Performance
• Revenue	<u>XX</u>	<u>173.1</u>		<u>173.1</u>
• Gross margin	<u>XX</u>	55.4	(2.1)	<u>53.3</u>
• Overheads	<u>XX</u>	(39.6)	(1.6)	<u>(41.2)</u>
• Operating profit	<u>XX</u>	15.8	(3.7)	<u>12.1</u>
• Finance costs	<u>XX</u>	(1.3)		<u>(1.3)</u>
• Profit before tax	<u>XX</u>	14.5	(3.7)	<u>10.8</u>
• Taxation charge	<u>XX</u>	(2.3)	1.1	<u>(1.2)</u>
• Profit after tax	<u>XX</u>	<u>12.2</u>	<u>(2.6)</u>	<u>9.6</u>

Excludes Ricardo 2010 trading – sale pending

£ m	Revenue Earned		Operating Profit/(Loss)	
	jJune 2007	June 2006	June 2007	June 2006
• UK	xx	98.6	xx	8.5
• US including software	xx	35.4	xx	2.2
• Germany	xx	24.1	xx	(0.5)
• Rest of World, Prague, China, Japan	xx	1.1	xx	(0.7)
• Strategic Consulting	xx	13.9	xx	2.6
	<u>xx</u>	<u>173.1</u>	<u>xx</u>	<u>12.1</u>

Excludes Ricardo 2010 trading – sale pending

# BALANCE SHEET SUMMARY



£ m	30 June 2007	30 June 2006	31 Dec 2006
• Tangible assets	45.2	XX	44.0
• Intangible assets	17.1	XX	17.3
• Stocks and debtors	56.4	XX	61.9
• Net borrowings	(8.4)	XX	(18.7)
• Trade creditors	(41.1)	XX	(33.8)
• Tax & other liabilities	(6.2)	XX	(4.4)
• Pensions deficit (net of tax)	(23.9)	XX	(15.9)
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• Net Assets	39.1	XX	50.4
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£ m	Year ended 30 June 2007	Year ended 30 June 2006
• Operating profit	xx	12.1*
• Depreciation/loss on sale of fixed assets	xx	9.0
• Working capital increase	xx	(1.4)
• Dividend	xx	(4.6)
• Net interest received/(paid)	xx	(1.3)
• Tax refund/(paid)	xx	(1.4)
• Capital expenditure	xx	(8.1)
• Other	xx	1.1
• Cash (outflow)/inflow	<u>xx</u>	<u>5.4</u>

\* excluding pensions credit

# KEY INDICATORS



	June 2007	June 2006
• Order book	£XXm	£72m
• Gross margin	XX%	30.8%*
• Operating profit return on turnover	XX%	7.0%*
• Tax rate	XX%	11% *
• EPS basic	XX	18.8p*
• Proposed dividend	XX	9.4p

\* excluding pensions credit

# The Ricardo added value growth strategy to exploit the global market place, while de-risking against geographical and automotive cyclicality



**Professionalism in all we do**  
- no compromise on:

- Client Commitment
- Team Spirit
- Learning
- Innovation
- Shareholder Return



# RICARDO UK – a growing order book from a diverse product, geography and sector. In growth mode.



- ❑ A solid first half performance with strong order intake during the period increasing the confidence for the second half. Project ramp up, delivery and recruitment key
- ❑ Order book up with a continued strong pipeline of opportunities from a broad range of product groups, geographies, sectors and customers
- ❑ Continued demand for our high value R&D investment led technology, in particular diesel engine technology, dual clutch transmissions and F1
- ❑ India, China, Japan continue to be growth markets, but also demanding. Performance in the half was impacted by increased working capital
- ❑ The UK business is benefiting from the recovery in Germany with additional pass through work based on specific capabilities & facilities not available locally
- ❑ Military related contracts continue with further growth forecast
- ❑ UK facilities and labour heavily utilised with Prague increasing to over 130 staff



