

## FY24: record results and maintained momentum

17 July 2024

Cohort reported strong FY24 results, with revenue +11%YoY at £202.5m, which was 8% above our outlook, and (adj.) operating profit of £21.1m +11%YoY (3% above EDE). The closing order book was £518.7m +58%YoY with order intake of £392.1m, +78%YoY, and estimated 95% coverage of our FY25 revenue outlook. The year closed with net cash of £23.1m. Cohort shares have performed strongly since mid-March, +96%YoY, hitting a high of 860p in a trend which we believe reflects the increased emphasis on defence and national security in the UK and growing prominence of defence-related specialists such as Cohort. Our read-across to the market cap-weighted average of peers leads us to **raise our Fair Value to 910p/share**.

### Order book above £0.5bn mark

At FY24 interim results ([Strong H1 24 results backed by a record order book](#)) Cohort had commented on the overall “**increased tempo**” of order intake. Major orders such as the SEA Ancilia £135m order raised the closing order book above the £0.5bn mark (£513.6m); a figure now amended to c.£519m, with on-order revenue **visibility to 2037**. We note the number and value of orders worth more than £5m has increase appreciably. The balance of H2 revenue growth shifted to the Sensors & Effectors division, S&E recording H2 revenue of £68.6m vs £51.0m in H1, and C&I £39.0m vs £43.9m.

### Acquisition and completion of ELAC facilities in view

On 31 May the Group acquired Technical Solutions Ltd., for £3.0m in cash, expected to be immediately earnings enhancing via MCL in the Communications & Intelligence division. This plus completion of the ELAC submarine test facility indicates a FY25E net cash outlook of c.£15m, which we expect to build to c.£20m in FY26.

### Spending on defence in focus

National security and spending on defence became an issue of top priority through the course of pre-election campaigning, with the Labour Government indicating that it would increase spending to 2.5% of GDP compared an estimated 2.30% in 2023/24. The Group reports good demand from both domestic customers and for exports, noting increased attention to defence spending spurred by conflict in Ukraine and ongoing tension in the Indo-Pacific region.

**Our Fair Value is raised from 725p/share to 910p/share.**

#### Company Data

EPIC	CHRT
Price (last close)	840p
52 weeks Hi/Lo	860p/430p
Market cap	£341m
ED Fair Value / share	910p
Proforma net cash	£23.1m

#### Share Price (p)



Source: ADVFN

#### Description

Operating in the UK, Germany and Portugal, Cohort Group has two divisions.

#### Communications and Intelligence

comprises: EID, communications systems for naval and land defence; MASS, advanced digital defence and security; MCL, electronic and surveillance technology supply and support for the UK MOD.

#### Sensors & Effectors

comprises: Chess, electro-optical tracking and surveillance systems for naval, land defence and security; ELAC SONAR, advanced sonar systems and underwater communications; SEA, technology-based products for the defence and transport markets, and specialist research and training services.

#### Mike Jeremy (Analyst)

0207 065 2690

[mike.jeremy@equitydevelopment.co.uk](mailto:mike.jeremy@equitydevelopment.co.uk)

#### Andy Edmond

0207 065 2691

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

#### Summary financial estimates

Yr to 30 April (£m)	2022	2023	2024	2025E	2026E
Revenue	137.7	182.7	202.5	220.0	240.0
EBIT (adj.)	15.5	19.1	21.1	24.0	27.0
EBITDA (adj)	19.4	23.2	25.7	30.0	32.9
Pre-Tax Profit (adj)	14.7	17.7	19.8	22.1	25.0
EPS (adj, p)	30.9	36.4	42.7	41.8	47.4
Dps (p)	12.2	13.4	14.8	15.5	16.3
Net debt / (cash)	(11.0)	(15.6)	(23.1)	(14.9)	(23.0)
P/E	27.2x	23.1x	19.7x	20.1x	17.7x
EV/EBITDA	16.4x	13.7x	12.4x	10.6x	9.7x
EBIT margin			10.4%	10.9%	11.2%

Source: Company data, Equity Development estimates.

