RNS Number : 9426F
Science Group PLC
24 April 2025

**24 April 2025**

**Science Group plc**

(the "Group" or "Science Group")

**Q1 Trading Update and Response to Ricardo BSU**

**Science Group Q1 Trading Update**

The volatile stock market conditions in recent weeks have raised concerns for investors around the world. While it is not Science Group normal practice, in the current climate it is appropriate to provide an update on trading for the first quarter of 2025.

In summary, Science Group has delivered a positive start to the year, with revenue and profitability slightly ahead of the Board's plan for the first quarter. While trading conditions are currently unpredictable, with considerable variability across different market sectors, the resilient Q1 performance provides a good foundation for 2025.

Group operating cash flow was also strong in the first months of the year and Science Group retains a robust balance sheet with significant cash resources. In addition, the Group's recently renewed revolving credit facility (£30m + £10m accordion, expiring in 2030) remains undrawn.

**Response to Ricardo Business & Strategy Update ("BSU")**

Science Group is the second largest shareholder in Ricardo plc ("Ricardo"), with a shareholding of 20.1%. While Ricardo benefits from its long history as a great British company, the concerns regarding the more recent track record of Ricardo were set out in the Science Group announcements on 17 March 2025 (www.sciencegroup.com/news-detail/response-to-ricardo-plc-17-03-25) and 31 March 2025 (www.sciencegroup.com/news-detail/update-on-ricardo-plc), including :

- Weak profitability despite the 2022 strategic plan defining two key margin targets, both of which were materially missed (and were recently cancelled);
- Inflated reported Underlying Operating Profit ("UOP") resulting from not allocating shared services costs into the businesses and a liberal use of "*specific adjusting items*";
- Poor cost control, both of central costs and operating productivity;
- Weak cash conversion, despite repeated assertions that this was a high priority;
- Reckless allocation of the capital inflow from the Defense business disposal, rather than using this capital injection to deleverage and stabilise the business;
- Failure of financial and management processes to alert the Board that operating performance had deteriorated, prior to the E3A acquisition;
- Ineffective governance which failed to ensure that operating performance was verified, prior to the E3A acquisition;
- Excessive executive remuneration for a company with market cap of c.£150 million.

Ricardo released Interim Results, accompanied by a 46-slide presentation, on 5 March 2025. The opening slide of the Interims presentation proclaimed (1) "*clear execution against our [2022] strategy*" and (2) "*solid profit improvement performance*", ignoring the significant profit downgrade (just 5 weeks prior), the simultaneous cancellation/dilution of the 2022 strategic margin targets and the enormous destruction of shareholder value over which the Ricardo Board has presided. While short term volatility is not unusual in the early phase of a turnaround, 3 years into a 5 year strategic transformation, shareholders would reasonably anticipate that the strategy and investments made would be delivering tangible results. Instead, the Ricardo reality is a share price trading around 15 year lows and well below the level when the strategy was initiated.

Just 3 weeks after release of the Interim Results, Ricardo announced an unscheduled Business & Strategy Update. When released on 22 April, accompanied by a further 23-slide presentation, the declaration in the first line of the BSU presentation that "*Q3 trading [is] in line with expectations*" again conveniently ignores the substantial profit downgrade on 30 January 2025. The presentation goes on to portray each business as performing well, but without acknowledging that analyst forecasts for every business within Ricardo plc were downgraded during the quarter. Furthermore, given the substantial destruction of shareholder value and the associated low baseline, the Ricardo Board's assertion that the company is "*well positioned to deliver significant value creation for Ricardo's shareholders*" is analogous to the arsonist claiming credit for putting out the fire.

On the positive side, it is rewarding to see the benefit of Science Group's engagement, with the Ricardo Board finally acknowledging that the high cost base and poor productivity are major factors to the root cause of the poor margins. However, the Ricardo Board fails to recognise that from the bottom ranking of its peer group (see below), shareholders justifiably expect a more dynamic and effective programme of remedial action. Unfortunately, Ricardo (BSU Slide 11) has adopted the limited performance measure of utilisation rather than the wider and more useful metric of revenue per head which would capture the productivity/efficiency of the whole organisation, including direct and indirect staff, which more directly correlates with profitability. Furthermore, the Ricardo Board's Easter epiphany, that the impact of the challenging market conditions could indeed be mitigated by more disciplined cost control, loses credibility when it reports that the Board considered it necessary to use an "*external third party*" to address this fundamental management responsibility. It is hardly reassuring that the Ricardo Board does not have the confidence in its own management capability to undertake this exercise internally.