- ❑ In line with previous announcements and the objective of the venture, Shanghai Automotive have notified Ricardo that they wish to exercise their option to acquire Ricardo 2010
- ❑ Reflects the success of the venture in developing a high quality team and engineering centre for Shanghai Automotive
- ❑ First products are being introduced into the Chinese market under the Roewe brand
- ❑ Following an orderly handover programme, the operation will transfer in May 2007
- ❑ It is planned for Shanghai Automotive to remain on the Leamington premises for the foreseeable future utilising Ricardo facilities and support services which we continue to charge for
- ❑ The relationship remains excellent and we continue to support Shanghai Automotive with a range of additional engineering services from strategic to programme delivery
- ❑ We anticipate no financial impact this FY and any impact in 2007/8 to be contained within normal trading

# RICARDO US – a poor first half, with strong order intake providing increased order book coming too late to rescue H1 performance



- ❑ Poor order intake over the summer months and continued margin pressure from the passenger car sector has led to a very disappointing first half
- ❑ High order intake during the autumn months has provided an increased order book at the half year vs prior, giving increased confidence for the second half
- ❑ Strong demand for US diesel activity from many customers in the passenger car and commercial sectors, exceeding expected full year order intake in H1
- ❑ Test beds now heavily utilised for both light duty (gasoline and diesel) and heavy duty applications driven by emissions upgrade and new product development
- ❑ The challenge remains to demonstrate the benefit of Ricardo delivery to US clients during a time of industry restructuring where cost selection is prevalent
- ❑ Ricardo Software strong with new products and increased global penetration
- ❑ Passenger car OEMs and launching product offensives. Military & off-highway opportunities continue to be available



# RICARDO GERMANY – a profit turnaround resulting from an investment in talent, tools and facilities, has led to new customers



- ❑ The German business and market place is recovering
- ❑ Continued profitability in half year and turnaround on prior year
- ❑ The investment, recruitment and restructuring to improve value added capability and broaden customer base/appeal are delivering and continuing
- ❑ Growth in order book and increasing pipeline of prospects from the German market place – high quality premium brand customers
- ❑ Test beds well utilised. Further demand for additional beds from German clients with significant work passed through to UK
- ❑ Niche exhaust supply programme fully ramped and demand for prototyping of exhaust systems strong
- ❑ We now have the basis for repeat business and are seeing clear success in our higher value added activities and investments





# STRATEGIC CONSULTING – as expected, a slow start building the order book with utilisation now at normal levels and growing

- ❑ Following the running at very high levels of utilisation through 05/06, driven by a few large programmes which concluded in the summer, Strategic Consulting focused on building the order book in the first quarter of 06/07
- ❑ Now running at normal levels of utilisation and growing with a more diverse customer base and product portfolio from clients in the US, EU and Asia
- ❑ Continuous selling, while delivering business, to reduce volatility
- ❑ Recruiting to build mass and service demand as deep content consulting continues to differentiate from established management consulting players
- ❑ Product cost down, warranty reduction and business improvement / restructuring remain the key activities. An increasing interest in market, product and technology strategy from clients looking to improve top line
- ❑ A number of high profile wins in Europe displacing incumbent consultants on corporate strategic change and acquisition activities
- ❑ First product strategy programmes with Chinese and Korean clients



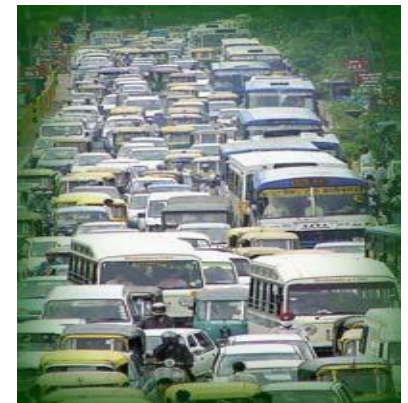
## Continued investment and learning in Asia – order intake from Japanese, Chinese and Indian clients strong in the half



