

Confident AGM statement and Q1 update

27 September 2022

In its AGM statement Cohort PLC reported that it continues to expect performance for the year to 30 April 2023 to be ahead of the previous year. It noted order wins since the start of the financial year of over £70m and a resulting order book, as of 20 September, of over £300m, indicative of c.95% cover of consensus FY23 revenue outlook. Encouragingly, order book longevity continues to increase.

New orders boost revenue cover to 95%

As previously noted, the FY22 year-end order book closed at record at £291m, underpinning £128m or 78% of market FY23 revenue outlook. New orders post 1st May, including the £34m contract win for SEA (7 September), mean that the **current order book stands at over £300m**, i.e. boosting revenue coverage (consensus estimates) from 78% to 95%. This extends revenue cover reported in early July of over 90%.

Ample finance headroom

Cohort reports net cash at 23rd September of £7.2m, compared to £10.997m at FY22 year-end, reflecting working capital requirements. Our FY23 net cash estimate is £4.5m. Notably, cash and credit available to the Group exceeds £40m, providing financing headroom beyond anticipated needs.

Increased MOD activity

The most recent events in the war in Ukraine serve as a reminder of the renewed emphasis on defence preparedness across NATO and in the UK. Cohort reports increased levels of activity from the UK MOD, highlighting MCL – specialist in electronic communications and information systems – where strong performance in FY23 is expected. Our estimates indicate MCL FY23 revenue of £25.0m, +15%YoY, with EBIT growth of 19.7%YoY. Conversely, Cohort reports that supply chain constraints remain at EID, the Portuguese-based naval systems subsidiary, which, combined with reduced orders, indicate weaker year-on-year performance. This follows a FY22 61%YoY decline.

Outlook supported

The **expanded order book** Cohort reports, backed by order longevity, underpins our April 2023 estimates, which remain unchanged at revenue growth of 16.5%YoY to £160.5m and EBITDA growth of 13.5%YoY to £22.0m.

Consequently we reiterate our Fair Value of 650p/share, as set in our recent [initiation note](#).

Company Data	
EPIC	CHRT
Price (last close)	487p
52 weeks Hi/Lo	630p/438p
Market cap	£199m
ED Fair Value / share	650p
Proforma net cash	£11m

Share Price (p)



Source: ADVFN

Description

The Cohort Group comprises six military, electronics and intelligence development operations in the UK, Germany, and Portugal.

Chess offers electro-optical tracking and surveillance systems for naval and land defence and security customers; **EID** designs and makes advanced communications systems for naval and land defence customers; **ELAC SONAR** supplies advanced sonar systems and underwater communications to global customers in the naval marketplace; **MASS** provides advanced digital services serving the defence and security markets **MCL** designs, sources and supports advanced electronic and surveillance technology for the UK MOD and other government agencies; **SEA** delivers and supports technology-based products for the defence and transport markets alongside specialist research and training services.

Mike Jeremy (Analyst)
0207 065 2690
mike.jeremy@equitydevelopment.co.uk

Andy Edmond
0207 065 2691
andy@equitydevelopment.co.uk

Outlook to FY24

Yr to 30 April (£m)	2020	2021	2022	2023E	2024E
Revenue	131.1	143.3	137.8	160.5	169.3
EBITDA (adj)	20.9	22.1	19.4	22.0	24.2
Pre-Tax Profit (adj)	17.5	17.9	14.7	17.7	19.8
EPS (adj. dil.) p	36.7	33.3	30.9	35.1	36.7
Dps (p)	9.5	11.1	12.2	13.4	14.7
Net debt / (cash)	4.7	(2.5)	(11.0)	(4.5)	(5.8)
P/E	13.3x	14.6x	15.8x	13.8x	13.3x
EV/EBITDA	9.3x	8.8x	10.0x	8.8x	8.0x

Source: Company data, Equity Development estimates.

