Chief Financial Officer's report

A year of positive growth and excellent cash performance

Judith Cottrell | Chief Financial Officer

Good growth in revenue and underlying operating profit. Actions to accelerate the operating model transformation delivered a strong second half profit performance and improving margins. A rigorous focus on working capital has driven strong cash performance, reducing net debt to £59.6m.

Group results

Overall, Ricardo has performed in line with the board's expectations in FY 2023/24, with a strong improvement in underlying operating profit in the second half. Revenue was £474.7m, an increase of 7% on the prior period on a continuing basis, excluding the results of Ricardo Software which was sold in the prior year (9% on a constant currency basis). Underlying operating profit was £38.8m and underlying profit before tax was £30.5m, representing growth of 14% and 9% on the prior period respectively on a continuing basis (17% and 13% on a constant currency basis).

FY 2023/24 saw a strong recovery in profit in the second half, with improved operational efficiencies following the acceleration of our operating model transformation which saw us centralise enabling functions and increase our use of flexible resources.

Order intake for the Group was £496.1m, down 5% on the prior year's record order intake (down 3% on a constant currency basis). This primarily reflects the new programme wins in the prior year in Performance Products and the delay of large orders in our A&I businesses.

Reported operating profit from continuing operations, after taking specific adjusting items into consideration, was £12.8m (FY 2022/23: loss £1.9m) and reported profit before tax from continuing operations was £4.3m (FY 2022/23: loss £8.0m). FY 2023/24 reported operating profit included £26.0m of specific adjusting items (profit before tax: £26.2m) predominantly related to the implementation of our strategic priorities of portfolio transition and operational efficiency (FY 2022/23: £35.9m). Further details can be found below and in Note 6 of the Group financial statements.

As a result of the Group's persistent and rigorous focus on working capital management, cash generation for the full year continues to deliver strong returns, delivering net debt at 30 June 2024 of £59.6m, a reduction of £2.5m on the 30 June 2023 position of £62.1m. This was after £15.4m of acquisition-related payments, including earn outs relating to the acquisitions of E3-Modelling SA (E3M) and Aither Pty (Aither), and £6.4m of restructuring costs, including costs incurred in accelerating our operating model transformation, partially offset by a £3.2m cash receipt from the sale and leaseback of a building at the Shoreham Technical Centre, excluding fees.

Underlying cash conversion improved from 66.7% (restated) in FY 2022/23 to 118.9%. Reported cash conversion was 125.4% (FY 2022/23: 50.7% (restated)) after taking into account the cash impact of specific adjusting items.

Chief Financial Officer's report continued

Headline trading performance

	Underlying[1]			Reported	
	External revenue £m	Operating profit £m	Profit before tax £m	Operating profit/(loss) £m	Profit/(loss) before tax £m
2024					
Continuing operations[2]	**474.7**	**38.8**	**30.5**	**12.8**	**4.3**
Less: performance of acquisitions	**(12.6)**	**(2.7)**	**(2.3)**	**(0.7)**	**(0.3)**
Continuing operations – organic[3]	**462.1**	**36.1**	**28.2**	**12.1**	**4.0**
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)
Growth (%) – Total	6	12	7	113	4,400
Growth (%) – Continuing operations	7	14	9	774	154
Growth (%) – Continuing organic	5	10	5	384	211
Constant currency[4] growth (%) – Continuing operations	9	17	13	774	154

(1) Underlying measures exclude the impact on statutory measures of specific adjusting items as set out in Note 2 and Note 6 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 acquisitions (see Note 13 to the Group financial statements) from the results of 2024 and 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 prior year using foreign currency exchange rates applicable to the current 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).

FY 2023/24 and FY 2022/23 include the results of E3M and Aither, which were acquired in January 2023 and March 2023 respectively. In the current year, these acquisitions contributed £12.6m of revenue and £2.7m of underlying operating profit. In the prior year, they contributed £4.8m of revenue and £1.1m of underlying operating profit.

In the prior year, Ricardo divested its Software business unit, Ricardo Software, which contributed £0.8m of revenue and £0.5m of underlying operating profit in that year.