## FY24 performance and outlook

The key features of FY24 performance and basis for our FY25 and, additional, FY26 forecasts are:

- FY24 revenue growth which exceeded our outlook by 8%, growing 10%YoY, boosted by order inflow in the S&E division as the impact of the MCL contract (hearing defenders for the MOD) unwound. See below for divisional performance.
- An overall improvement in gross profitability from 35.5% to 41.0%, with the customary H2 weighting at 41.7% vs 33.0% in H1 (FY23: 38.6% vs 31.3%).
- Underlying op-ex at 27.2% of revenue vs 30.1% estimated.
- Net operating free cashflow generation of £16.8m vs £10.4m a year earlier, and resulting year-end cash of £39.7m (FY23: £41.5m).

### FY24 performance and ED estimates

£m	FY24	FY24E	vs E	FY25OE	FY25E	Change	FY26E	FY24YoY	FY25YoY	FY26YoY
Communications & Intelligence	82.9	89.6	-7%	92.5	90.0	-3%	98.0	-4%	9%	6%
Sensors & Effectors	119.6	98.4	21%	107.4	130.0	21%	142.0	24%	9%	32%
<b>Revenue</b>	<b>202.5</b>	<b>188.1</b>	<b>8%</b>	<b>199.9</b>	<b>220.0</b>	<b>10%</b>	<b>240.0</b>	<b>11%</b>	<b>9%</b>	<b>20%</b>
Revenue YoY	10.8%	2.9%		6.3%	8.6%					
<b>Gross</b>	<b>76.3</b>	<b>77.1</b>	<b>-1%</b>	<b>83.0</b>	<b>91.3</b>	<b>10%</b>	<b>99.6</b>	<b>18%</b>	<b>20%</b>	<b>20%</b>
Margin	37.7%	41.0%	-3%	41.5%	41.5%	0%	41.5%	2.2%	3.8%	0.5%
Central costs	(4.5)	(5.4)	-17%	(5.5)	(5.7)	4%	(5.7)	-13%	27%	4%
Comms & Intel EBIT	12.8	14.3	-10%	15.3	14.4	-6%	15.5	-14%	12%	1%
Sensors & Effectors EBIT	12.8	11.5	11%	13.7	15.3	12%	17.2	37%	20%	25%
EBIT Reported	21.2	18.0	18%	23.5	24.0	2%	28.0	39%	13%	19%
<b>EBIT Adjusted</b>	<b>21.1</b>	<b>20.5</b>	<b>3%</b>	<b>23.5</b>	<b>24.0</b>	<b>2%</b>	<b>27.0</b>	<b>11%</b>	<b>14%</b>	<b>15%</b>
EBIT (adj.) mrg	10.4%	10.9%	0%	11.8%	10.9%	1%	11.2%	0.0%	0.5%	0.0%
Underlying op-ex	(55.1)	(56.7)	3%	(59.4)	(67.3)	13%	(72.6)	20%	22%	22%
% of revenue	27.2%	30.1%		29.7%	30.6%		30.3%			
EBITDA Reported	28.9	26.2	10%	30.3	31.0	2%	33.9	25%	7%	12%
<b>EBITDA Adjusted</b>	<b>25.7</b>	<b>25.2</b>	<b>2%</b>	<b>29.3</b>	<b>30.0</b>	<b>2%</b>	<b>32.9</b>	<b>11%</b>	<b>17%</b>	<b>12%</b>
Margin	12.7%	13.4%	-1%	14.7%	13.6%	1%	13.7%	0.0%	0.9%	0.2%
PBT Reported	19.8	16.2	22%	21.7	22.6	4%	26.5	42%	14%	22%
<b>PBT Adjusted</b>	<b>19.8</b>	<b>18.7</b>	<b>6%</b>	<b>21.7</b>	<b>22.6</b>	<b>4%</b>	<b>25.5</b>	<b>11%</b>	<b>14%</b>	<b>18%</b>

Source: Company data. Equity Development estimates. 'OE': prior estimate.