P&L

Cohort PLC P&L FY20 – FY24E					
Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	131.1	143.3	137.8	160.5	169.3
Gross Sum	51.0	53.4	56.6	64.2	69.4
Margin	38.9%	37.2%	41.1%	40.0%	41.0%
COGS	(80.0)	(90.0)	(81.2)	(96.3)	(99.9)
Underlying op-ex	(32.8)	(34.7)	(41.1)	(45.7)	(48.7)
Amortisation intangibles	(7.4)	(10.1)	(6.9)	(3.1)	(3.0)
R&D credits	0.8	1.0	1.0	1.0	1.0
Forex	(0.1)	(0.4)	0.7	0.0	0.0
One-off charges	(0.8)	(1.3)	0.7	0.0	0.0
EBIT Reported	10.7	7.8	11.1	16.4	18.7
EBIT Adjusted	18.2	18.6	15.5	18.5	20.7
Margin	13.9%	13.0%	11.3%	11.6%	12.2%
Amortisation Intangibles	(7.3)	(10.1)	(6.9)	(3.1)	(3.0)
Depreciation PPE	(1.5)	(2.0)	(2.2)	(2.0)	(2.0)
Depreciation RoU	(1.2)	(1.5)	(1.7)	(1.5)	(1.5)
EBITDA Reported	20.7	21.4	21.8	23.0	25.2
EBITDA Adjusted	20.9	22.1	19.4	22.0	24.2
Margin	15.9%	15.4%	14.1%	13.7%	14.3%
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)
PBT Reported	10.0	7.1	10.2	15.6	17.8
PBT Adjusted	17.5	17.9	14.7	17.7	19.8
Tax	(0.3)	(1.6)	(1.5)	(2.8)	(4.3)
Reported tax rate	3.0%	22.0%	15.1%	18.0%	24.0%
Tax rate % adjusted	1.7%	8.7%	10.5%	15.9%	21.6%
PAT Reported	9.7	5.5	8.7	12.8	13.5
PAT Adjusted	17.2	16.3	13.1	14.9	15.5
Basic wtd. Av. shares (m)	40.7	40.8	40.8	40.8	40.8
Diluted wtd. av. shares (m)	41.1	41.3	41.0	41.0	41.0
EPS Reported Basic (p)	23.5	13.4	22.5	31.3	33.2
EPS Reported Diluted (p)	23.2	13.2	22.4	31.1	33.0
EPS Adjusted Basic (p)	37.1	33.6	31.1	35.3	36.9
EPS Adjusted Diluted (p)	36.7	33.3	30.9	35.1	36.7

Source: Company data, Equity Development estimates

Summary Balance sheet

Cohort PLC Balance sheet FY20 – FY24E						
Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E	
Fixed Assets						
Goodwill	42.1	43.7	50.1	50.1	50.1	
Intangible assets	13.2	15.1	9.6	5.1	2.1	
RoU assets	6.9	7.1	9.6	3.9	2.4	
PPE net	12.1	12.5	12.3	15.3	18.6	
Deferred tax, other	0.6	0.6	1.4	1.4	1.4	
Sum Fixed Assets	74.9	79.0	83.1	75.9	74.6	
Current Assets						
Inv days	32	33	30	55	55	
Rec days	132	170	74	153	155	
Inventories	11.5	12.9	22.8	24.2	25.5	
Trade receivables	47.4	66.7	56.2	67.3	71.9	
Derivatives	0.0	0.0	0.8	0.0	0.0	
Cash, Equivalents	20.6	32.3	40.4	28.9	25.2	
Sum Current Assets	79.5	111.9	120.1	120.3	122.6	
Total Assets	154.4	190.9	203.2	196.2	197.2	
Current Liabilities						
Creditor days	86	128	125	125	120	
Trade payables	(31.0)	(50.3)	(54.0)	(55.0)	(55.7)	
Derivative	(0.2)	(0.7)	(0.9)	0.0	0.0	
Leases	(1.3)	(1.6)	(1.5)	(1.5)	(1.5)	
Borrowings	(0.1)	(0.1)	(29.4)	(24.4)	(19.4)	
Provisions	(1.5)	(2.8)	(8.9)	(8.0)	(8.0)	
Other payables	0.0	(2.8)	(1.4)	(1.4)	(1.4)	
Sum Current Liabilities	(34.1)	(58.2)	(96.0)	(90.2)	(85.9)	
Total Assets less Current Liabilities	120.3	132.7	107.2	106.0	111.3	
Long-term Liabilities						
Deferred tax	(2.8)	(2.7)	(1.4)	(1.3)	(1.3)	
Leases	(6.2)	(6.0)	(8.6)	(9.0)	(9.0)	
Borrowings	(25.2)	(29.8)	(0.0)	0.0	0.0	
Provisions	(0.3)	(1.1)	(1.1)	(1.1)	(1.1)	
Retirement benefit	0.0	(8.0)	(6.8)	(7.0)	(7.0)	
Other	(4.0)	0.0	0.0	0.0	0.0	
Sum Long-term liabilities	(38.5)	(47.6)	(18.0)	(18.4)	(18.4)	
Total liabilities	(72.6)	(105.8)	(114.0)	(108.6)	(104.3)	
Net Assets	81.8	85.1	89.2	87.6	92.9	
Capital & Reserves						
Share Capital	4.1	4.1	4.1	4.1	4.1	
Share Premium	29.7	30.0	30.5	19.2	16.0	
Own shares	(1.6)	(1.1)	(3.3)	(3.3)	(3.3)	
Share option reserve	0.8	0.9	1.0	1.0	1.0	
Other	(3.6)	(2.4)	(1.4)	1.0	2.0	
Retained earnings	46.1	47.8	53.1	60.4	67.9	
Equity	75.5	79.3	84.0	82.4	87.7	
Non-controlling interests	6.2	5.7	5.2	5.2	5.2	
Net debt / (cash)	4.7	(2.5)	(11.0)	(4.5)	(5.8)	