Chief Financial Officer's report continued

Operating segments summary: Order intake and revenue

	2024		2023		2023 at constant currency	
	Order intake £m	**Revenue £m**	Order intake £m	Revenue £m	Order intake £m	Revenue £m
EE	**116.9**	**103.3**	111.5	88.5	110.1	87.4
Rail	**95.1**	**77.4**	89.2	73.5	86.0	70.8
A&I – Emerging	**52.4**	**58.6**	84.3	82.3	83.0	80.4
Environmental and Energy Transition	**264.4**	**239.3**	285.0	244.3	279.1	238.6
Defense	**125.4**	**123.4**	85.0	88.6	81.3	84.8
PP	**77.1**	**83.4**	115.3	84.7	115.3	84.7
A&I – Established	**29.2**	**28.6**	36.2	27.6	35.6	27.0
Established Mobility	**231.7**	**235.4**	236.5	200.9	232.2	196.5
Total – continuing operations	**496.1**	**474.7**	521.5	445.2	511.3	435.1
Discontinued operation	**—**	**—**	0.5	0.8	0.5	0.8
Total	**496.1**	**474.7**	522.0	446.0	511.8	435.9

Operating segments summary: Underlying operating profit

	2024		2023		2023 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	**17.6**	**17.0**	16.0	18.1	15.8	18.1
Rail	**8.9**	**11.5**	8.0	10.9	7.8	11.0
A&I – Emerging	**3.4**	**5.8**	10.6	12.9	10.6	13.2
Environmental and Energy Transition	**29.9**	**12.5**	34.6	14.2	34.2	14.3
Defense	**23.5**	**19.0**	13.4	15.1	12.9	15.2
PP	**6.7**	**8.0**	9.0	10.6	9.0	10.6
A&I – Established	**(3.3)**	**(11.5)**	(5.8)	(21.0)	(5.7)	(21.1)
Established Mobility	**26.9**	**11.4**	16.6	8.3	16.2	8.2
Operating segments – continuing operations	**56.8**	**12.0**	51.2	11.5	50.4	11.6
Plc costs	**(18.0)**		(17.2)		(17.2)	
Total – continuing operations	**38.8**	**8.2**	34.0	7.6	33.2	7.6
Discontinued operation	**—**	**—**	0.5	62.5	0.5	62.5
Total	**38.8**	**8.2**	34.5	7.7	33.7	7.7

Chief Financial Officer's report continued

Environmental and Energy Transition portfolio

- Order intake: down 7% (constant currency: down 5%)
- Revenue: down 2% (constant currency: flat)
- Underlying operating profit: down 14% (constant currency: down 13%)
- Underlying operating profit margin: 12.5% (FY 2022/23: 14.3% at constant currency)

Energy and Environment (EE) continued to show good momentum, with overall growth in order intake, revenue and operating profit, boosted by the performance of the acquisitions made in FY 2022/23 and strong demand in policy, strategy and economics, and air quality and environment. Performance was tempered in water advisory services, which was impacted by project disruptions in end markets.

Rail delivered good growth in orders and executed consistently against its order book to deliver strong revenue growth. With increased revenue from recent contracts wins in Australia, Asia and North America and improved operational leverage, underlying operating profit margins improved from 11.0% to 11.5% and underlying operating profit grew by 14% (constant currency).

Order intake, revenue and operating profit declined year-on-year in Emerging A&I due to delays and volatility in order intake as our diversified client base manages the complexities of energy transition. However, we saw profit recovery in the second half of the year, driven by the restructuring initiatives and cost actions which took place. These were focused on accelerating the implementation of its flexible resourcing model, allowing for the business to be more resilient going forward in responding to changes within its end markets.

The Emerging A&I order book remains healthy at £43.3m, albeit lower than in June 2023 (£55.0m). Whilst the business will experience short-term volatility, we remain confident about the long-term growth prospects.

Established Mobility portfolio

- Order intake: down 2% (constant currency: flat)
- Revenue: up 17% (constant currency: up 20%)
- Underlying operating profit: up 62% (constant currency: up 66%)
- Underlying operating profit margin: 11.4% (FY 2022/23: 8.2% at constant currency)

Defense performed very strongly in the period, with significant growth in order intake (up 54% on a constant currency basis), revenue (up 46%) and underlying operating profit (up 82%). Defense delivered 13,100 Anti-lock braking system/electronic stability control (ABS/ESC) kits in FY 2023/24 (FY 2022/23: 8,707 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) benefited from £40m of multi-year transmission programme orders in FY 2022/23 and were working these orders in FY 2023/24. As expected, this resulted in lower order intake in FY 2023/24. With lower volumes in powertrain, due to revised client requirements and reduced activity in the transmission business, with two major programmes ramping down and one new programme in ramp-up phase, revenue was down by 2% on prior year.

This resulted in lower underlying operating profit overall, but with a strong profit in the second half, benefiting from a ramp-up to complete client transmission projects.

Order intake in Established A&I was down 18% on prior year on a constant currency basis. Although there were delays in the timing of orders, order intake improved in the second half of the year, which drove overall growth in revenue in the year of 6% on a constant currency basis. Actions taken to accelerate the move to flexible resources and reduce the fixed cost base resulted in the business returning to a small profit position in the second half of the year. The overall underlying operating loss for the year was £3.3m compared to an underlying loss of £5.7m in FY 2022/23, on a constant currency basis.

