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Science Group plc

(the "Group" or "Science Group")

Ricardo Investment Update and General Meeting Requisition

Background

Science Group announced its initial investment in Ricardo plc ("Ricardo") on 28 February 2025 and is now the second largest shareholder in the company with a holding of 20.08%. On 10 March 2025, following the Ricardo Interim Results announcement, Science Group highlighted the need for a review of the Ricardo strategy in order to recover value for all Ricardo shareholders. (Further background is set out in Science Group statements on 17 March, 31 March and 24 April 2025.)

Ricardo announced its Business & Strategy Update ("BSU") on 28 March and released it on 22 April 2025. Contrary to the expectation for such an unscheduled event shortly after the Interim Results (which warranted shareholder notification 4 weeks in advance), the BSU was in fact merely a repetition of the existing strategy with another well-camouflaged FY24/25 forecast downgrade. While the BSU proclaimed to provide reassurance in relation to the current financial year, the house broker actually reduced FY24/25 forecast for Underlying Operating Profit and the previous forecast reported EBIT (£18.6m at end of January and £2.2m at 10 March) is now forecast to be a loss of £5.1m. Cash generated by operations for FY24/25 is forecast to reduce from £7.8m at end January and £6.1m at 10 March to just £1.0m now. As disclosed, there is now forecast to be minimal bank covenant headroom (interest cover) at 30 June 2025, a situation which was totally avoidable if the cash inflow from the Defense disposal had been retained to stabilise the business.

The fact is that three years into the 5-year 2022 strategic plan, Ricardo is in a far worse financial position today than when the 2022 plan was initiated. The table below compares the results reported in FY21/22 with the house broker forecast for FY24/25. While revenue from continuing operations is broadly flat, every other key financial metric has deteriorated significantly.

Ricardo plc **Continuing Operations (unless stated as Reported below)**	**FY21/22** **(Source : Annual Report)**	**FY24/25** **(Latest House Broker Forecast)**	**Variance**
Revenue	£380m	£375m	-1%
Underlying Operating Profit	£28.0m	£20.8m	-26%
UOP Margin	7.4%	5.5%	
Underlying PBT	£24.2m	£12.6m	-48%
Underlying Basic EPS	31.2p	14.2p	-54%
Reported EBIT	£16.2m	-£5.1m	
Reported Net Debt	£35.4m	£61.1m (forecast to increase to £84m in June 2026)	

As set out in the Science Group announcement on 17 March 2025, Ricardo has also failed to deliver on virtually all the strategic financial targets that the Ricardo Board set itself in 2022 and the key profitability targets of doubling underlying operating profit ("UOP") and mid-teens UOP margins were dropped in March 2025. The execution of the 2022 strategy has maintained revenue but substantially increased net debt and reduced Ricardo profitability. Ricardo has sought to blame external market conditions, yet an independent analyst report (12 March 2025) placed Ricardo at the bottom of a peer group (all of which will have been exposed to similar market conditions) for Adjusted EBIT Margin and second from bottom ranking on ROIC. (As reference, Science Group ranked highest on both Adjusted EBIT Margin and ROIC of the peer group.)

Furthermore, there was nothing in the April BSU to restore shareholder confidence in future years and in regard to the Ricardo strategy, the BSU was even more disappointing in simply recycling the history of the portfolio changes. Quite incredibly, the Ricardo BSU RNS allocated far more words trying to criticise Science Group (Ricardo's second largest shareholder) than articulating the company's strategy ("Portfolio Transformation").

In summary, the Ricardo Board has failed its shareholders. Despite the destruction of shareholder value, the Ricardo BSU was little more than a self-serving promotion to try to maintain the status quo. It portrayed a misleading perspective of the success of the Ricardo 2022 strategy and missed the opportunity to engage with shareholders to realign the company priorities. As a result, the lack of direction/leadership at Ricardo has been further exposed by the BSU and the need for change in the Ricardo Board in order to restore confidence and ultimately shareholder value to all Ricardo shareholders, is readily apparent.

Ricardo Shareholder Base

The Ricardo shareholder base has evolved significantly since the major profit downgrade on 30 January 2025. Recent analysis undertaken on behalf of Science Group indicates that the top 4 shareholders now account for over 65% of the issued share capital. The top 6 holders account for over 70% and 13 identifiable beneficiary shareholders reach c.80%. (The Ricardo directors in aggregate hold just c.0.2%.)

As highlighted on 31 March 2025, such a concentrated shareholder base can be a positive or negative depending on the alignment of the holders. Science Group has engaged in dialogue with Ricardo's major shareholders, where possible. While the dissatisfaction with the performance of Ricardo is consistent, it is apparent that there are a range of legitimate opinions on how best to recover value for all Ricardo shareholders.