It should also be noted that exceptional restructuring charges have been taken every year by Ricardo for the past 5 years without achieving sustainable margin improvement. The 2025 BSU continues this well-established Ricardo custom, which enhances reported "*Underlying Operating Profit*" ("UOP") through the exclusion of a wide range of "*specific adjusting items*". In a consultancy business, it is common practice (as Science Group does) to align resources with market dynamics on a regular basis and these are normal operating costs, not exceptional items. As a result, while the house broker modestly downgraded UOP forecast by £0.3 million to £20.8 million (a lowly margin of just 5.5% for FY24/25), the reported EBIT is now forecast to be a loss of £5.1 million for the current year due to the exceptional/extraordinary costs forecast to increase to £23.4 million.

Cash conversion is also restated as a priority, as has been repeatedly claimed in the past although Ricardo cash flow has been consistently disappointing. It should be noted that the timeframe selected (Slide 15 of the BSU presentation) has been carefully chosen, excluding the poor performance in FY22/23 but including the anomalous positive result in FY23/24, which unwound in H1-FY24/25 when cash conversion fell to just 13% from continuing operations and a negative -4.5% overall. It should also be noted that the strong assertion in the BSU on forward cash flow incorporates a pre-emptive caveat to exclude exceptional restructuring charges, contributing to the cash-generated-by-operations forecast by the house broker for FY24/25 being downgraded to a miserly £1.0 million, compared to the prior forecast of £7.8 million at 30 January 2025. Cash generation is the most tangible metric of any business and Ricardo has consistently under-performed.

Incomprehensibly the BSU repeats the emotive, defensive rhetoric against Science Group, although it is hard to see what relevance such baseless commentary has to a Ricardo strategy update. As previously stated, Science Group has no concerns regarding the integrity of its acquisition processes and is proud of its track record in turning around underperforming science, technology, regulatory and engineering companies. In contrast to Ricardo value destruction, Science Group has consistently delivered index-beating returns for shareholders and the comparative tangible operating results (profit and cash flow) are far more compelling than a diatribe from a Ricardo Board that has consistently failed its shareholders.

In that context, the comparative financial performance is clearly illustrated by a recent independent financial analyst report (12 March 2025) which compared a peer group of 13 consultancies. Science Group had the highest adjusted EBIT margin ("AEM") and ROIC of the companies in the independent report, in contrast to Ricardo which ranked bottom of the peer group in AEM and second from bottom on ROIC. Regardless of the excuses, ranking at the bottom of a large peer group, which have all experienced the same market challenges, provides an independent and unequivocal benchmark - the Ricardo performance is derisory.

It is also surprising that the impromptu Business & Strategy Update provides little clarity on the actual future corporate strategy of Ricardo. The only material strategic development reported appears to be the increased integration of A&I and Performance Products ("PP"), which is somewhat contradictory to previous indications regarding the potential sale of PP. The Ricardo BSU in fact fails to clarify the M&A outlook, which may be a consequence of Ricardo's high debt leverage and weak balance sheet.

In summary, the objective of the Ricardo Business & Strategy Update remains unclear and appears to have been motivated primarily by Science Group's shareholding. However, it does demonstrate the Ricardo Board's rose-tinted perspective, as evidenced on 28 March 2025, when the Chairman aspired to set out "*a clear path to significant value creation*", despite having led Ricardo to a 15 year low share price and a decline of around 50% since his appointment in November 2022. Ultimately the Ricardo Chairman is accountable for the destruction of shareholder value, the failure of governance and the lack of corporate direction. As Ricardo evolves, now is the appropriate time to align the Board, Management and all Ricardo Shareholders. It is clear that a change in Board composition is essential to begin to restore value and shareholder confidence.

**- Ends -**


**For further information:**

| | |
|---|---|
| **Science Group plc** | |
| Martyn Ratcliffe, Executive Chair | Tel: +44 (0) 1223 875 200 |
| Jon Brett, Finance Director | www.sciencegroup.com |
| **Canaccord Genuity Limited (Nominated Adviser and Joint Broker)** | |
| Simon Bridges, Andrew Potts | Tel: +44 (0) 20 7523 8000 |
| **MHP** | |
| Reg Hoare | Tel: +44 (0) 7831 406117 |
| | sciencegroup@mhpgroup.com |





TSTPKNBBFBKDQQB