



Ricardo plc
Prelims presentation
September 2009



HIGHLIGHTS



- On a like for like basis to last year's operations, PBT closed at £12.9m (2008: £14.7m), after a loss of £2.8m and before an asset write down of £3.8m relating to the exhaust business, which is now classified as discontinued.
- Results presented are for the continuing operations (therefore excluding the exhaust business in Germany)
- Order book level at £97m (June 2008: £97m)
- Revenue of £178.8m (June 2008: £181.9m)
- Profit before tax up 1% to £15.7m (June 2008: £15.5m)
- Basic earnings per share up 13% to 28.8p (June 2008: 25.5p)
- Net debt at £3.5m (June 2008: £0.3m); minimal gearing level maintained
- Full year dividend of 10.7p (June 2008: 10.6p)
- A strong result driven by our diversification strategy, headcount reduction and balance sheet management despite a year of unprecedented falls in demand in global automotive markets.

KEY INDICATORS



	June 2009	June 2008
Order book	£97m	£97m
Gross profit %	38.9%	36.8%
Operating profit %	8.4%	9.0%
Tax rate	6%	15%
EPS (basic)	28.8p	25.5p
Full year dividend	10.7p	10.6p
Net debt	£3.5m	£0.3m
Pension deficit (pre tax)	£29.4m	£19.9m
Closing headcount (including subcontractors)	1,595	1,846

INCOME STATEMENT



£ m	June 2009	June 2008
Revenue	<u>178.8</u>	<u>181.9</u>
Gross profit	69.6	66.9
Administration expenses*	<u>(54.5)</u>	<u>(50.6)</u>
Operating profit	15.1	16.3
Net finance income/(costs)	<u>0.6</u>	<u>(0.8)</u>
Profit before tax (continuing operations)	15.7	15.5
Taxation charge	<u>(1.0)</u>	<u>(2.4)</u>
Profit after tax	14.7	13.1
Discontinued operations	<u>(5.7)</u>	<u>(0.7)</u>
Profit for the year	<u>9.0</u>	<u>12.4</u>

*Increase to June 2009 includes £3.2m impact from movement in exchange rates and £0.9m of exit costs

DIVISIONAL RESULTS



£ m	Revenue		Operating Profit/(Loss)	
	2009	2008	2009	2008
Technical Consulting				
UK	117.1	116.0	12.7	12.3
Germany	16.1	14.1	(1.2)	(0.1)
US	34.9	39.4	2.3	2.3
	<u>168.1</u>	<u>169.5</u>	<u>13.8</u>	<u>14.5</u>
Strategic Consulting	10.7	12.4	1.3	1.8
Total	<u><u>178.8</u></u>	<u><u>181.9</u></u>	<u><u>15.1</u></u>	<u><u>16.3</u></u>

CASH FLOW



£ m	Year ended 30 June 2009	Year ended 30 June 2008
Operating profit	13.2	15.9
Depreciation and amortisation	9.0	8.8
Working capital (increase)/reduction	(5.9)	6.8
Dividends	(5.5)	(5.4)
Net interest paid	(1.3)	(1.2)
Tax paid	(1.8)	(2.0)
Capital expenditure	(10.2)	(10.8)
Pension payments in excess of pension costs	(2.1)	(2.5)
Forex movements	0.1	(3.6)
Other	1.3	0.9
Cash (outflow)/inflow	<u>(3.2)</u>	<u>6.9</u>

BALANCE SHEET SUMMARY



£ m	30 June 2009	30 June 2008
Tangible assets	47.3	48.0
Intangible assets	18.5	20.0
Inventory and receivables	49.9	63.3
Net debt	(3.5)	(0.3)
Trade and other payables	(34.3)	(49.7)
Tax & other	3.5	0.1
Pension deficit (net of tax)	(21.2)	(14.3)
Net assets held for sale	6.7	-
Net assets	<u>66.9</u>	<u>67.1</u>

