

Closing FY23 orders highlight group attractions

12 April 2023

Finland joining NATO; the leak of classified US documents relating to the war in Ukraine; recent Chinese military drills around Taiwan: defence-related news flow has remained prominent in areas of present military tension. Following a strong first half, Cohort PLC itself is closing FY23 with contract extensions at MASS and CHESS totalling c. £30m over periods of up to 7 years, with a focus on e-warfare.

Defence-related news flow - Finland, Ukraine, Asia-Pacific - continues

On April 4 Finland officially joined NATO as its 31st member state, doubling the alliance's border with the Russian Federation - by 832 miles. In response, Russia announced the repositioning of its short-range Iskander-M ballistic (nuclear-capable) missile systems to Belarus. Meanwhile, the leak of cache of US military documents in late March shone a spotlight on the US and NATO appraisal of the situation in Ukraine, including strategy and appropriate levels of assistance. In the Asia-Pacific region, China staged its latest round of military drills, surrounding Taiwan and apparently simulating strikes on strategic targets, although this time the moves were deemed muted compared to the reaction last August to the visit to Taipei by ex-US House Speaker Nancy Pelosi.

CHESS, MASS – a series of contract extensions

Electronic warfare specialist **MASS** received a series of H2 contract extensions: on 24 November 2022 an additional 4 years, worth £5.0m, to a 15 year contract for electronic warfare operational support services from an overseas customer; on 23 March, a 2-year, £5.0m, extension to a UK MOD contract for software development, modelling and countermeasures services; on 5 April, a 5-year, £8.7m, extension to its longstanding UK MOD contract for countermeasures development. Interim revenue at MASS (22% of total) was 9%YoY lower, but had already showed signs of (post-COVID-19) recovery. Having posted a strong H1, on 22 March **CHESS** received a contract extension, worth c.£11.0m, to its £20m July 2020 contract to supply surveillance equipment to a European customer. Chess, MCL and SEA, had posted strong H1 performance, with EID and ELAC showing weaker halves. We noted at the Interim that over £80m of orders deliverable in the second half equates to **95% coverage of our FY23 year revenue outlook** of £165.0m, and order intake of £88.6m resulted in a record closing order book of £304.2m.

Outlook maintained

Following the strong interim performance, we raised our FY23 outlook by 3% to £165m (+20%YoY) and maintained our (adj.) EBITDA outlook of £22.0m (+13.1%YoY). Cohort trades on a current FY EV/EBITDA of 8.1x; and for FY24 (E) just 7.5x.

Our Fair Value remains at 650p/share.

Outlook to FY24					
Yr to 30 April (£m)	2020	2021	2022	2023E	2024E
Revenue	131.1	143.3	137.8	165.0	174.4
EBITDA (adj)	20.9	22.1	19.4	22.0	24.4
Pre-Tax Profit (adj)	17.5	17.9	14.7	17.5	19.9
EPS (adj, p)	36.7	33.3	30.9	35.0	36.8
DPS (p)	9.5	11.1	12.2	13.4	14.7
Net debt / (cash)	4.7	(2.5)	(11.0)	(4.6)	(4.6)
P/E	12.3x	13.5x	14.6x	12.9x	12.5x
EV/EBITDA	8.6x	8.1x	9.2x	8.1x	7.5x

Source: Company data, Equity Development estimates.

Company Data	
EPIC	CHRT
Price	441p
52 weeks Hi/Lo	574p/384p
Market cap	£179m
ED Fair Value / share	650p
Proforma net cash	£4.6m