- ❑ Business and relationships with major Japanese OEMs continue to grow with increased order intake, strategic support with on-site engineering and frequent senior level dialogue
- ❑ Larger programmes under discussion as year on year Ricardo delivery and relationships build, together with Japanese client global product plans outpacing in-house resource
- ❑ Relocating Japanese office to be closer to customers to increase project support
- ❑ Shanghai engineering office established, with recruitment and training of Chinese engineers underway to improve local project support
- ❑ Relationships and business with strategic Chinese customers continues to be good and build as we deliver first demonstration/production programmes
- ❑ Increasing the Chinese client base through careful focus, as can be very time consuming in terms of lead development and contractual discussions. Need to pick the “winners” and develop long term positions through senior relationship
- ❑ India proved a very fruitful market place during the period with significant wins in the three wheeler and light commercial vehicle sectors



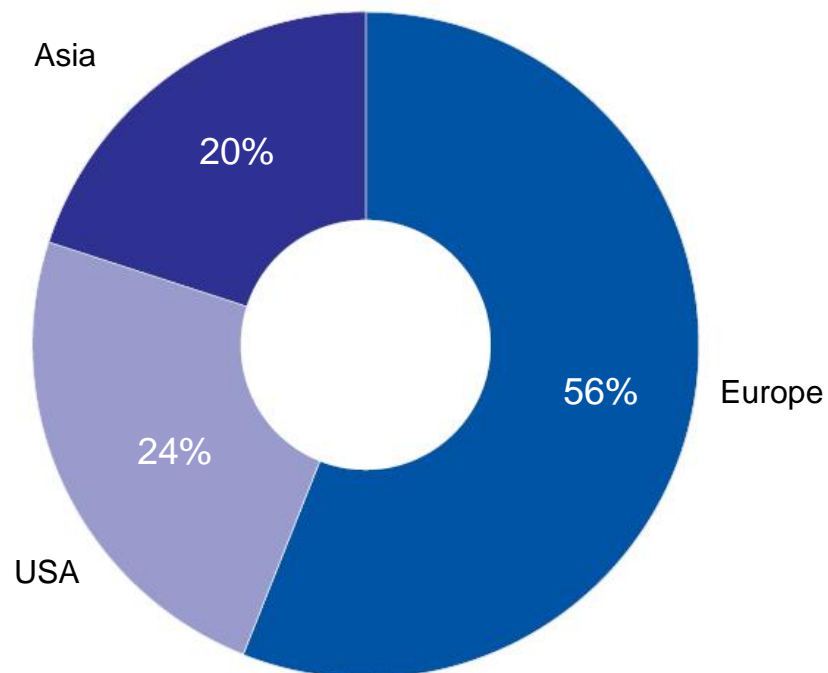
 Workers at the Baoshan plant celebrate production of their first KV6 engine