Cash performance

Net debt decreased £2.5m to £59.6m (FY 2022/23: £62.1m). Underlying cash from operations was an inflow of £63.4m for the year. Within this, underlying net working capital reduced by £8.8m.

In FY 2023/24, the Group paid: £15.4m in respect of acquisition and strategic project-related costs, including a total of £13.7m of acquisition-related and earn out payments to the former owners of E3M and Aither; £6.4m of cash costs in relation to restructuring activities to accelerate our operating model transformation through centralising enabling functions and increasing our use of flexible resources; and £0.5m for external costs incurred for planning activities to implement a new ERP system. Partially offsetting these, the Group received £3.2m for the sale and leaseback of a property at the Shoreham Technical Centre.

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.

Chief Financial Officer's report continued

Specific adjusting items

As set out in more detail in Note 6, the Group's total underlying profit before tax excludes £26.2m of costs incurred during the period that have been charged to the income statement as specific adjusting items (FY 2022/23: £35.9m). 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.

	2024 £m	2023 £m
Underlying profit before tax from continuing operations	**30.5**	27.9
Amortisation of acquired intangibles	**(4.8)**	(4.6)
Acquisition and strategic project-related costs	**(12.2)**	(6.2)
Restructuring costs		
– A&I: impairment of non-financial assets	**—**	(18.7)
– A&I: restructuring costs	**(3.4)**	(4.7)
– Rail and EE: restructuring costs	**(3.3)**	(1.5)
– Group: restructuring costs	**(1.7)**	(0.2)
ERP implementation costs	**(0.5)**	—
Sale and leaseback costs	**(0.3)**	—
Total specific adjusting items from continuing operations	**(26.2)**	(35.9)
Reported (loss)/profit before tax from continuing operations	**4.3**	(8.0)
Specific adjusting items from discontinued operation		
Disposal of discontinued operation	**—**	7.4

Amortisation of acquired intangibles was £4.8m in the current year, compared to £4.6m in FY 2022/23.

Acquisition and strategic project-related costs of £12.2m were incurred in the year (FY 2022/23: £6.2m). These included: £5.0m for deferred consideration and £0.5m of integration costs in relation to the acquisition of Aither, acquired in March 2023 (cash cost: £8.3m); £4.1m for deferred consideration and £0.2m of integration costs in respect of the acquisition of E3M, acquired in January 2023 (cash cost: £6.1m, which included £1.3m of payments in relation to items which were accrued for at completion under the completion adjustment mechanism); £0.1m of deferred consideration in relation to the acquisition of Inside Infrastructure Pty (Inside Infrastructure), acquired in March 2022 (cash cost: £0.6m); and £2.3m of external fees in relation to other M&A and strategic projects (cash cost: £0.4m).

The prior year included: £3.2m for deferred consideration and £0.4m of external fees and integration costs for Aither (cash cost: £0.2m); £0.9m for deferred consideration and £0.2m of external fees and integration costs for E3M (cash cost: £0.1m); £0.4m of deferred consideration and £0.4m of integration costs for Inside Infrastructure (cash cost: £0.5m); and £0.7m of other M&A and strategic projects (cash cost: £0.8m).

Restructuring costs

A&I: impairment of non-financial assets: Non-cash goodwill and asset impairment charges of £18.7m were recognised in the prior year within the Established A&I operating segment. 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 the Established A&I segment (£5.2m), together with £1.8m of intangible assets and £11.7m of property, plant and equipment.

Restructuring costs: As part of the Group's actions to accelerate its operating model transformation, £8.4m of restructuring costs were incurred. The total cash cost of restructuring in the year was £6.4m. These costs have been included within specific adjusting items as they are significant in quantum and would otherwise distort the underlying trading performance of the Group, and included:

A&I: £3.4m, including £1.8m of redundancy costs, £0.4m of external contractor and legal fees directly related to the process, and £1.2m of property exit and asset write down costs. The prior year cost included £2.4m of redundancy costs to right-size the business in response to the impact of the economic uncertainty above, £1.1m of losses on disposal of non-current assets, £0.2m of property exit costs and £1.0m of external fees and contractor costs incurred directly in relation to the transformation activities.

Rail and EE: £3.2m of redundancy costs, plus £0.1m of external legal and other fees incurred directly as a result of the process. A charge of £1.5m was recognised in Rail and EE in respect of the restructuring of the senior management structure in the prior year.

