

Chief Executive's review



Building One Ricardo to create value and deliver our vision of a safe and sustainable world

Graham Ritchie | Chief Executive Officer

I believe that we are truly unique in the combination of services we provide to support environmental and energy transition across the value chain. No other organisation can deliver what we can, with the deep strategic and engineering expertise across transport, environmental policy and energy infrastructure. This is the capability that binds us together.

Now more than ever, with the world changing rapidly and with a heightened level of urgency towards protecting our planet, Ricardo is becoming ever-more relevant in the services it can deliver to support energy transitions.

As a company, we maintain a strategic focus on three global megatrends, leveraging our position to access and drive long-term sustainable growth in areas encompassing energy decarbonisation, climate change and zero emission propulsion.

We are well placed to extract value in creating solutions for resolving each of these megatrends in ways that are beneficial for all of us.

As I travel to meet clients and colleagues across the world, I am more conscious than ever of the importance of the work that we do and how we are purpose-led in the projects that we work on. Ricardo colleagues, regardless of role or location, are motivated by the meaningful work and impact we deliver every day.

Delivering our full-year commitments

Ricardo's solid performance in FY 2023/24 resulted in the Group trading in line with the board's expectations, delivering underlying operating profit before tax of £30.5m, ahead of the prior year (FY 2022/23: £27.9m on a continuing basis). On a reported basis, the Group delivered a profit before tax of £4.3m (FY 2022/23: loss of £8.0m on a continuing basis).

As a business, we report our performance in two portfolios: our Environmental and Energy Transition portfolio, representing our core consulting capabilities, in which we deliver technical engineering and environmental consulting capabilities that enable the energy transition; and our Established Mobility portfolio that focuses on conventional propulsion engineering design, with niche manufacturing and production assembly.

Clear highlights for the year in our Environmental and Energy Transition portfolio included securing our largest environmentally focused project to date of close to £12m to support a Middle East client in establishing its regional air quality monitoring network.

Additionally, we are delighted to be working as the independent safety assurance expert on the California high-speed rail project, which is a publicly funded 170+ mile high-speed rail system that is due to open in 2030. Both projects demonstrate the clear progress we have made to date in creating operational scale in our chosen markets.

Within our Established Mobility portfolio, the United States Army awarded Ricardo's Defense business an extension agreement of USD\$385m to continue production and delivery of the anti-lock braking system/ electronic stability control (ABS/ESC), with delivery completion in September 2027, which contributed to the Group's overall operating profit.

Chief Executive's review continued

Delivering our full-year commitments continued

Work continues in supporting OEMs with cleaner transport solutions, and an example of this is the contract award that we have secured to design a new large engine concept for an Asia-based OEM. Through the engine design performance improvements that we are making, the client is able to further reduce greenhouse gas emissions and transition to a greener future.

Realising our long-term ambition

Our strategy is clear: we are on a transformation journey to become a global, world-leading strategic and engineering consultancy in environmental and energy transitions. And this has been a year of progress, as we firmly embed our strategy across Ricardo and focus on execution as we accelerate our impact in FY 2024/25.

Through our growth priorities, which include portfolio prioritisation, market expansion and M&A acceleration, we have ensured a structured approach to executing the Group's strategy.

Repositioning our portfolio has been a key focus for the Group, and we have actively continued our work to manage our portfolios through a shift from services to solutions, allowing us to increase our strategic consulting expertise while also investing heavily in our digital transformation. With the launch of Ricardo's digital platform, we are now able to offer scalable and repeatable solutions, specifically leveraging our market-modelling tools and converting these all to digital applications. We have also made great progress in our digital tools to support our technical innovation in hydrogen propulsion advancement and have recently expanded our hydrogen test facilities, which are already fully booked for the next 12 months.

Market expansion is crucial to our sales growth, and we are seeing traction in our key markets including North America, where we have established a foothold in rail services through our partnership with Metrolinx in Canada and, as I mentioned, the recent win of the California high-speed railway contract in the USA. We have successfully grown our Environmental and Energy Transition team to support our clients in Europe by establishing the Madrid hub, and we have also developed a pathway in Australia and Asia to align our services and practices through our regional leadership model.

We take a disciplined approach to M&A to accelerate growth in our chosen markets. Our two most recent acquisitions (E3-Modelling and Aither Pty Ltd) have provided the Group with good overall performance, achieving the maximum potential earn out following successful integrations into the Group.

Building One Ricardo

During the year, we have accelerated the consolidation of our enabling functions and right-sized our business operating model to support us in creating 'One Ricardo'.

Through the consolidation process of centralising our functions, we are able to leverage benefits of scale without duplicating effort or constraining investment. The functions have been structured in a way that supports the business today whilst enabling us to scale our functions to support future growth, and also allowing for greater opportunities for our people to grow and develop their potential.

The actions that we have taken have delivered immediate cost benefits within the full year, but more importantly, are already accelerating improvements in operational efficiency and

client experience to support our growth ambition.

Acting responsibly

We are committed to making every day in Ricardo a great day through investing in our incredibly talented colleagues and creating a culture that is deeply rooted in being purpose-led.

As we transition the business, it is important to bring our teams along the journey, so it was encouraging to see the number of colleagues who responded to this year's engagement survey, which was up by 11 percentage points to 72%. We received more than 6,900 comments, which is a healthy measure that our colleagues believe that their opinion matters. The engagement score itself was down slightly, reflecting the level of change delivered through the organisation. In response to this, we are already beginning to implement engagement strategies throughout the organisation to optimise and realise the benefits of the changes made.

Being responsible and acting ethically are fundamental to Ricardo. We aim to continue to accelerate our own ESG performance through our sustainability commitments, which include the work that we do in energy transition and net zero pathways for our clients, our investment in our people, and our environmental and governance targets.

The Ricardo mission set out more than 100 years ago was to 'maximise efficiency and eliminate waste' and this remains deeply integrated in our working ethos today and, more than ever, ignites the passion that drives our people and our approach to responsible business.

Gaining good momentum as we look ahead

Ricardo is gaining good momentum to deliver its five-year strategic plan communicated in May 2022. We enter the new fiscal year with a similar order book level to the record one we achieved last year, and, through our solid pipeline visibility, we have good confidence in performance as we enter FY 2024/25.

With our expertise in environmental and energy transition, there is a real opportunity for us to do even more in supporting governments and the private sector in delivering a net zero pathway for future generations.

We also know that for us to be a pivotal part of change, we have to continue to grow and improve our business. By doing so, we can extend our reach, supporting even more clients and ensuring that our teams across the world continue to deliver meaningful work, knowing that the projects are delivering maximum impact.

The more we can do to accelerate our transformation, the more value we can create for all our stakeholders.

Graham Ritchie
Chief Executive Officer

10 September 2024