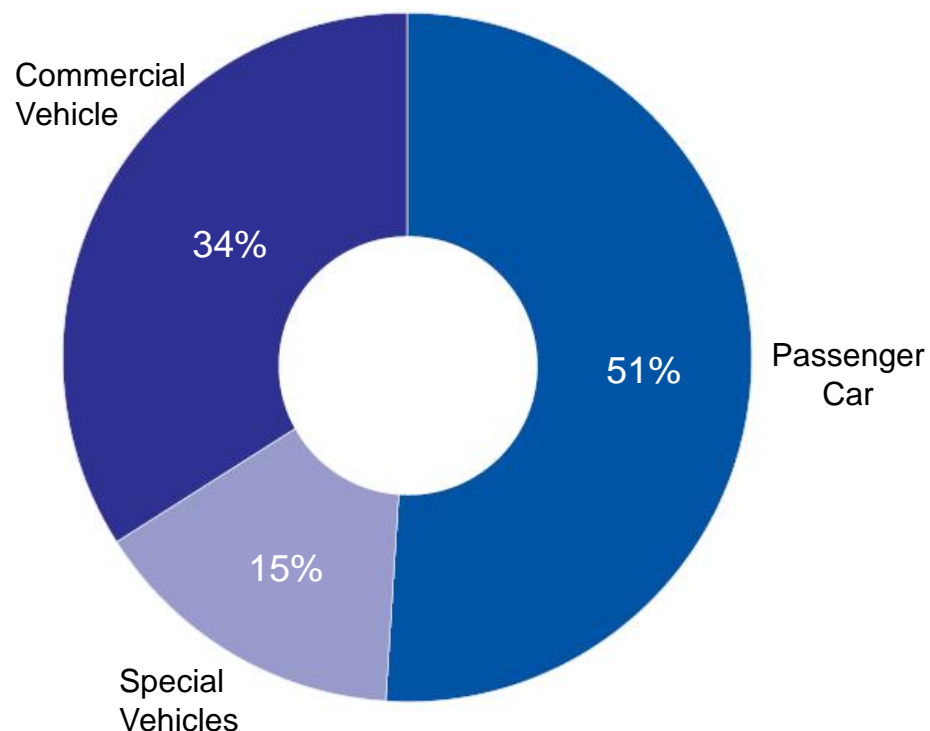
# Order intake for the half year 06/07 demonstrates that the “Global” strategy is delivering, with geography and sector spread de-risking and providing a platform for growth