Group: £1.0m of redundancy costs, together with £0.7m of external legal and other fees incurred directly as a result of the process. A charge of £0.2m was recognised in Group in the prior year in relation to restructuring of the Group functions.

ERP implementation: Costs of £0.5m were incurred in the year in relation to planning activities to implement a new ERP system. These were classified as a specific adjusting item as they are not reflective of the underlying performance of the business in the period.

Sale and leaseback costs: External fees of £0.3m were incurred in the year in relation to the sale and leaseback of part of the Shoreham Technical Centre. These costs were classified as a specific adjusting item as they are not reflective of the underlying performance of the Group.

Gain on sale of Ricardo Software (recognised within the discontinued operation): In the prior year, a net gain of £7.4m was recognised in relation to the disposal of Ricardo Software, completed on 1 August 2022 (the net cash impact was an inflow of £11.9m). Per the terms of the sale, up to a further £2.4m ($3.0m) was receivable based on Ricardo Software achieving certain revenue targets in the 12-month period post-sale. These targets were not achieved and no further monies were paid.

Chief Financial Officer's report continued

Research and Development (R&D) and capital investment

The Group continues to invest in R&D and spent £11.3m (FY 2022/23: £14.6m) before government grant income of £1.8m (FY 2022/23: £6.8m). Development costs capitalised in the year were £6.3m (FY 2022/23: £5.4m), reflecting continued investment in electrification, hydrogen and carbon capture (BIOCCUS) solutions within the Emerging A&I segment, together with digital and air quality models and solutions within EE and R&D projects within Defense.

Capital expenditure on property, plant and equipment, excluding right-of-use assets, was £4.1m (FY 2022/23: £6.2m), reflecting targeted investment in our business operations, including hydrogen and electrical capability in the Emerging A&I segment.

Net finance costs

Finance income was £1.1m (FY 2022/23: £1.0m) and finance costs were £9.6m (FY 2022/23: £7.1m) for the year, giving net finance costs of £8.5m (FY 2022/23: £6.1m). 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 26.6% (FY 2022/23: 26.1%). The reported effective tax rate was 81.4% (FY 2022/23: 5,100%). This unusually high reported effective rate in the current and prior year reflected a number of non-deductible or non-taxable specific adjusting items, including impairments and the disposal of the Software business in FY 2022/23.

Earnings per share

Basic earnings per share was 1.1p (FY 2022/23: loss of 8.7p). 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 35.9p (FY 2022/23: 33.4p). 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 7 to the Group financial statements.

Dividend

As set out in more detail in Note 8 to the Group financial statements, the board has declared a final dividend of 8.9p per share (FY 2022/23: 8.61p). The dividend will be paid gross on 22 November 2024 to holders of ordinary shares on the Company's register of members on 1 November 2024.

Goodwill

At 30 June 2024, the Group had total goodwill of £96.0m (FY 2022/23: £96.1m). The carrying value of goodwill is fully supported by the recoverable amounts of all cash-generating units.

Net debt and banking facilities

Net debt at 30 June 2024 comprised cash and cash equivalents, net of any restricted cash, of £47.3m (FY 2022/23: £49.8m), and borrowing and overdrafts, including hire purchase liabilities and net of capitalised debt issuance costs, of £106.9m (FY 2022/23: £111.9m).

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 2024, the amount undrawn on the RCF was £47.0m. This, together with the net cash held (net of utilised overdraft) of £43.0m, and £16.1m of unutilised overdraft facilities, provided the Group with total cash and liquidity of £106.1m.

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 1.25x as at 30 June 2024. 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 5.86x at 30 June 2024. The interest cover covenant limit is a minimum of 4.0x.

Further details are provided in Note 23 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 £10.1m (2.3%) lower, underlying operating profit would have been £0.8m (2.3%) lower and underlying profit before tax would have been £0.8m (2.9%) lower.

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 £105.4m (FY 2022/23: £104.6m) and the present value of the scheme's obligations was £97.4m (FY 2022/23: £92.0m).

The pre-tax surplus, measured in accordance with IAS 19, at 30 June 2024 was £8.0m (FY 2022/23: £12.6m). This is predominantly due to the experience loss from incorporating the census data from the 5 April 2023 statutory funding valuation into the IAS 19 liability calculations compared to the roll forward of the IAS 19 liabilities from the prior year end, which were themselves rolled forward from the 5 April 2020 census data. The discount rate also reduced during the year, partly due to the impact of moving to the expanded dataset version of the Mercer Yield Curve, which resulted in an increase in the liabilities. Ricardo paid £0.8m of cash contributions into the scheme during the year (FY 2022/23: £1.8m), with the final payment of £0.2m made on 1 November 2023.

Judith Cottrell
Chief Financial Officer

10 September 2024