science group

17 March 2025

Science Group plc

Response to Ricardo plc

Science Group plc ("Science Group") currently own 9,874,122 shares in Ricardo plc ("Ricardo"), equivalent to 15.87% of the voting rights, making Science Group the second largest shareholder in Ricardo. The average price paid per Ricardo share (including brokerage fees) is 231 pence. The closing mid-market share price on 14 March 2025 was 248 pence.

The Board of Science Group notes the announcement made by Ricardo on Friday 14 March 2025 ("Ricardo RNS"). The Ricardo Board continues to seek to deflect from the fundamental issue, namely the poor performance of the company and the ineffective governance of the Ricardo Board which have resulted in the destruction of shareholder value.

It is regrettable that the Ricardo RNS publicly disclosed private communications between a London-listed main market company and its second largest shareholder. Such a breach of confidentiality undermines trust. The short "proposal" referenced, marked as Confidential, was provided as a basis for dialogue through a mediating party, while the Ricardo comments regarding the potential ultimate option of a general meeting requisition overstate advisor to advisor dialogue.

Nevertheless, Science Group will address the matters raised in the Ricardo RNS, starting with the "proposal", in which there were a number of items for discussion, albeit the Ricardo RNS was selective in its disclosure:

1. **Replacement of Chair**. As set out below, Ricardo is forecast to miss most of its key 5-year strategic financial targets defined in May 2022 at its Capital Markets Day and repeated many times, most recently in September 2024 in the Annual Report and Accounts for FY23/24. With a weak balance sheet, poor cash flow, material analyst forecast downgrades and substantial value deterioration, Ricardo shareholders need to hold the Board to account and the Chair has the ultimate responsibility.
2. **Replacement of Chair of Audit Committee**. The current Audit Committee Chair is relatively new to the role (and no criticism has been made nor intended) but she has recently been appointed as a full-time CFO, to be based in Madrid, Spain and this reason was summarised in the "proposal". In Ricardo's current financial predicament, and noting the recent bank covenant amendment, Science Group believes the role in the months ahead will require significant engagement with auditors, lenders and Ricardo's finance team, demands which may be incompatible with a full-time position based overseas.
3. **Resignation of a further non-executive director**. Contrary to the claimed "demand" asserted in the Ricardo RNS, the reduction in the size of the Ricardo Board was in fact a suggestion made by the Ricardo CFO in the management meeting with Science Group on 5 March 2025. The Science Group "proposal" simply confirmed the sensible suggestion of the Ricardo CFO. For the Ricardo Board to then infer that this was a surprise "demand" of Science Group is incorrect and misleading.

4. **Executive remuneration**. Notably omitted in the Ricardo RNS, Science Group recommended that Ricardo Executive Director remuneration be reduced to more appropriate levels to reflect the current market valuation. Ricardo executive remuneration has clearly been a long-running concern of Ricardo shareholders, as evidenced by the 2023 AGM material vote against the Remuneration Committee Report and that at a time when Ricardo was significantly higher valued.

In summary, within the "proposal", one item reflected a long-running concern of other Ricardo shareholders (Executive remuneration); one item was simply confirming the suggestion made by the Ricardo CFO (reduction in PLC board size); and one item was a concern regarding the bandwidth available of a key director role (Chair of Audit Committee). The "proposal" also expressed that Science Group did not seek to replace the CEO or CFO. However, the Chairman is ultimately accountable to shareholders for the performance of the company and the realising (or not) of shareholder value.

Addressing other points within the Ricardo RNS:

a) **Ricardo seeks to portray the Science Group investment as opportunistic**. Reflecting the potential overlap of skills and complementary markets, Science Group has in the past tried to engage corporately with Ricardo. More recently, Science Group has undertaken extensive analysis and actually anticipated the profit warning which duly occurred in January 2025. The Science Group 15%+ shareholding is not "opportunistic" but the outcome of significant research and analysis, followed by timely, focused execution.
b) **With regard to the UK Corporate Governance Code** ("UKCGC"), this is a comply-or-explain regime as set out in the UKCGC "Reporting on the Code". The poor performance of Ricardo would certainly justify an exception to the UKCGC, and there are many precedents. Moreover, whilst Ricardo may be compliant with the UKCGC, such compliance has clearly failed to deliver effective governance.
c) **The Ricardo RNS commentary related to Science Group acquisitions** of Frontier and TP Group is simplistic and ignores the distressed financial circumstances of these micro-cap companies, both of which have benefitted enormously from being part of Science Group. Science Group has no concerns regarding the integrity of their acquisition processes including independent governance and refers to relevant announcements. Science Group is proud of its track record in turning around failing science, technology, regulatory and engineering companies.