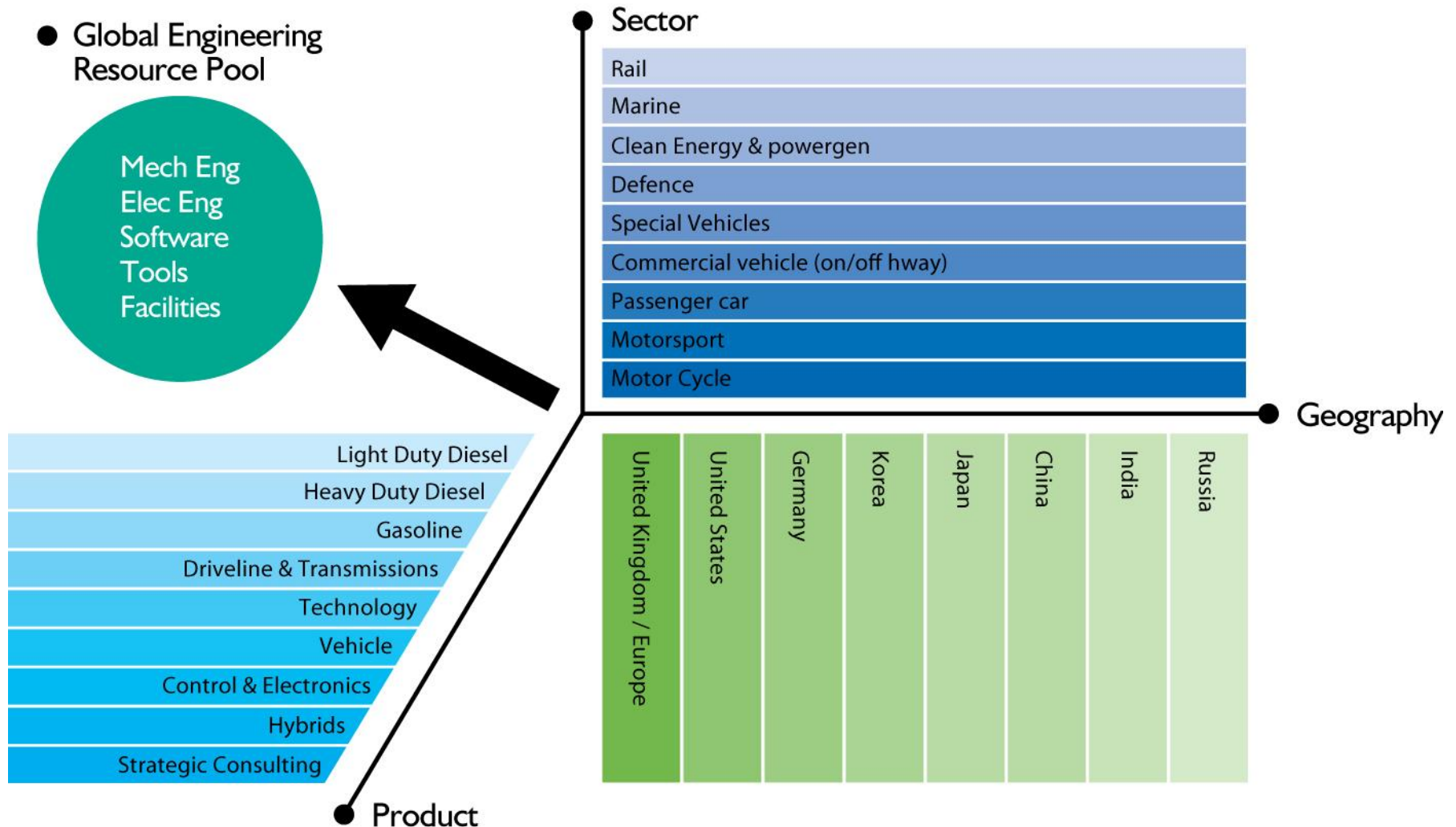
There were £42.9m of total banking facilities in place at 30/6/09 (2008:£41.0m) including committed facilities of £22.7m

The Ricardo strategy – providing a platform for growth and risk mitigation.

- No dependence on any one sector, product or geography
- Tight diversity around a common competence (engineering and management consulting)
- Expansion into neighbouring markets which can use common competence
- Low risk growth providing protection for slower than expected start up and volatility
- Maximisation of common engineering pool
- Path finder approach into new regions and markets
- Ideally markets with enduring drivers – legislation, structural change

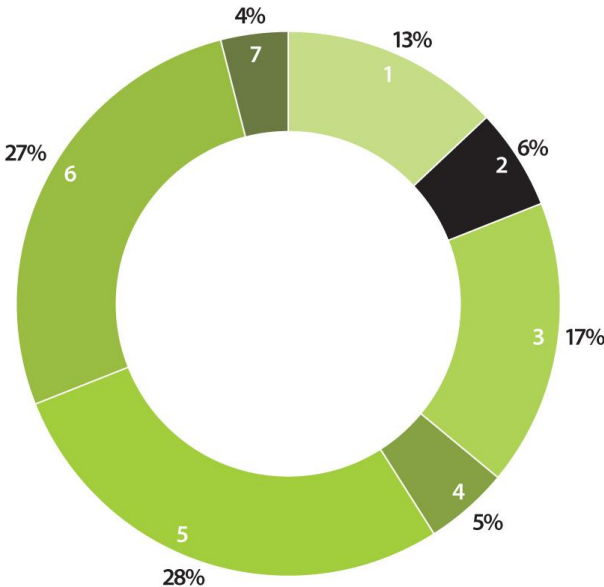


The core business model of Ricardo is three dimensional, feeding a common flexible resource pool. Ideally every product serves every sector, every geography has every sector etc



