28 July 2020

Ricardo plc

Ricardo plc ("Ricardo") is a global engineering, technical, environmental and strategic consultancy business, which also manufactures and assembles niche, high-quality and high-performance products.

Ricardo is today providing a trading update ahead of its full year results in respect of the year ended 30 June 2020. Ricardo plans to announce its full year results in September 2020.

Trading update

As previously announced, COVID-19 has had a negative impact on performance in the second half of the year, with our Automotive related businesses being impacted the most with profits significantly lower than the prior year. Our Energy & Environment, Defense and Rail businesses were less impacted and all delivered an increase in profits on the prior year. Overall, we have seen a delay in orders being placed and some challenges in the delivery of projects due to customers either temporarily closing down their operations or working remotely, together with our own consultants working from home. Whilst revenue has been impacted to a degree, profit and margins have been impacted more so, due to the reduced level of efficiency.

In the year to 30 June 2020, order intake was over £365m, compared to £386m in the prior year. The order intake includes £16m in respect of Transport Engineering and PLC Consulting which were acquired on 31 May 2019 and 31 July 2019 respectively. Total Group revenue in the year ended 30 June 2020 was in excess of £350m, compared to £384m in the prior year. This revenue includes £21m in respect of the Transport Engineering and PLC Consulting acquisitions. The order book at 30 June 2020 was in excess of £310m compared to the prior year of £314m.

Given the impact of COVID-19 in the second half of the year, the Group now expects underlying profit before tax for the year ended 30 June 2020 to be approximately £15m to £16m, subject to audit. The level of profit was a result of the lower revenue, the time required to reduce headcount in light of the lower revenue, and the reduced efficiency as referenced above. The Group has taken significant actions in the year to reduce its costs, and we enter the new financial year with a reduction in the current cost base of more than £10m per annum.

Given the ongoing uncertainty we do not believe it is appropriate to provide guidance for the year ending 30 June 2021, albeit current expectations are that profit and cash performance will be weighted towards the second half of the new financial year.

Funding and liquidity

At 30 June 2020, net debt was £74m compared to £74m at 31 December 2019 and £47m at 30 June 2019. We are pleased with the cash neutral position in the six months ended 30 June 2020 given the current climate, which has been driven by our continuing strong focus on working capital. The increase in net debt of £27m compared to 30 June 2019 includes an aggregate of £18m in respect of the acquisitions of the Detroit facility and PLC Consulting in Australia, both of which occurred in the first half of the financial year.

On 6 May 2020, we announced action taken to strengthen the Group's funding position through the exercise of £50m of the accordion option of our banking facilities. This increased the Revolving Credit Facility (RCF) to £200m, providing the Group with increased committed funding available for the remaining term through to July 2023. At 30 June 2020 the amount undrawn on the RCF was £70m and we held net liquid cash reserves of £56m together with uncommitted overdraft facilities of £16m.

In addition to the increased committed funding available, the Adjusted Leverage (defined as net debt over underlying EBITDA) covenant was increased from 3.0x to 3.75x for the two test dates of 30 June 2020 and 31 December 2020. The covenant will return to 3.0x for the following test date on 30 June 2021. The only other financial covenant is Interest Cover, which remains at 4.0x for each test date.

There have been no other changes to the terms of this multi-currency facility, which has a variable interest rate ranging from 1.4% to 2.2% above LIBOR and varies according to the Group's Adjusted Leverage.

Operational Update

Trading in our Energy & Environment business has been good during the year, with year on year growth in revenue, order intake, and the closing order book. The business has benefited from the predominant public sector customer base and in particular has seen a strong performance in each of the environmental evidence and data; resource efficiency and waste and chemical risk practice areas. There is a good pipeline of opportunities as we enter the new financial year.

Our Defense business also had a good year with growth in revenue driven by a strong year in engineering services together with additional kits delivered in respect of the Anti-lock Brake System/Electronic Stability Control (ABS/ESC) project. During the year, 2,460 ABS/ESC kits were delivered (FY19 1,650 kits). The pipeline of opportunities in Defense is very good and on 29 June 2020 we were pleased to announce that GM Defense, along with Ricardo as its strategic partner, had been awarded a $214m production contract by the US Army to build, field and sustain the Army's new Infantry Squad Vehicle. Regarding the wider HMMWV fleet retrofit programme discussions continue within the US Congress Defense Budget Appropriations Committee. Order intake for Defense overall is below the prior year due to the profile and timing of the ABS/ESC order placement.