### FY25 – 26 outlook

Our FY25 outlook is raised by 10% at revenue level to £220.0m, inclusive of the contribution from the acquired Interactive Technical Solutions, and (adj.) EBIT by 2% to £24.0m, 10.9% margin.

For FY26 we introduce revenue estimates at £240.0m and (adj.) EBIT +11%YoY to £27.0m, 11.2% margin.

## Growing order momentum

FY24 saw a step change in order inflow. The driver of future growth and source of earnings visibility, to FY27 and beyond, is the continued momentum of order intake, Sensors & Effectors, highlighted in the March 2024 £135m Royal Navy Ancilia contract. The FY24 closing order book at £519m grew 58%YoY.

As illustrated, the balance of order intake shifted to the Sensors & Effectors division (Chess Dynamics, ELAC SONAR and SEA) underpinned by demand from naval defence.

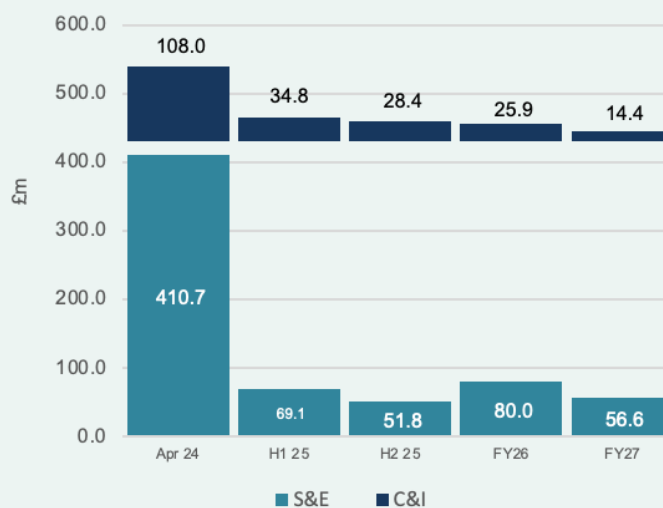
### Order intake and order book FY23, FY24

FY23	Intake	YoY	Book	YoY	Deliver	I/B	D/O
C&I	94.5	22%	126.7	7%	86.2	74.6%	68.0%
S&E	126.4	16%	202.4	17%	96.5	62.5%	47.7%
<b>Sum</b>	<b>220.9</b>	<b>19%</b>	<b>329.1</b>	<b>13%</b>	<b>182.7</b>	<b>67.1%</b>	<b>55.5%</b>
FY24	Intake	YoY	Book	YoY	Deliver	I/B	D/O
C&I	64.3	-32%	108.0	-15%	82.9	59.5%	76.8%
S&E	327.8	159%	410.7	103%	119.6	79.8%	29.1%
<b>Sum</b>	<b>392.1</b>	<b>78%</b>	<b>518.7</b>	<b>58%</b>	<b>202.5</b>	<b>75.6%</b>	<b>39.0%</b>

Source: Company data. Equity Development estimates. I/B: Intake/Book ratio. D/O: Delivery/Orders ratio.

As illustrated, the Group retains visibility on the conversion of outstanding orders into revenue, in FY25 expected to cover 90% of our outlook, adding confidence on earnings into the medium-term.

### Conversion of order book to revenue, FY24 to >FY27

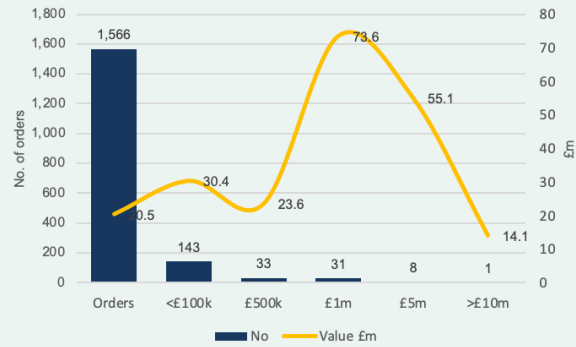


Source: Company data.