Ricardo Performance against 5 Year Objectives

Ricardo's May 2022 Capital Markets Day defined targets for the 5 years to 30 June 2027. The schedule below sets out the major financial_targets and the performance of Ricardo (as interpreted by Science Group) against those targets. (Forecast references are derived from house broker Panmure Liberum analyst reports)

- **Double Underlying Operating Profit ("UOP"): Forecast to Fail**. The UOP in FY21/22 was £28m giving a target of £56m. (If the Defense business were to be excluded, the figures would be £21m and £42m respectively.) The FY26/27 analyst forecasts now indicate UOP expectation of around £30m. However, rather than taking remedial action, the Ricardo Board has decided to drop this key measure of operating performance, replacing it from March 2025 with a mid-single digit revenue growth target.

- **UOP Margin in Mid-Teens : Forecast to Fail**. The UOP margin in FY20/21 and FY21/22 was around 6-7%. In FY26/27, the UOP margin is forecast by analysts to remain unchanged, effectively achieving no improvement at all over the entire 5 year period of the strategy. Again rather than taking action to remedy, the Ricardo Board has dropped this fundamental measure of performance, replacing it from March 2025 with a woolly objective to "Trend towards 10% margin".
- **Underlying Cash Conversion >90% : Failed to date**. Underlying cash conversion over the period from July 2022 to December 2024 was 77%. However, in the most recent interim results on 5 March 2025, underlying cash conversion from continuing operations was reported at just 13%, a significant cause for concern. However, for the Ricardo business as a whole for the 6 months ended December 2024, underlying cash conversion was even worse at a negative -5.8%.
- **Net Leverage of <1.25 : Forecast to Fail.** Ricardo was compliant until December 2024. However, as reported in the March 2025 interims presentation, the Net Leverage, on a pro forma basis (after adjusting for the initial consideration paid in January 2025 for E3 Advisory) would have been 1.4x. With Net Debt forecast to rise and based on analyst UOP forecasts, then Net Leverage would be expected to increase further.
- **Dividend Cover of 2.5-3x Underlying EPS : Performance results in 55% dividend cut.** When introduced in 2022, alongside the original margin targets above, investors anticipated a rising dividend. However the interim dividend announced in March 2025 was cut substantially.

It is notable that the two profit-related (and frequently quoted) Ricardo strategic financial targets of "*doubling UOP*" and "*UOP margin in mid-teens*" were both dropped in March 2025 and replaced with softer targets. These substantive target changes certainly do not support the statement in the Ricardo RNS that the company is "*building on the progress made in H1 2024/25*". The Board has avoided the hard decisions required to remedy the under-performance which gives little confidence that there is a real appetite or capability to undertake the necessary actions to turn around Ricardo. For comparison, Science Group, with a similar business in science, technology and engineering consultancy and systems, has consistently delivered adjusted operating margins in excess of 15%.

Margin is a function of organisational efficiency and productivity, often measured by revenue per head. In the last published annual reports, Science Group annual revenue per head was £163,000, compared to Ricardo annual revenue per head of £130,000 (excluding Defense), a productivity difference of around 25%. This productivity delta reflects poor cost control and inefficiency in Ricardo which is particularly evident in the high Ricardo PLC costs, where it is further notable that after selling the Defense business there has been minimal reference to actions being taken to reduce central costs. The claimed activity in the Ricardo RNS "*to improve efficiency and reduce costs to increase the Company's profitability*" is somewhat belated and this change in emphasis noticeably coincides with Science Group recent activity.

While the Ricardo Chair declares in the Ricardo RNS that "*The Board has strong confidence in Ricardo's plan…..*", such similar confidence in the May 2022 targets (repeated as recently as September 2024) has proven to be unfounded, with key financial targets now dropped or materially diluted. The January 2025 profit warning substantially reduced guidance for the FY25 year and beyond, just over a month after announcing two major corporate transactions – the disposal of Defense and acquisition of E3 Advisory. The analyst forecast reduction in UOP (for continuing businesses) was around 20% and for 2026/27 was around 31%. The downgrade was across all business areas, either stretching credulity that the Board were unaware of the pending issue or, equally concerning, raising serious questions regarding financial/forecasting processes within Ricardo.