Source: Company data, Equity Development estimates

Summary cashflow

Cohort PLC cashflow FY20 – FY24E					
Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
PAT rptd	9.7	5.5	8.7	12.8	13.5
Tax	0.3	1.6	1.5	2.8	4.3
Depreciation	2.6	3.5	3.9	3.5	3.5
Amortisation	7.4	10.1	6.9	3.1	3.0
Finance net	0.8	0.8	0.9	0.9	0.9
Derivatives/forex	0.1	0.4	(0.7)	0.0	0.0
Share-based payments	0.3	0.4	0.6	0.0	0.0
Provisions	(0.5)	(1.3)	0.1	0.0	0.0
Operating Cash Flow	20.7	20.9	21.8	23.0	25.2
(Increase)/Decrease inventories	2.0	0.6	(9.9)	(1.4)	(1.3)
(Increase)/Decrease in receivables	(4.6)	(13.1)	10.5	(11.1)	(4.6)
Increase/(Decrease) in payables	(5.1)	12.6	0.0	1.0	0.7
Movement in working capital	(7.7)	0.0	0.7	(11.5)	(5.3)
Cash generated by operations	13.0	20.9	22.5	11.5	20.0
Interest paid	(0.8)	(0.8)	(0.9)	(1.3)	(1.1)
Tax (paid)/received	(0.6)	(3.9)	(2.1)	(2.8)	(4.3)
Net cash from operations	11.6	16.2	19.5	7.4	14.6
Investing activities					
Interest received	0.0	0.0	0.0	0.0	0.0
PPE	(2.7)	(1.2)	(2.0)	(5.0)	(5.3)
Acquisition	0.0	(1.3)	(0.4)	(1.4)	0.0
Net cash used in investing	(2.6)	(2.5)	(2.4)	(6.4)	(5.2)
Net OpFCF	9.0	13.7	17.2	1.0	9.3
Financing activities					
Share issue	0.0	0.3	0.6	0.0	0.0
Dividends	(3.9)	(4.2)	(4.7)	(5.5)	(6.0)
Purchase own shares	(3.7)	(1.4)	(2.9)	0.0	0.0
Sale own shares	1.5	0.8	0.3	0.0	0.0
Borrowings	0.1	12.1	0.0	0.0	0.0
Repayments	(0.1)	(7.2)	(0.1)	(5.0)	(5.0)
Lease repayments	(1.1)	(1.9)	(1.9)	(2.0)	(2.0)
Net cash from financing	(7.2)	(1.6)	(8.7)	(12.5)	(13.0)
Net increase in cash / equivalents	1.8	12.1	8.4	(11.5)	(3.7)
Forex	(0.0)	(0.4)	(0.4)	0.0	0.0
Cash at beginning of year	18.8	20.6	32.3	40.4	28.9
Cash at year end	20.6	32.3	40.4	28.9	25.2

Source: Company data, Equity Development estimates



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors, and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690