### Geographic Spread 06/07



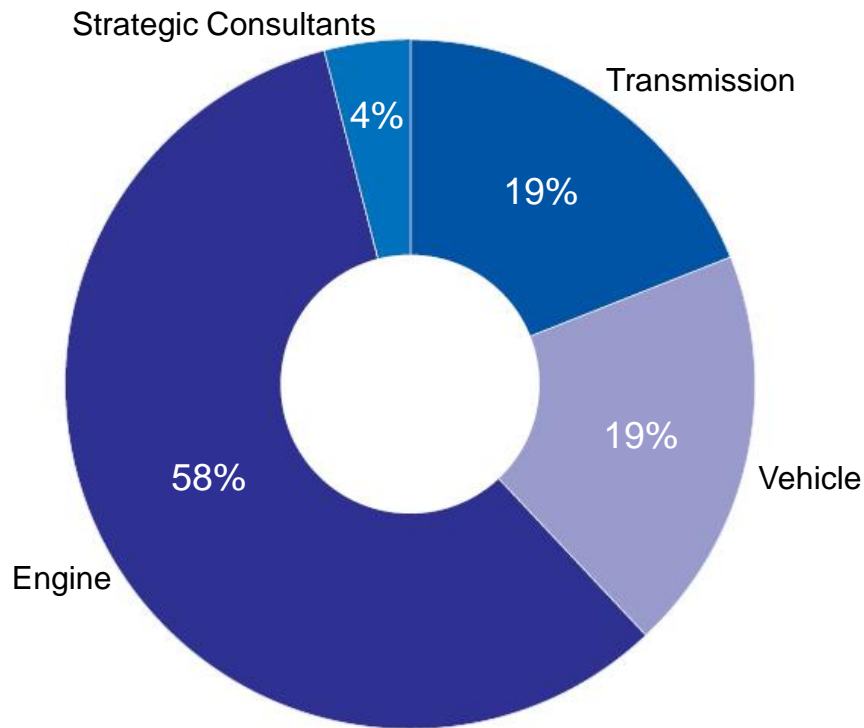
### Sector Spread 06/07



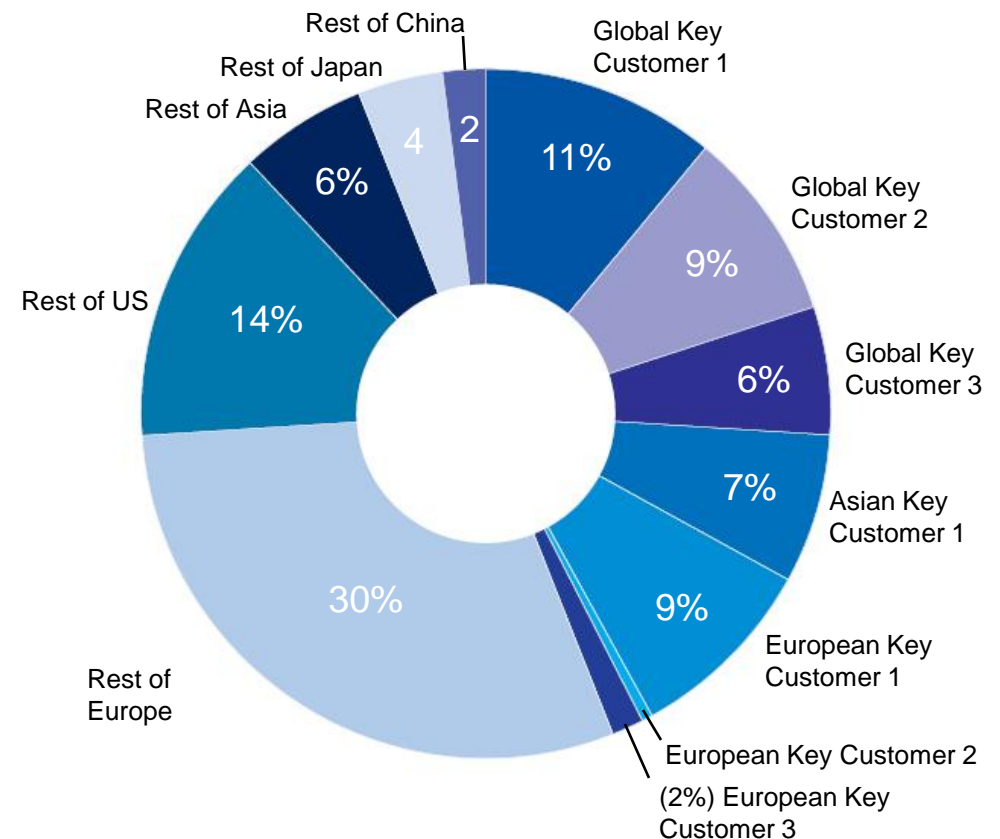
# Order intake for the half year 06/07 shows the “Global” strategy in action, with Product and Customer spread de-risking and providing a platform for growth