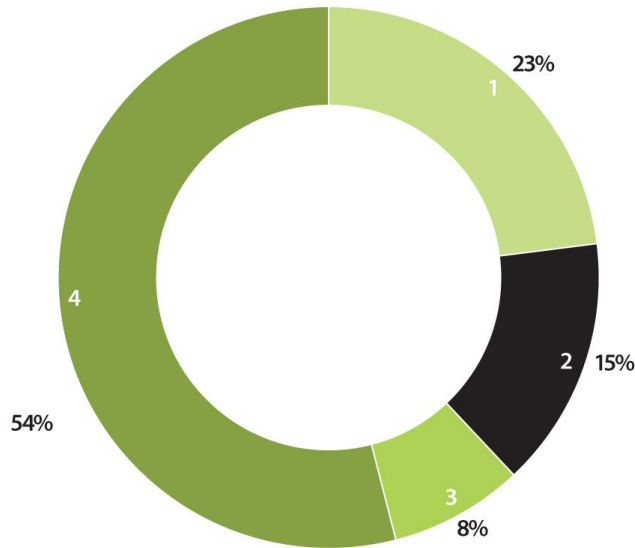
The Passenger car sector % includes motorcycle and niche performance vehicles covering the collapse of the traditional market. Geographically well spread with China and South Korea contributing in Asia

Order intake by Key Territory
year ended 30 June 2009



- 1. Rest of Asia
- 2. Japan
- 3. USA
- 4. Rest of Europe
- 5. UK
- 6. Germany
- 7. Italy

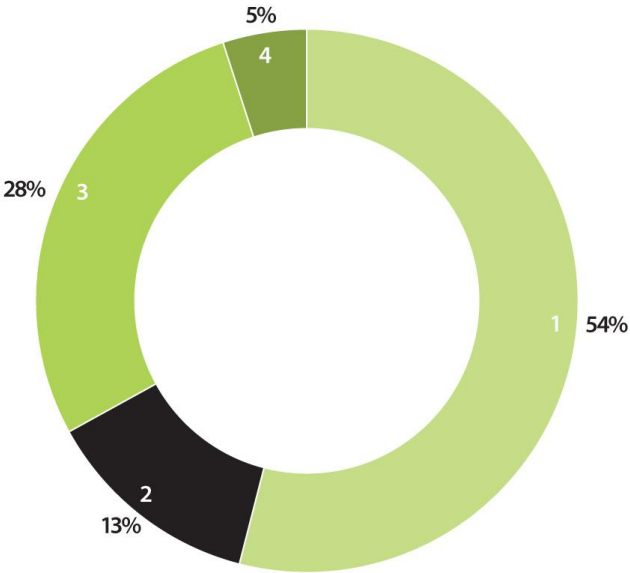
Order intake by Key Sector
year ended 30 June 2009



- 1. Commercial Vehicle
- 2. Military
- 3. Motorsport
- 4. Passenger Car

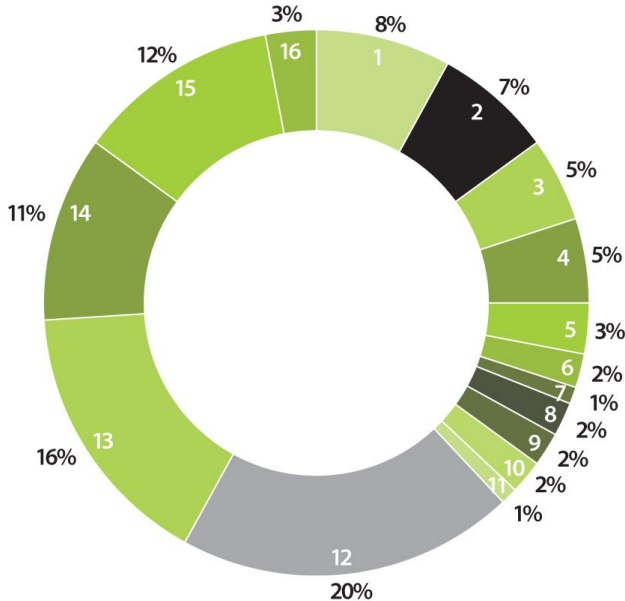
The customer diversity continues with some traditional clients disappearing or down to extremely low levels, demonstrating the importance of this part of the strategy

Order intake by Product
year ended 30 June 2009



- 1. Engine
- 2. Transmission
- 3. Vehicle
- 4. Strategic Consulting

Order intake by Key Customer
year ended 30 June 2009



- 1. Client A
- 2. Client B
- 3. Client C
- 4. Client D
- 5. Client E
- 6. Client F
- 7. Client G
- 8. Client H
- 9. Client I
- 10. Client J
- 11. Client K
- 12. Rest of UK
- 13. Rest of USA
- 14. Rest of Europe
- 15. Rest of Asia
- 16. Rest of Germany

Passenger Car Sector – key drivers in 2009

- Record high oil prices early in year, consumer shift from large vehicles to smaller, fuel efficiency now a buying criteria
- Significant new CO₂ legislation, reinforced through year, brought forward in the US by President Obama, at the heart of stimulus packages (see appendix)
- Collapse of financial markets, leasing and financing of auto industry, auto industry sales and businesses, Chapter 11 and restructuring
- Radical cash control and product development freeze by auto industry. Outsourcing dramatically impacted across the globe
- Governments step in, stimulus packages and assistance for restructuring, taking ownership in some cases. Car scrappage policies and green agenda investment
- Packages yet to filter into product development with outsourcing still at low levels. New legislation getting closer, under engineering resourced OEMs