Description

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

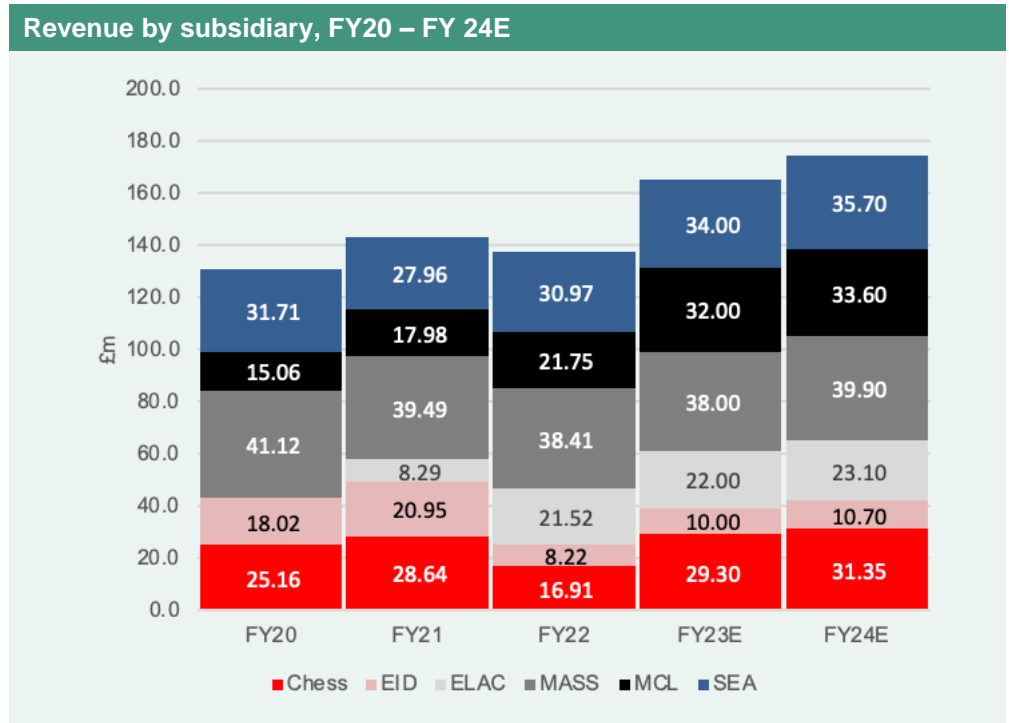
Chess: electro-optical tracking and surveillance systems for naval, land defence and security; **EID:** advanced communications systems for naval and land defence; **ELAC SONAR:** advanced sonar systems and underwater communications to global customers; **MASS:** advanced digital services serving the defence and security markets; **MCL:** designs, sources and supports advanced electronic and surveillance technology for the UK MOD; **SEA:** 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

Interim FY23 summary performance

The contribution of subsidiaries to our FY23/24 revenue outlook is illustrated below, totalling £165.0m in FY23 and £174.4m in FY24.



Source: Company data.

Summary FY23-24 outlook by subsidiary

- MASS** - cyber-secure digital data, information and analysis systems and services. Our medium-term outlook is reinforced by the 4-year, £5.0m, extension to the 15-year export customer contract, and two UK MOD contracts totalling £13.7m over 5-7 years. Our FY23 revenue outlook is £38.0m; for FY24, £39.9m.
- CHESS** - surveillance, tracking and gunfire control systems. On 22 March CHESS received a contract extension, worth c.£11.0m, to its July 2020, £20m, contract to supply surveillance equipment to a Northern European customer. We project FY23 revenue of £29.3m, +73%YoY, for FY24, £31.5m, with positive medium-term prospects via deployments such as the Navy's Type 26 Frigates.
- EID** - the Portuguese subsidiary. We expect FY23 revenue of £10.0m +21.7%; for FY24, £10.7m.
- ELAC Sonar** - underwater hydro-acoustic sensors and digital underwater communications systems. For FY23 we expect revenue parity with FY22, at £22.0m, and for FY24, £23.1m, with medium-term prospects buoyed by demand in the area of submarine detection and communication systems.
- MCL** - electronic communications, signals intelligence and information systems for the defence and security sectors. For FY23 we expect revenue of £32.0m, +47%YoY; for FY24, £33.6m.
- SEA** - ship protection, anti-submarine warfare systems (AWS). For FY 23 we estimate revenue of £34.0m, +9.8%; for FY24 £35.7m.