Product Spread 06/07



Customer Spread 06/07

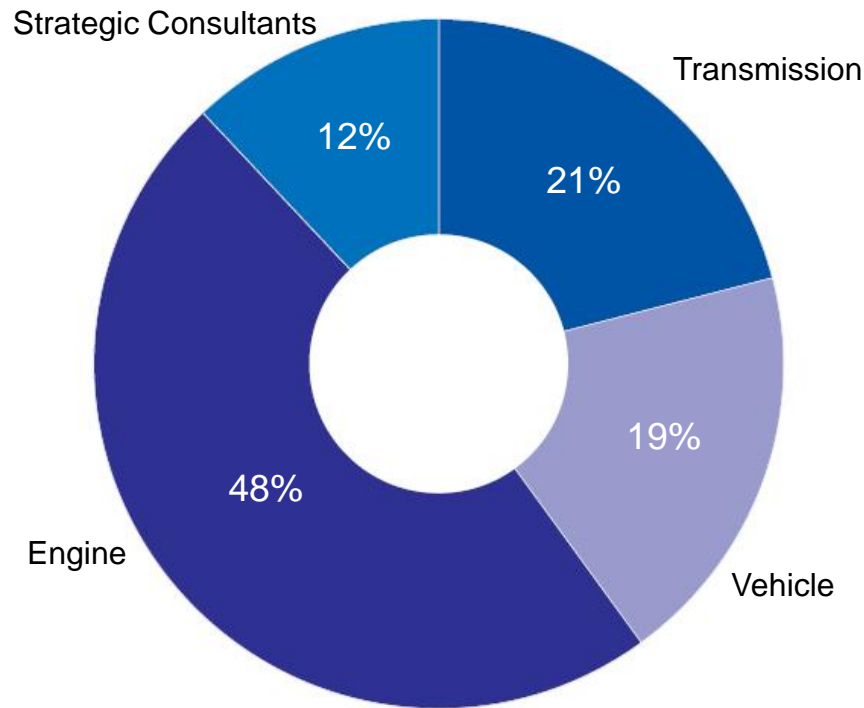




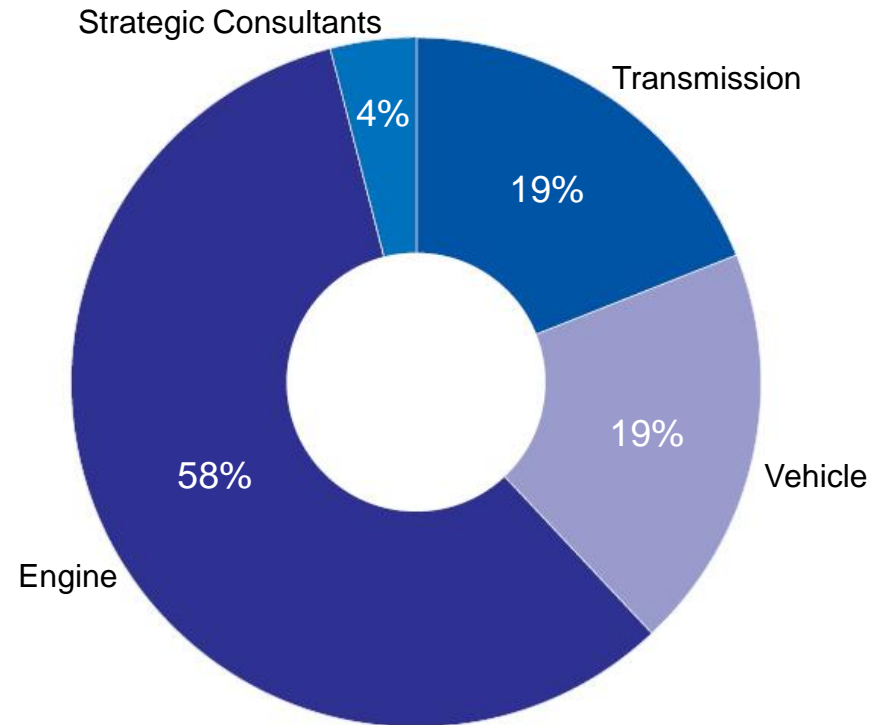
# Comparing H1 order intake for 06/07 to prior year H1, we can see the growth in engines business, including US diesel and the reduction as anticipated in strategic consulting