Passenger Car Sector – effect on Ricardo



- Q1 good order intake & revenue across the Ricardo divisions
- Q2 poor order intake, revenue in engineering held up, exhaust business volume and profit collapsed. US major order cancellations
- Q3 poor order intake, revenue reduced across the group, restructuring activities and changes in all key divisions
- Q4 good order intake including large wins in Germany and UK, US still quiet. Order book level retained but contains long dated delivery projects
- Investment focus of industry on hybrids and electrics – diesel quiet
- China, Germany, Japan actively placing business, US and rest of Europe remains quiet apart from niche products, motorsport & growing interest in motorcycle business
- Significant UK and US Government interest, activity and support from Ricardo to promote the development of low carbon vehicles
- Ricardo investment into a Battery Systems and Development Center in the US and establishment of a bespoke Hybrid product group



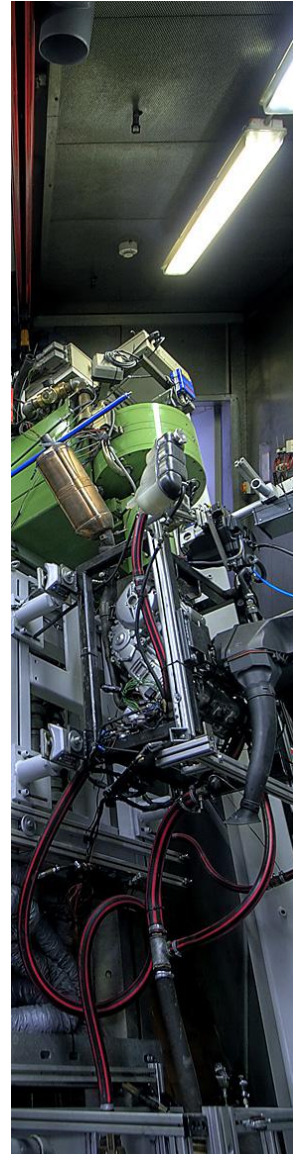
Commercial Vehicle Sector – key drivers in 2009

- Development continues due to impending US 2010 emissions legislation and tough European legislation
- No government focus or CO₂ legislation targets as yet, unlike passenger car
- Globalisation driving development as established players localise product to exploit the markets of developing regions
- Developing regions look to upgrade local product
- Collapse of financial markets in October, leasing and financing of CV industry, economy leading to reduced commercial transport and construction, collapse of CV industry sales
- Due to legislation timing and technical challenge, not such a radical reaction and product development freeze by CV industry.
- Governments haven't stepped in as forcefully as with passenger car sector
- Cross-over products from commercial vehicle industry to defence sector due to need for more mobility and desire to reduce costs by using commercial off the shelf technology (COTS)



Commercial Vehicle Sector – effect on Ricardo

- Due to legislation challenges and timing, business held up in the US and German divisions around emissions upgrade programmes
- Due to globalisation, European and Asian players looking to established and developing markets for new business, created good work
- Expansion into developing regions such as Russia and China have more delivered business with local manufacturers to the benefit of the UK division
- Adoption and evaluation of commercial vehicle technology into the defence sector has created business in the US
- Ricardo heavy duty diesel business and test facilities have consequently been very busy across the globe and running at high levels of utilisation
- In the year Ricardo has invested and commissioned new heavy duty test facilities in Germany to keep up with demand
- Technologies of interest include diesel emissions upgrade through combustion and after treatment, the evaluation of hybrid concepts to the commercial sector, gasoline and bio diesel applications for on and off highway application



Defence Vehicle Sector – key drivers in 2009

- Increased activity in Iraq and Afghanistan
- Continued insurgency and changing nature of the threat that requires more heavily protected, but lighter armoured vehicles
- Need for increased protection against mines and road side attacks
- Additional weight requires increased powertrain performance while at the same time there is the need for improved fuel consumption to increase range and reduce running costs
- Major replacement programmes of long established vehicles under consideration in both the US and UK
- Demand for long term strategic technology programmes and urgent operational requests
- Environment changing more rapidly than vehicle effectiveness
- Technologies of interest include retrofit mine blast protection, performance powertrain upgrade, autonomous vehicle technology, multi fuel powertrains, modular vehicles, hybrid powertrains, electric drivetrains
- Cost and time reduction through use of commercial off the shelf technology and vehicles



Defence Vehicle Sector – effect on Ricardo



- Ricardo Defence business very busy this year both in the US and UK. High levels of engagement with respective defence departments
- A high level of urgent operational requirements on current vehicle upgrades
- Fast track, commercial vehicle cross-over demonstration programmes for the US military providing a rapid product development route
- Powertrain upgrade programmes and evaluation of new fuel technologies
- Total Vehicle Fleet Economy programmes for the US army, looking at the optimised fleet technology in terms of fuel economy
- New concept and development programmes, with multiple industry partners in relation to the major replacement programmes underway
- High level technology and process cross over from passenger car/commercial vehicle technology and control systems
- Development and high level recruitment into the Defence Systems and Technology business to further grow our market position