Ricardo - Strategic Options

Despite the Ricardo Board taking 4 weeks to issue the Business & Strategy Update, the underwhelming output and lack of leadership naturally leads Ricardo shareholders to consider the strategic options for the company. In addition to persisting with the current Ricardo programme which has blatantly failed to deliver value to shareholders, there are several alternatives but it is important to highlight the context in which Ricardo now operates with (1) very weak cash flow; (2) limited headroom on the interest cover bank covenant (Slide 17 of BSU presentation); (3) the further forecast downgrade by Ricardo's house broker following the BSU; (4) net debt position forecast to be £61m at June 2025, rising to £84m at June 2026; and (5) the bank facility renegotiation/extension required in the coming months. Shareholders should therefore consider the possibility that an equity fund raise may be required, potentially even prior to the release of the FY24/25 results anticipated in September 2025.

1. Ricardo Turnaround

Science Group believes that value for all Ricardo shareholders will be best realised through addressing the operating under-performance and associated issues set out by Science Group in prior statements. Science Group believes that 'fixing the patient' needs to start at the top of the organisation, with the leadership of the Ricardo Board. Accordingly, Science Group has submitted a letter to the Ricardo Board requisitioning a general meeting of members to replace the Chairman of Ricardo plc. (See below.)

Executing an operational turnaround, and Ricardo shareholders should be in no doubt that the business requires remedial action to address the persistent poor operating performance (profitability and cash flow, with a weak balance sheet), will take time. But in the currently poor market conditions for business disposals, using the time constructively to fix the underlying operations provides the best opportunity for Ricardo shareholders to recover value.

Science Group management has considerable experience in turnaround situations of technology and engineering companies and believes Ricardo should be structured as three independent operating divisions : E&E, Rail and A&I (including Performance Products). The cost base (direct, indirect and PLC costs) needs to be realigned and productivity (revenue per head) improved. While such a process would need to reverse some of the organisation centralisation of recent years, independent business units will reduce the excessive of the organisation centralisation of recent years, independent business units will reduce the excessive overhead and provide future strategic optionality when market conditions are more appropriate.

2. Sale of Ricardo

Following the substantial value destruction experienced by Ricardo shareholders, it is understandable that more immediate value realisation may be a priority for some holders. It is not unreasonable therefore for alternative corporate strategic options to be actively explored and there are two particular scenarios that have been proposed : A sale process for the whole of Ricardo or a 'Break-Up' model.

In recent weeks, Science Group has received unsolicited direct and indirect contacts from a number of private equity organisations about Ricardo. These have been very preliminary enquiries, merely seeking an understanding of Science Group's position as a major Ricardo shareholder. Science Group has assured all enquirers that Science Group would consider any interest in Ricardo that was in the best interests of all Ricardo shareholders.

However, reserving all options and rights, it is important to clarify that while Science Group would support an immediate sale process seeking offers for the whole of the Ricardo Group, shareholders should not presume that Science Group would participate as a potential acquiror in any such sale process since the risks are high due to the reasons set out previously (poor performance, forecast downgrades, process failures, ineffective governance, etc). Furthermore, while a full equity sale may be acceptable to Science Group, in view of recent Ricardo history and the lack of confidence in an imminent recovery the valuation achievable may be unattractive.

3. Break-Up Model

The alternative model that has been suggested by various parties since the profit warning in January, is to realise value through a break-up of Ricardo. A 'Break-Up' model is very different to a selective disposal of a non-core business - the objective of the Break-Up is to liquidate the Group whereas the latter is an integral part of a larger strategy which is intended to leave a healthy core operating business.

While Sum-of-the-Parts spreadsheet models can often make a Break-Up Model look appealing, they can be notoriously self-deluding with the theoretical shareholder value heavily eroded by the costs associated with execution. Typically, the most attractive business receives the early interest and the final retained business valuation suffers due to the accumulated liability risks associated with the prior transactions. Furthermore, the valuation realised is dependent on the preparatory work to facilitate such a process, and the actions set out in (1 - 'Ricardo Turnaround') above would be required before an effective Break-Up strategy could be seriously undertaken or at least one that would realise good value for Ricardo shareholders.

In that regard, and in relation to Ricardo specifically, further considerations include:

- The absence of an update in the BSU on the potential disposal of the Performance Products ("PP") Division is notable, not least because every analyst report since July 2024 from one of the house brokers has referenced it, with the exception of the 22 April 2025 note. Indeed, the Auto/Industrial strategy appears to have been completely reversed with greater integration of A&I and PP, presumably because the PP disposal has not been successful.
- While a transaction to sell an industrial-focused business may be understandably challenging at present, in the current geo-political and economic climate, sentiment for Rail and Energy Transition/Environment businesses is also unlikely to be conducive to realising attractive valuations in the near term.
- The Ricardo practice of inflating reported Divisional profitability by not allocating shared services costs to the business and the liberal use of "*specific adjusting items*" (including "*restructuring charges*" every year for at least the past 5 years) will not delude credible buyers who will value the business on the real underlying, sustainable margins of the operating business.
- The Ricardo organisational strategy in recent years has been to centralise shared services/support functions which would need to be unwound to decentralise resources to facilitate a disposal process.
- Down-scaling Ricardo will severely impact the retained business' profitability, as evidenced after the Defense disposal. Ricardo has a high fixed cost base and successful down-scaling needs the overhead to be reduced at a rate faster than the lost contribution. Unfortunately Ricardo track record of overhead cost control is poor.