Product Spread 05/06



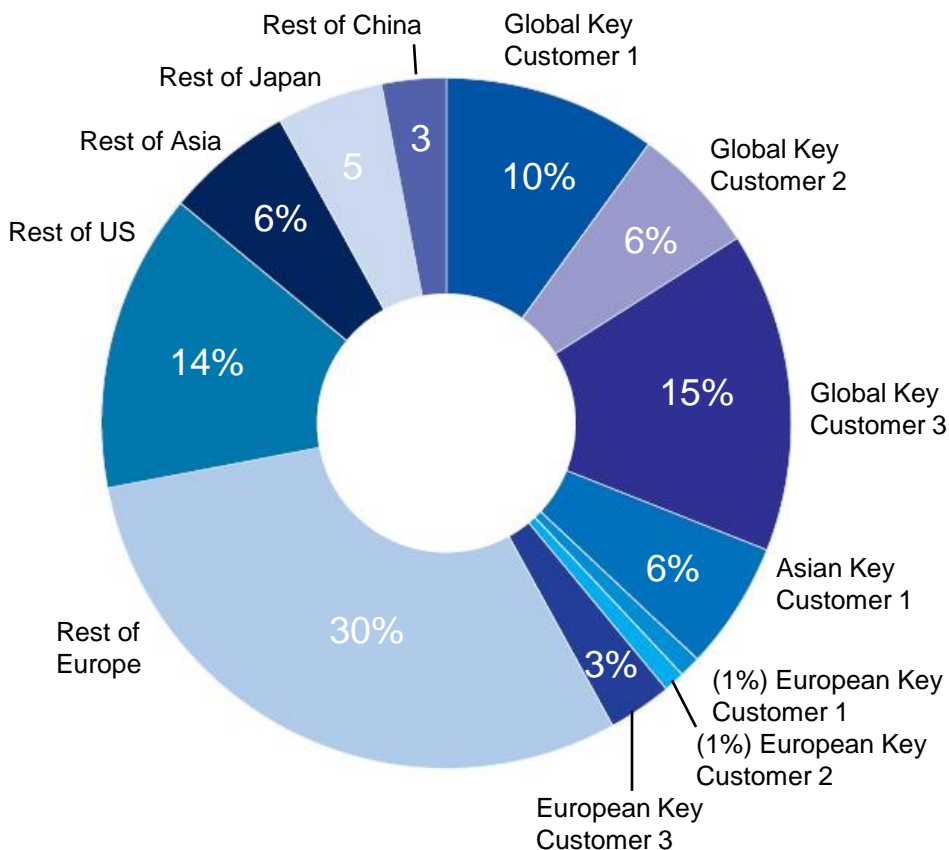
Product Spread 06/07



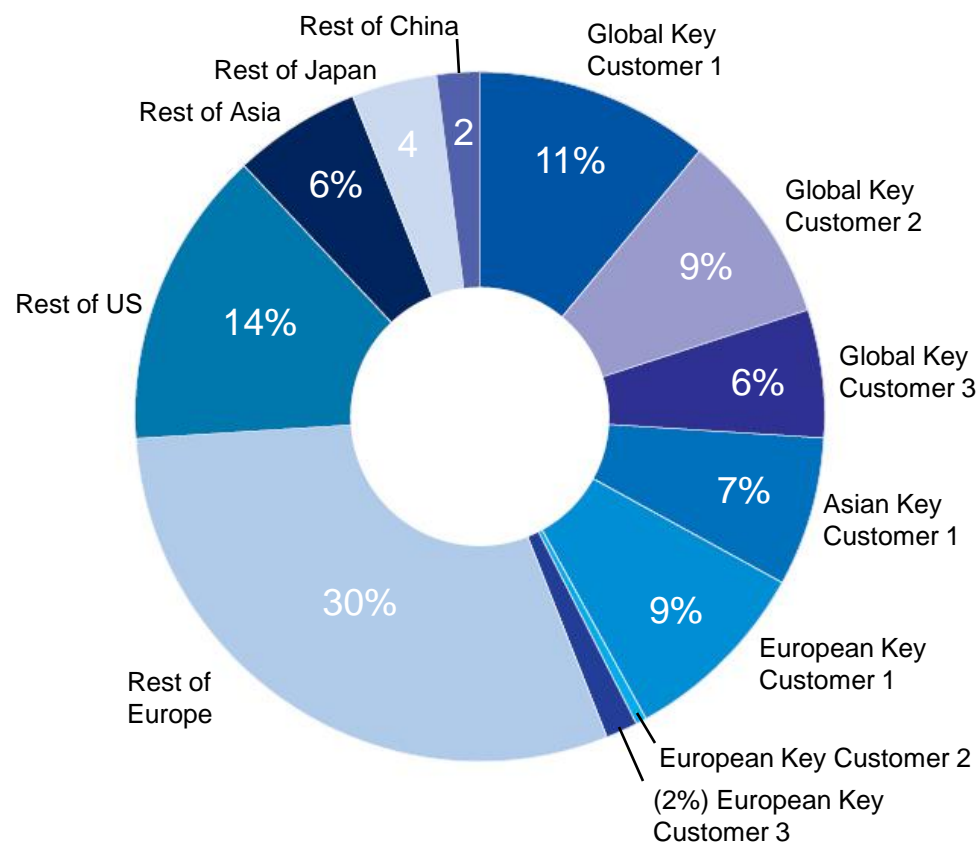
# Comparing H1 order intake for 06/07 to prior year H1, we can see the the global key customers reducing to a 26% share with an increased contribution from European clients