At the same time (January 2025), and clarified in the interim results announcement on 5 March 2025, the weak balance sheet became apparent to shareholders exacerbated by poor underlying cash conversion on continuing operations at an incredibly low 13% in H1-FY25. Alongside the profit weakness, the re-negotiation of a bank facility covenant was necessary. The fact that the significant acquisition of E3 Advisory was undertaken, immediately deploying the cash from the Defense disposal rather than the cash being used to stabilise the balance sheet, should be a further concern to Ricardo shareholders. The "*Disciplined Capital Allocation*" highlighted in the 2022 CMD has clearly been compromised.

Delivering Shareholder Value

Ultimately for investors the stock market determines value and Ricardo's disappointing share price performance is hard to ignore. The table below compares the share price performance of Ricardo plc with Science Group plc over a 1, 2, 3, 5, 10 and 15 year period, together with the most relevant benchmark, the FTSE Small-Cap Index. In summary, from similar consultancy and systems business operations, there is a stark contrast between the returns achieved for shareholders in Science Group compared to the value degradation delivered by the Ricardo Board over the same period.

Share Price Performance

	1 Year	2 Year	3 Year	5 Year	10 Year	15 Year
Science Grp	+12%	+6%	+16%	+113%	+207%	+1748%
Ricardo	-48%	-60%	-38%	-52%	-70%	-21%
FTSE Small Cap Index	+4%	+6%	-2%	+41%	+43%	+126%

Source : LSEG Workspace (rounded to nearest %)

The Ricardo CEO was appointed in October 2021 and the Chair was appointed in November 2022. It is reasonable for shareholders to expect that the results of the strategy would by now be producing value enhancement. Instead, while the Chair declares that "*The Board has strong confidence in the Ricardo plan*", the reality is that operating financial targets have been missed, analyst forecasts have been downgraded, cash conversion is poor, a bank covenant has had to be renegotiated and the balance sheet is forecast to be increasingly stretched. Shareholder value in Ricardo has been severely damaged.

It is noteworthy that the Ricardo share price has slightly recovered since Science Group initiated share purchases in Ricardo on 17 February 2025. Science Group has been by far the most material buyer of Ricardo shares over the past 4 weeks. Unfortunately, the Ricardo Board appears not to recognise the significant long term implications of the exodus of institutional investors, who have effectively rejected the Ricardo strategy and lost confidence in the Ricardo Board. Confidence with institutional investors needs to be rebuilt if shareholder value is to be restored for which, from the current nadir, a catalyst for change is clearly required.

The aggregate reported Ricardo Board director shareholdings total around 0.2% of the issued share capital of Ricardo. The absence of material Ricardo director investment in the company reinforces the lack of shareholder alignment. In contrast, the Science Group Board has strong alignment with its shareholders through Board shareholdings which aggregate to over 21% of the equity. The table setting out share price performance above clearly demonstrates the benefits that derive to all shareholders from the Science Group model. The strategic investment in Ricardo by Science Group provides an opportunity for all Ricardo shareholders to benefit from Science Group's proven, shareholder-focused capability.

Finally, Science Group fails to comprehend the Ricardo statement that "*shareholders are advised to take no action*". It is unclear what action the Ricardo Board are advising against. The Ricardo assertion that Science Group is seeking to take control of the company without paying a premium, is emotive rhetoric ignoring the fact that Science Group simply acquired shares on the freely traded market of the London Stock Exchange from shareholders who elected to sell their holdings in Ricardo. It is notable that the Ricardo Board who individually and collectively have minimal personal shareholdings, have elected not to buy shares at this purportedly "opportunistic" time.

Conclusion

It is disappointing that the Ricardo Board has not engaged with the company's second largest shareholder in a more constructive manner. Breaching confidentiality of communications destroys trust and the Board of a fully listed PLC should be robust enough to manage a few harsh truths. After failing to achieve its own financial targets, culminating in a substantial profit warning in January 2025, exposing the weakened balance sheet less than a month after a major acquisition, the Ricardo Board needs to be held to account. Change is necessary. The Chair has the ultimate responsibility and his position is now untenable.

Science Group, a consultancy and systems business similar to Ricardo, has a track record of operating performance and delivering value to shareholders. The alignment of Board and shareholder interests is well evidenced in stark contrast to the Ricardo Board. Similarly, as a shareholder in Ricardo, Science Group has far greater alignment with other Ricardo shareholders in seeking to restore shareholder value. The Science Group strategic investment provides an opportunity for its proven capability to be deployed for the benefit of all Ricardo shareholders and to enable collaboration between two British science, technology and engineering companies. Science Group's shareholding provides a positive catalyst for change in Ricardo plc.

- Ends –

For further information:

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