- The DB Pension Scheme will need to be resolved and such processes take time. The Board of Trustees of the Ricardo Group Pension Fund would need to be satisfied that their members interests are addressed and while a buy-out may be feasible, it is understood that the DB pension buy-out market is an active environment at present.

In summary, while the Break-Up Model provides a facade of activity, the time and cost of such a complex process should not be under-estimated. The temptation to consider the Ricardo Defense disposal as a reference would be misleading since it was the most independent operation in Ricardo with a limited geographic spread, making separating that business relatively straight forward. Indeed, in order to dispose of any major Ricardo business today the work to make each business a stand-alone operation is fundamental to realising good value for Ricardo shareholders. Therefore, at the present time, Science Group believes the "Break-Up" strategy is probably the worst of all near-term options in terms of actually realising cash value for Ricardo shareholders, even if transactions could get completed. However, the actions set out at (1 - 'Ricardo Turnaround') above would enable future disposals to be considered in due course if appropriate.

Conclusion

Science Group is a science, technology & engineering consultancy and systems company, a very similar business to Ricardo. However, in stark contrast to Ricardo, Science Group has a track record of delivering index-beating shareholder returns. With its operating management experience, Science Group has set out its concerns regarding the poor operating performance and ineffective governance of Ricardo. Indeed, it is this very destruction of value by the Ricardo Board that enabled Science Group to acquire its shareholding at around 15 year low share price levels.

Science Group is not a fund manager, and a long-term passive holding is not Science Group's model. While the Board has a broad shareholder remit and the low buy-in price of the Ricardo investment provides Science Group with considerable optionality, investments are made to deploy capital with added value from the relevant resources and expertise available within the Group. The analysis and scrutiny by Science Group over the past 2 months has already benefitted all Ricardo shareholders and there is potential for far greater engagement and collaboration between Science Group and Ricardo.

For the avoidance of any doubt, Science Group's strategic investment can enable its capabilities and expertise to be deployed to the benefit of all Ricardo shareholders. Science Group strategy does not require full ownership and the 20% shareholding in Ricardo satisfies the strategic investment threshold.

It is readily apparent and totally understandable that Ricardo shareholders are disappointed with the company's performance. However, it is also likely that there are differing legitimate views within the concentrated Ricardo shareholder base on the route to value recovery. Whilst Science Group would support a formal sale process of Ricardo plc, it is uncertain if a valuation attractive to shareholders could be realised in the current climate and with Ricardo's recent performance. The alternative 'Break-Up' model is complex and is unlikely to deliver the theoretical value in a timely manner to shareholders that analyst spreadsheets can imply since considerable restructuring and preparatory work would be necessary - it is not the panacea. Therefore, Science Group believes that shareholder value is best realised by undertaking the hard work of turning around the businesses and structuring Ricardo in three independent operating divisions. Ultimately, this would provide future strategic optionality when market conditions are more suitable should a disposal become appropriate.

In conclusion, the Ricardo Board has failed to provide the necessary leadership, yet if Ricardo shareholders are not aligned on the corporate direction, there is a risk that the Ricardo Board becomes even more ineffectual. Therefore, Science Group has been left with no alternative but to requisition a general meeting to determine whether Ricardo shareholders have confidence, or not, in the leadership of the Ricardo Board. Science Group, as the second largest Ricardo shareholder, does not have confidence and believes it is in all Ricardo shareholders' interests to make the necessary change at the present time.

General Meeting Requisition

Science Group yesterday sent a letter to the Ricardo Board requisitioning the directors of Ricardo to call a general meeting of the members of Ricardo ("General Meeting") within 21 days of the letter and such meeting to be held within 28 days of the notice calling the General Meeting.

The requisition notice proposes a single resolution: To remove Mr Mark Clare, Chair of the Board, as director and Chair. In effect, the General Meeting requisition is a **Vote of No-Confidence** in the leadership of the Ricardo Board.

Mr Clare was appointed to the Ricardo Board on 17 November 2022. On that date the Ricardo share price was 430 pence, compared to the Ricardo share price on 30 April 2025 of 246 pence, recovering from a low of 213 pence in February. Ricardo is now in a significantly worse financial position than when Mr Clare was appointed, with a weak balance sheet (forecast to deteriorate further) and little headroom on a key bank covenant. The Chair is ultimately accountable for the poor performance and ineffective governance that has resulted in the destruction of value and the uncertain financial position of Ricardo plc.

If the resolution is approved at the General Meeting, the constitution of the Ricardo Board should then be reviewed in consultation with shareholders. The Ricardo concentrated shareholder base facilitates such an approach.

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