Summary P&L

Cohort PLC, P&L, annual outlook to FY24

Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	131.1	143.3	137.8	165.0	174.4
Gross Sum	51.0	53.4	56.6	66.0	71.5
<i>Margin</i>	38.9%	37.2%	41.1%	40.0%	41.0%
COGS	(80.0)	(90.0)	(81.2)	(99.0)	(102.9)
Underlying op-ex	(32.8)	(34.7)	(41.1)	(47.5)	(51.0)
Amortisation intangibles	(7.4)	(10.1)	(6.9)	(3.1)	(3.0)
R&D credits	0.8	1.0	1.0	0.0	1.0
Forex	(0.1)	(0.4)	0.7	(1.6)	0.0
One-off charges	(0.8)	(1.3)	0.7	0.0	0.0
EBIT Reported	10.7	7.8	11.1	13.8	18.5
EBIT Adjusted	18.2	18.6	15.5	18.5	20.5
<i>Margin</i>	13.9%	13.0%	11.3%	11.2%	11.7%
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	20.4	25.0
EBITDA Adjusted	20.9	22.1	19.4	22.0	24.0
<i>Margin</i>	15.9%	15.4%	14.1%	13.3%	13.7%
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.8)	(0.8)	(0.9)	(1.0)	(1.0)
PBT Reported	10.0	7.1	10.2	12.8	17.4
PBT Adjusted	17.5	17.9	14.7	17.5	19.4
Tax	(0.3)	(1.6)	(1.5)	(2.7)	(4.2)
Reported tax rate	3.0%	22.0%	15.1%	21.0%	24.0%
<i>Tax rate % adjusted</i>	1.7%	8.7%	10.5%	15.4%	21.5%
PAT Reported	9.7	5.5	8.7	10.1	13.2
PAT Adjusted	17.2	16.3	13.1	14.8	15.2
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	24.9	32.5
EPS Reported Diluted (p)	23.2	13.2	22.4	24.7	32.3
EPS Adjusted Basic (p)	37.1	33.6	31.1	35.2	36.2
EPS Adjusted Diluted (p)	36.7	33.3	30.9	35.0	36.0

Source: Company data, Equity Development estimates.

Summary balance sheet

Cohort PLC, balance sheet outlook to FY24

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					
Inventories	11.5	12.9	22.8	22.6	22.9
Trade receivables	47.4	66.7	56.2	67.8	71.7
Derivatives	0.0	0.0	0.8	0.0	0.0
Cash, Equivalents	20.6	32.3	40.4	29.0	28.0
Sum Current Assets	79.5	111.9	120.1	119.4	122.5
Total Assets	154.4	190.9	203.2	195.2	197.1
Current Liabilities					
Trade payables	(31.0)	(50.3)	(54.0)	(56.5)	(58.3)
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)	(91.8)	(88.5)
Total Assets less Current Liabilities	120.3	132.7	107.2	103.5	108.6
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)	(110.2)	(106.9)
Net Assets	81.8	85.1	89.2	85.1	90.2
Capital & Reserves					
Share Capital	4.1	4.1	4.1	4.1	4.1
Share Premium	29.7	30.0	30.5	19.3	16.2
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	57.7	65.0
Equity	75.5	79.3	84.0	79.8	85.0
Non-controlling interests	6.2	5.7	5.2	5.2	5.2
Net debt / (cash)	4.7	(2.5)	(11.0)	(4.6)	(8.6)

Source: Company data, Equity Development estimates.

Summary cashflow

Cohort PLC, cashflow outlook to FY24 E

Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
PAT rptd	9.7	5.5	8.7	10.1	13.2
Tax	0.3	1.6	1.5	2.7	4.2
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	1.0	1.0
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	20.4	25.0
(Increase)/Decrease inventories	2.0	0.6	(9.9)	0.2	(0.3)
(Increase)/Decrease in receivables	(4.6)	(13.1)	10.5	(11.6)	(3.8)
Increase/(Decrease) in payables	(5.1)	12.6	0.0	2.5	1.8
Movement in working capital	(7.7)	0.0	0.7	(9.0)	(2.4)
Cash generated by operations	13.0	20.9	22.5	11.5	22.6
Interest paid	(0.8)	(0.8)	(0.9)	(1.3)	(1.1)
Tax (paid)/received	(0.6)	(3.9)	(2.1)	(2.7)	(4.2)
Net cash from operations	11.6	16.2	19.5	7.5	17.2
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	1.1	12.0
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	1.8	12.1	8.4	(11.4)	(1.0)
Forex	(0.0)	(0.4)	(0.4)	0.0	0.0
Cash at beginning of year	18.8	20.6	32.3	40.4	29.0
Cash at year end	20.6	32.3	40.4	29.0	28.0

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

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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