Clean Tech Sector – key drivers in 2009

- Energy and Power Generation industries engaged in support of reducing CO₂, addressing high oil prices and damage to business of such fluctuations, and key requirement for increased energy security
- Renewable energy sources have moved from periphery to part of the future energy equation – wind, solar
- Cost, reliability and supply chain scalability issues as the market size demands increase
- Market demands in the US, Europe and Asia – introducing new players and structural change to the existing, relatively small and controlled industry
- With low carbon vehicle technology such as EV and Hybrid, the need to link infrastructure and energy supply becomes key
- Electricity providers are engaging with the automotive industry and looking at clean electricity generation technology
- Governments around the world are looking for strategic support, analysis and R&D capability to bring cost effective, low CO₂ energy security to reality



Clean Tech Sector – effect on Ricardo

- Ricardo exploiting automotive cross-over technology, tools and processes
- Increased focus and momentum in the year, brand building in the sector, additional business and growing identity
- Recruitment of sector experts and technology investment in the areas of software tools, magnetic gearboxes, super life bearings and flywheels
- Leadership and support for US and European Government programmes on energy equations and the energy related transport roadmap
- Commercial engineering and strategic consulting programmes with windfarm companies in US and Europe, including gearbox analysis, system modelling, low cost supply chain and localised sourcing
- Development programmes on submerged tidal power technology utilising Ricardo software tools and analysis
- Fuel cell programme focusing on hydrogen reformer technology
- Building a portfolio of customers, technology and customers, positioning Ricardo well for the increased focus on a strategic industry that will be a key part of the next decade across the world



Snap shot on regions

- US – high levels of government, commercial vehicle and defence business in the year. Almost zero passenger car business, disappointing closing order book
- UK – commercial vehicle on highway and off highway, defence and performance vehicles covering for lower levels of traditional passenger car
- Germany – high levels of commercial vehicle and motorcycle activity, low levels of passenger car. Continued high levels of pass through to UK. Exhaust business, a “discontinued” Ricardo operation
- China – increasing engineering resource, delivering projects in conjunction with UK. Chinese market active and interested in hybrids & transmissions. Increased order intake on prior years
- Japan – half of prior year order intake levels, but still good levels. Becoming active again, small engines & overseas support on localised product
- South Korea – commercial vehicle wins (inc construction, rail, defence) for engineering and strategic consulting
- India – quiet year but recent interest in hybrids and rail programmes
- Russia – continued business from passenger car to commercial vehicles

Key investments in the year

- Battery Systems and Development Center in the US
- Increased Heavy Duty test and development facilities in Germany
- Upgrade to the Shoreham Technical Centre

- Increased R&D investment
 - Near Zero Emission Diesel
 - Ethanol Boosted Direct Injection Gasoline
 - 2s4s switching gasoline
 - Hybrid technology
 - Heavy duty diesel combustion for reduced emissions
 - Advanced transmissions and magnetic gearbox
 - Flywheel energy storage
 - Intelligent vehicles

- Initiation of the new Group wide business systems programme – Orion
- Group wide facilitation of video conferencing to reduce travel costs and maximise time





Summary for the year

- Implementation of the strategy for growth and risk mitigation has demonstrated resilience under extreme circumstances
- Prior investments in facilities, systems, processes, technologies, geographies & people whilst building of a strong balance sheet were well timed in advance of the downturn
- Business reacted rapidly to the downturn to protect the balance sheet but not at the cost of maintaining R&D investment nor sales activity for future sustainability and growth
- Traditional core business almost completely disappeared, yet overall a year of good profitability with solid balance sheet and order book
- Automotive a “growth market” as drivers remain, the internal OEM resource has been reduced and the time to legislation is getting closer
- Securing business in new markets with cross-over technology and invigorated strategy to push hard into neighbouring markets to build future growth and resilience

Whilst many of our customers are still cautious and we expect the economic environment to remain a challenge for some time, the key business drivers of tightening emissions and CO₂ legislation remain. We are pressing ahead with our strategy to increase customer and sector spread.