Customer Spread 05/06



Customer Spread 06/07



# Global emissions, high fuel prices, automotive safety and defence expenditure continue to provide the core drivers for Ricardo

## ❑ Fuel economy, emissions reduction and safety enhancing solutions

- *Low emissions diesel (US/EU), fuel efficient gasoline, active dynamic transmissions, advanced hybrid powertrains and drive by wire systems enabling “artificial horizon” benefits\**

## ❑ Sustainable profit generation in competitive markets, disrupted by new entrants

- *Cost down (product/operation), fast time to market, right product right time – strategic consulting*
- *Fast track product development, technology transfer, company-process development for new players*

## ❑ Peace keeping

- *Multi fuel, safety/integrity, versatility, agility, rapid deployment, strategic development, European expansion*

## ❑ New energy markets/sources

- *Application of related technology to synergistic markets governed by similar core drivers*

\* “artificial horizon”, imagine knowing what was coming up in the road and then having the vehicle automatically react to the situation in advance : **Smart fusion of data inputs** – driver input, GPS/maps, traffic statistics, car radar, vehicle-vehicle communications. **Safety applications** – active dynamics calibration for conditions ahead; corners, hills, traffic, intersections. **Efficiency applications** – active powertrain calibration for conditions ahead; town, motorway, hills, traffic ....Ricardo is developing these technologies and systems

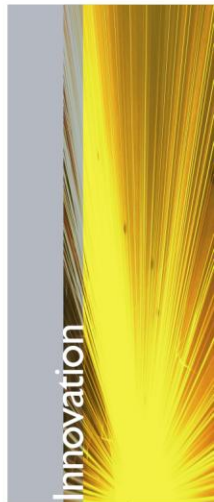
- ❑ Profit and order book growth continues to plan
- ❑ The strategy to be geographically and technically spread is developing well
- ❑ A return to profitability in Germany, as planned, on the back of prior investments. A growing order book, customer base, team and additional work passed to other divisions
- ❑ The US remains challenging as the major passenger car OEMs re-align their strategies. Product development offensives are anticipated together with the developing US diesel market
- ❑ China, India and Japan are driving the growth position in the UK business, which continues to lead the charge in advanced R&D to solve key industry and global issues
- ❑ Deep content strategic consulting continues to be well received with customers, with the Strategic Consulting business developing it's client base and offerings
- ❑ Emissions and world event drivers are of the highest profile, growing and diversifying the business through passenger car, commercial vehicle and defense programmes
- ❑ Continued emissions legislation, focus on fuel economy and increased emphasis on safety are key drivers for technical developments and business growth
- ❑ Strong pipeline of R&D demonstrators and collaborative funding

# Outlook



- “Overall, the 2006-7 financial year has started satisfactorily, again showing the benefit of being geographically and technically diversified. The solid performance in the UK and the profit recovery in Germany have provided good balance to the anticipated slow start for Strategic Consulting and the challenges in North America.

The second half has started well and order prospects continue to build with greater forward visibility. Although we have not changed our outlook for the full year, our confidence continues to grow.”





# Questions



Workers at the Baoshan plant celebrate production of their first KV6 engine