## Orders change in scale

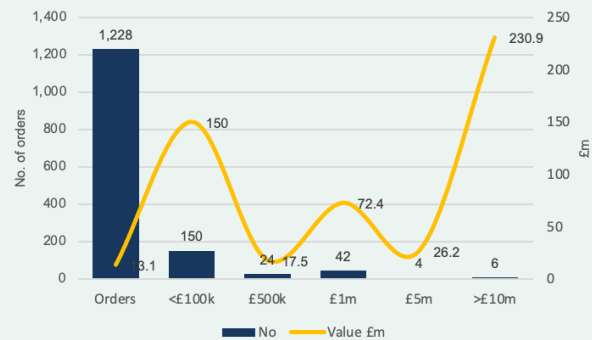
As illustrated, FY24 saw a significant shift in the scale of orders. Orders valued at >£1.0m to \$5m, and those over £10m, grew in number from nine to ten, but in value increased by 3.7x to 50% of total (from 32% in FY23).

### FY23, ratio of order number to order value



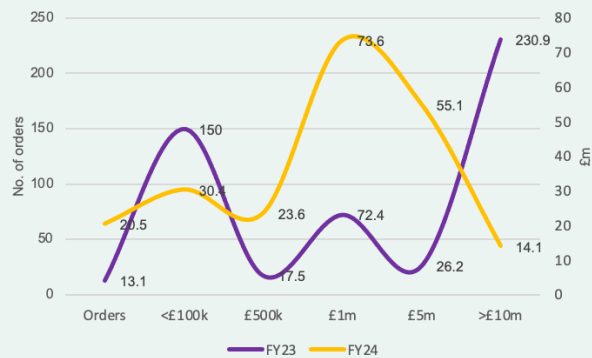
Source: Company data.

### FY24, ratio of order number to order value



Source: Company data.

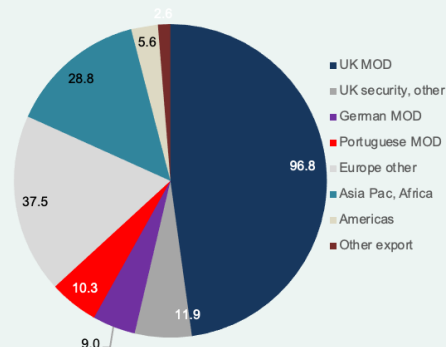
### Orders by scale, FY23, FY24



Source: Company data.

The distribution of FY24 revenue indicates a slight (6.3%) increase in the proportion of non-MOD (UK) revenue, albeit with no major change in the overall trend, and some increase in demand from Asia-Pacific, which we attribute to the growing importance of the AUKUS alignment of defence interests in the region.

#### Distribution shows a global reach: FY24 revenue by geography



Source: Company data.

#### FY24 orders: Sensors & Effectors division leads

##### SEA added £186m:

- 9 May 2023, £26.2m contract from an overseas Ministry of Defence in the second phase of a communications systems upgrade on two naval surface vessels, to run from 05/23 to 2026.
- 30 May 2023, £7.0m contract from a SE Asian Navy for anti-submarine warfare capabilities for two vessels.
- 23 August 2023, £17.5m contract from a UK customer for an external communications system (ECS), to run for 32 months.
- 26 March 2024, £135m UK MOD contract for Electronic Warfare Countermeasures Increment 1a (EWCM 1a) to the Royal Navy for provision and support of SEA's Trainable Decoy Launcher System, Ancilia.

##### ELAC, £14m:

- 5 December 2023, €16.0m (£13.7m) 60-month sonar system (third) follow-on contract from the Italian Navy.

##### Chess Dynamics, £16m:

- 19 March 2024, £15.7m contract from BAE Systems Maritime Australia to supply its Chess's Sea Eagle surveillance systems for the Royal Australian Navy's Hunter class frigates.