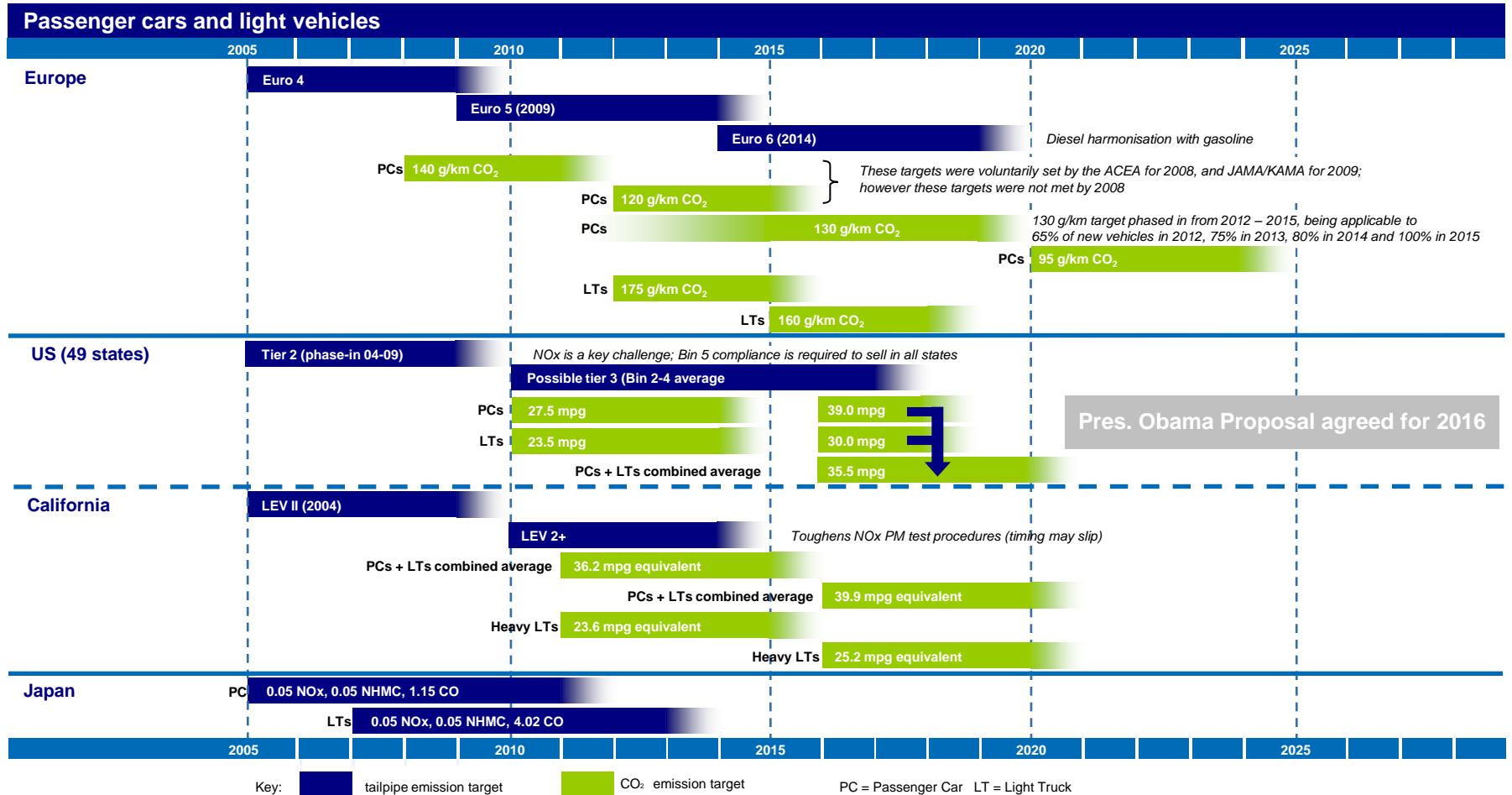
Against this backdrop, we expect trading in the first half of the current year to be substantially lower than the previous first half. However, due to the size and profile of our order book and an anticipated market recovery we expect a stronger second half. With the strength of our balance sheet we remain committed to our strategy and are confident for the future.



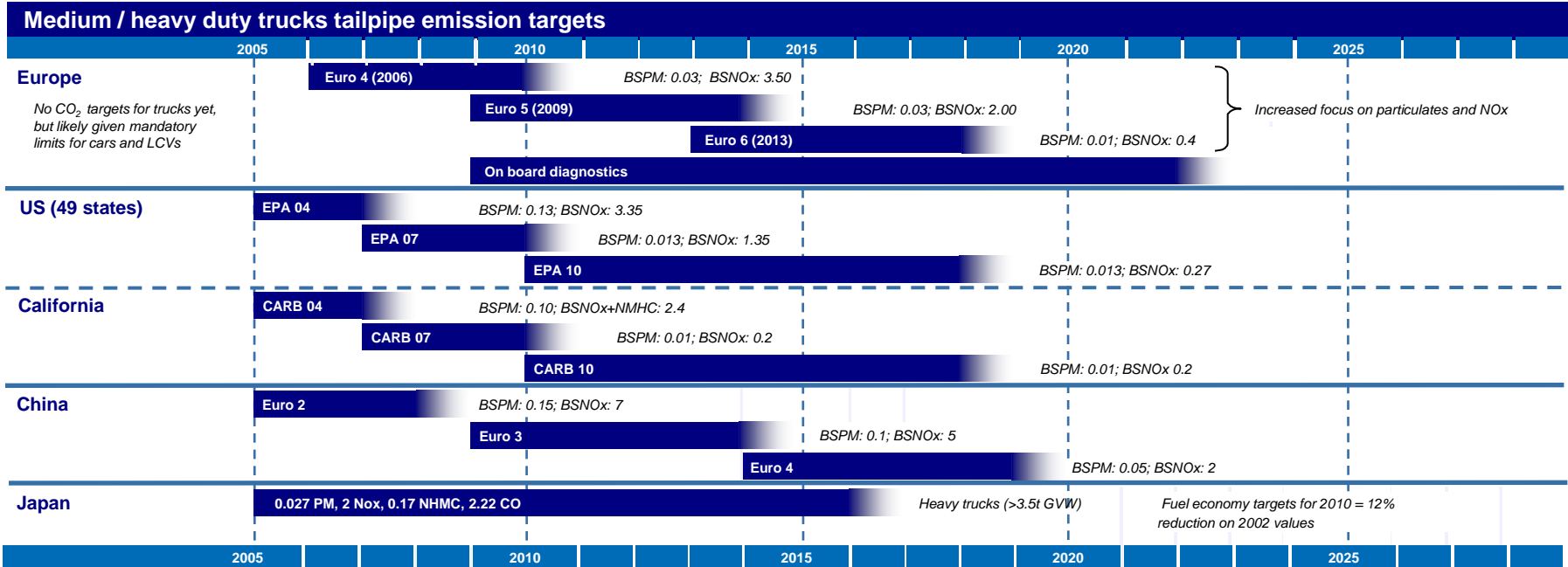
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Appendix 1 - emissions and CO2 legislation