Performance Products has been impacted by the closure of some of our customers' production lines in the final quarter of the year, as a result of COVID-19, and consequently has delivered a lower volume of high performance engines compared to the prior year. Production recommenced in June 2020 and is expected to increase steadily over the coming months. We continue to pursue new opportunities together with the extension of existing programmes and during the second half of the financial year we secured a £12m order relating to two years of transmission supply to a major European race series – the full value of the programme is expected to be in the region of £30m with deliverables forecasted out to 2024.

Our Rail business has seen an increase in order intake, revenue and the closing order book driven by the acquisition of Transport Engineering on 31 May 2019. Performance across the Rail business was mixed with the Asia business the first to be impacted by COVID-19 which followed the disruption to our Hong Kong operations following the Autumn 2019 demonstrations. Operations in Europe were impacted in the second half of the year by COVID-19 with temporary office closures and travel restrictions, but all of our offices are now open and fully operational. The Rail business enters the new financial year with a good order book and a strong pipeline.

Our Automotive related businesses in Europe, the US and China have been impacted by challenging market conditions, both due to weakness in the Automotive sector overall and as a result of COVID-19. This has given rise to a delay in orders being placed by customers and a slow-down in project delivery. Action has been taken to address these challenges through the restructuring of our Automotive related activities including the disposal of test facilities in Detroit and reductions in the cost base creating a more agile business as set out in the comments on specific adjusting items below.

In the year, specific adjusting items of c£21m have been incurred which include £6m of amortization of acquired intangibles; £3m of earn out costs in respect of previous acquisitions; and a c£3.5m impairment charge taken on the Detroit Technology Campus ('DTC') test and office buildings following their purchase in August 2019 for £14.3m. The remaining £8.5m reflects major restructuring activities as a result of adverse market conditions, particularly in the Automotive sector, exacerbated by the COVID-19 pandemic. Excluding the DTC purchase, the net cash cost of restructuring actions in the year was £2.4m, with £1.5m to come in FY21. The DTC office building remains held for sale on the balance sheet at June 2020.

Our response to COVID-19

From the beginning of the crisis, we set out a "Healthy people, healthy business" agenda. This focused on supporting our employees and their families together with the health and wellbeing of our clients, suppliers and the communities in which we operate.

Our manufacturing and testing facilities are fully staffed and delivering client requirements with appropriate social distancing controls to meet the guidance of governments. Our offices are all open for employees who wish to return to work and can do so safely. We are encouraging return for those who can, and supporting those that cannot yet return so they can fully contribute to the business. In some locations we have temporary closures as we respond to local lockdowns which authorities can activate quickly. Our IT resources are supporting the business well across a mix of home based and office-based working. Our larger offices are operating one-way systems and team-based segregation to reduce transmission risk.

"Digital first" is still the core strategy for client and supplier communication. Our business travel has been very limited in recent months. Some travel within Europe, China and US has commenced. There has been little long-haul travel and we expect that situation to remain in the coming months.

We completed our face shield programme in May, having donated and distributed c10,000 face shields to communities around our Midlands, Shoreham, Derby and Harwell locations. Colleagues in other locations have also donated face shields using our rapid prototyping capabilities as well as personal equipment.

Dave Shemmans, Chief Executive Officer, commented:

"In the last six months COVID-19 has brought its challenges and I am immensely proud of our people who have demonstrated commitment, loyalty and dedication throughout the period. Ricardo is a people business and our people have delivered and are continuing to do so as we move forward.

"Our strategy of diversification, together with pro-active management, has again provided some resilience to the Group. Our Automotive related businesses reported lower profits than last year achieving breakeven in the year; Performance Products whilst delivering a good level of profits, were also lower than the prior year due to reduced engine volumes; but our Defense, Rail and Energy & Environment businesses all reported higher profits than the prior year.

"Having navigated the COVID-19 disruption in the second half of our financial year, we emerged with the same net debt as at 31 December 2019, a good order book in excess of £310m, which is at the same level as June 2019, and a strong pipeline of opportunities. Given the economic uncertainty, we approach the year ahead with caution, but we enter the year as a more agile Group with a reduced cost base and a number of exciting opportunities."

This announcement contains inside information.

The Ricardo plc LEI number is 213800ZNYAY35F4XB814

Further enquiries:

Ricardo plc
Dave Shemmans, Chief Executive Officer Tel: 01273 455611
Ian Gibson, Chief Financial Officer

Website: www.ricardo.com

Newgate Communications Tel: 020 7653 9842
Adam Lloyd