#### FY24 orders: Communications & Intelligence division

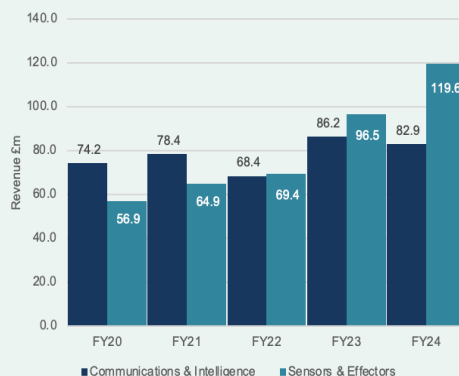
##### EID, £10m and post-period-end £28m

- 15 July 2024, €33m (£28m) 3-year contract with the NATO Communications and Information Agency to supply the Portuguese Army with a Tactical Deployable Communication and Information System (TDCIS).
- Contracts received over the prior 4 months, worth over c.€12m (£10m) Integrated Communications System to Damen for the Portuguese Navy's Multi-Purpose Vessel (MPV) and to the Chilean Navy

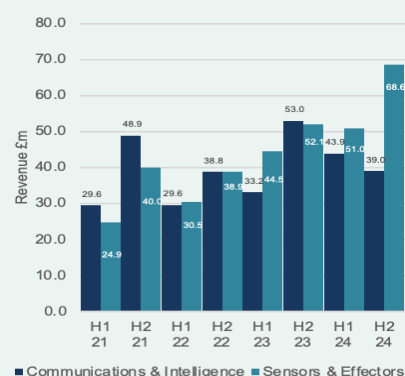
## Divisional performance to FY24: a discernible uptick

The pattern of FY20-24 divisional revenue and recent semi-annual performance shows both consistency of improvement and growing momentum.

**Divisional revenue: annual**

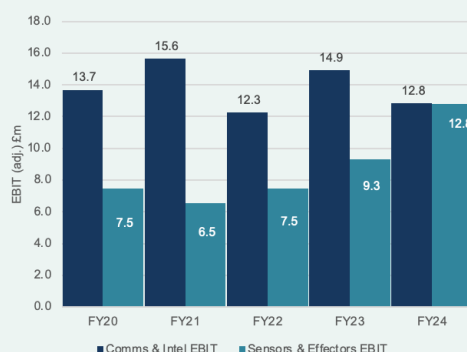


**Divisional revenue: semi-annual**

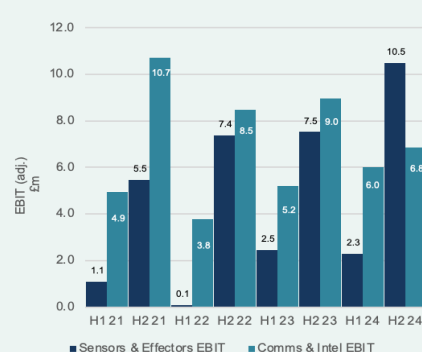


Source: Company data. Equity Development estimates.

**Divisional (adj.) EBIT: annual**

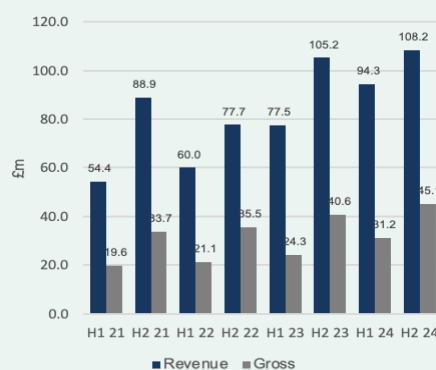


**Divisional (adj.) EBIT: semi-annual**

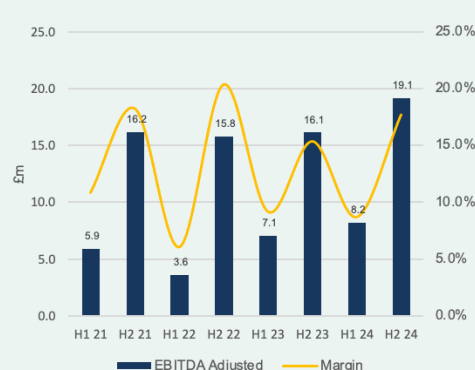


Source: Company data. Equity Development estimates.