Cars & light vehicles

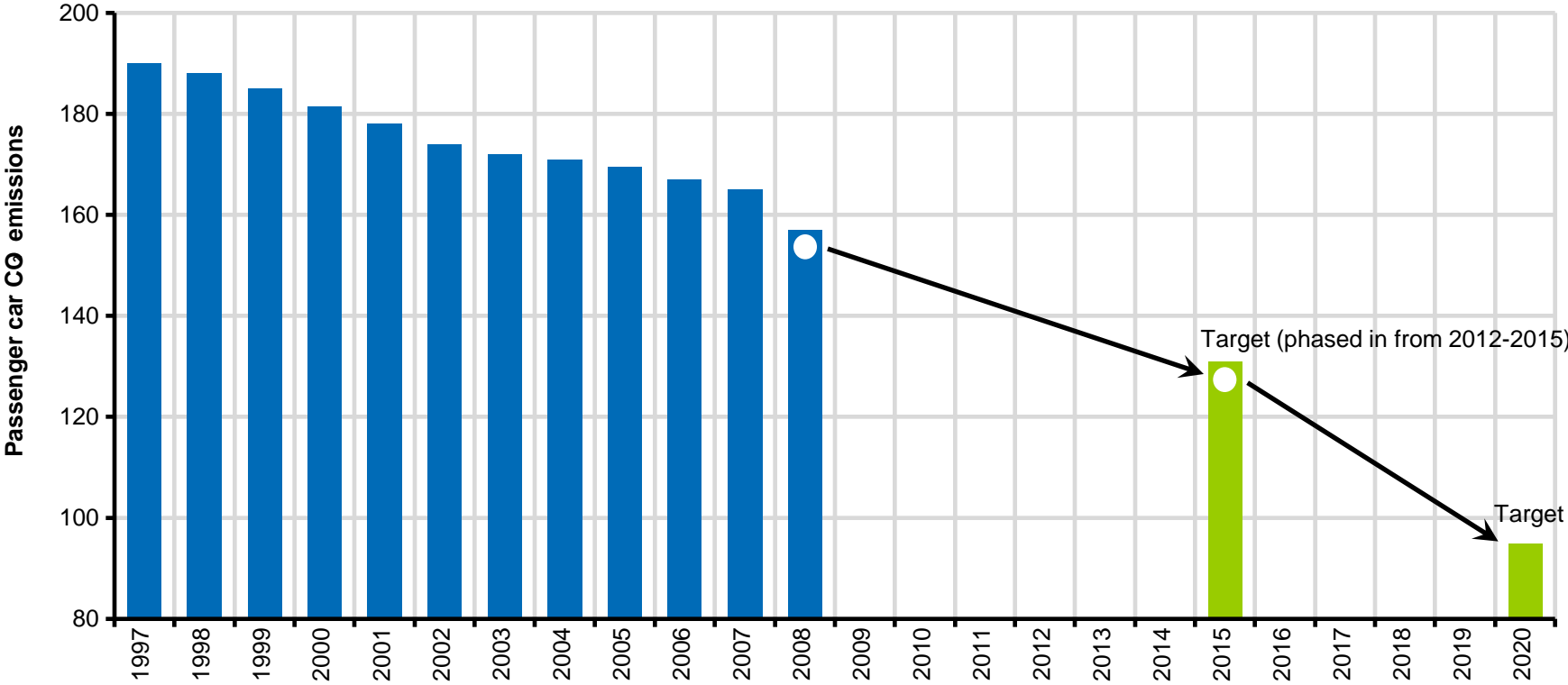


Source: Ricardo, National government sources, Arbutnot Securities estimates



Source: Ricardo, National government sources, Arbuthnot Securities estimates

European PC CO₂ emissions



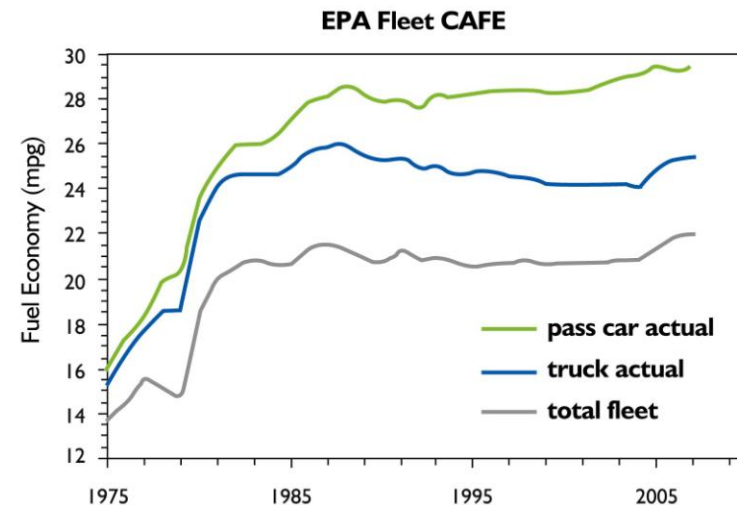
Source: SMMT



President Obama has announced a national increase in fuel economy to 35.5 MPG by 2016, a 36% increase from 2007

US: Background to US CAFE legislation

- There has been little change in the US light duty fleet fuel economy over the past 20 years
- Currently **Passenger Car** CAFE (Corporate Average Fuel Economy) standards remain at the 1990 level of **27.5 MPG¹** (8.6 l/100km)
- **Truck** CAFE standards have been reformed for model years 2005-2010 and change from **21.0 to 23.5 MPG**
- **2004** California set targets for over 6% year reduction in fuel consumption 2009-2012 targeting 35.5 mpg by 2016
- **2007** The Energy Independence and Security Act set a target fuel economy of 35 mpg by model year 2020 a 34% improvement from today's fuel economy levels
- **2009** Both California & EISA requirements superseded by President Obama announcing a national increase in fuel economy of all new cars and trucks sold in the United States from 2012-2016, achieving 35.5 mpg by 2016 but less aggressive rate of increase than California



Total fleet CAFE: 26.1mpg as at Jan 2008 figures



1 MPG figures are US MPG, 2 Energy Independence and Security Act of 2007

Source: EPA, US government, 18 January 2008

- The following slides set out the results including the exhaust business

KEY INDICATORS (including both continued and discontinued operations)

	June 2009	June 2008
Order book	£100m	£99m
Gross profit %	37.7%	35.0%
Operating profit %	7.0%	8.0%
Tax rate	2%	16%
EPS (basic)	17.6p	24.2p
Full year dividend	10.7p	10.6p
Net debt	£3.5m	£0.3m
Closing headcount (including subcontractors)	1,671	1,945

INCOME STATEMENT (including both continued and discontinued operations)



£ m	June 2009	June 2008
Revenue	<u>189.3</u>	<u>197.7</u>
Gross profit	71.4	69.2
Administration expenses	<u>(58.2)</u>	<u>(53.3)</u>
Operating profit	13.2	15.9
Net finance costs	<u>(0.3)</u>	<u>(1.2)</u>
Profit before tax	12.9 *	14.7
Taxation charge	<u>(0.3)</u>	<u>(2.3)</u>
Net write down of assets held for sale	(3.6)	-
Profit after tax	<u>9.0</u>	<u>12.4</u>

* PBT of continuing operations £15.7m less loss before tax of discontinued operations £2.8m

DIVISIONAL RESULTS

(including both continued and discontinued operations)



£ m	Revenue		Operating Profit/(Loss)	
	2009	2008	2009	2008
UK	117.1	116.0	12.7	12.3
Germany	26.6	29.9	(3.1)	(0.5)
US	34.9	39.4	2.3	2.3
Technical Consulting	<u>178.6</u>	<u>185.3</u>	<u>11.9</u>	<u>14.1</u>
Strategic Consulting	10.7	12.4	1.3	1.8
Total	<u><u>189.3</u></u>	<u><u>197.7</u></u>	<u><u>13.2</u></u>	<u><u>15.9</u></u>

BALANCE SHEET SUMMARY (including both continued and discontinued operations)



£ m	30 June 2009	30 June 2008
Tangible assets	50.3	48.0
Intangible assets	18.5	20.0
Inventory and receivables	54.4	63.3
Net debt	(3.5)	(0.3)
Trade and other payables	(35.1)	(49.7)
Tax & other	3.5	0.1
Pension deficit (net of tax)	(21.2)	(14.3)
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Net assets	<u>66.9</u>	<u>67.1</u>