**Revenue, gross semi-annual**



**(adj.) EBITDA semi-annual**



Source: Company data. Equity Development estimates.

## Communications & Intelligence division

### The Communications & Intelligence division:

EID  
MASS  
MCL

### Performance and outlook: EBIT FY24-26E 10% CAGR

FY24 order intake in the **Communications & Intelligence** division showed an apparent -32%YoY decline resulting from a re-adjustment following the record performance in FY23 of MLC. By contrast, MASS maintained delivery on contracts which fall due for renewal no earlier than FY26. Following a weaker performance, EID added (15 July) a significant €33m (£28m) 3-year contract to supply the Portuguese Army with a Tactical Deployable Communication and Information System (TDCIS). Overall, the division reflects MOD demand with £41m of order intake (FY23: £70.4m), reflecting the impact of hearing protection equipment and intercoms; we note that historical hearing loss amongst army personnel is currently the subject of compensation claims). Cohort highlights the importance of UK Joint Forces Command orders (renewals and contract extensions worth £8.5m) for electronic warfare and strategic deployments, with other UK government-related orders at £13.5m (FY23: £3.4m) similarly related to cyber security services (MASS).

For FY25, based on order visibility, we estimate revenue of £90m +8.5%YoY, 16.0% (adj.) EBIT margin.

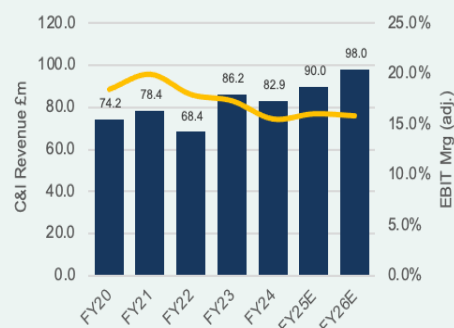
In FY26, maintaining FY25 momentum, our outlook is for revenue of £98m, +8.9%YoY, 15.8% (adj.) EBIT margin.

### FY 24 performance and outlook to FY26

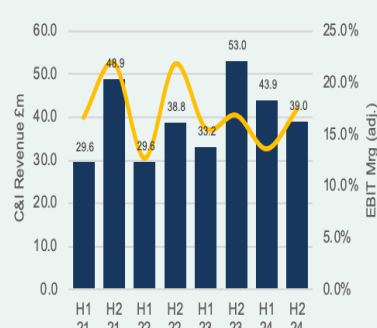
£m	H1 21	H2 21	H1 22	H2 22	H1 23	H2 23	H1 24	H2 24
Revenue	29.6	48.9	29.6	38.8	33.2	53.0	43.9	39.0
EBIT	4.9	10.7	3.8	8.5	5.2	9.0	6.0	6.8
Mrg	16.7%	21.9%	12.8%	21.9%	15.6%	16.9%	13.7%	17.5%
	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Revenue	74.2	78.4	68.4	86.2	82.9	90.0	98.0	
YoY	2.8%	5.7%	-12.8%	26.1%	-3.8%	8.5%	8.9%	
EBIT	13.7	15.6	12.3	14.9	12.8	14.4	15.5	
Mrg	18.4%	20.0%	17.9%	17.3%	15.5%	16.0%	15.8%	

Source: Company data. Equity Development estimates.

### Annual outlook to FY26



### Semi-annual performance



Source: Company data. Equity Development estimates.

## Sensors & Effectors division

### Sensors & Effectors division:

Chess Dynamics  
ELAC Sonar

### Performance and outlook: EBIT FY24-26E 16% CAGR

The **Sensors & Effectors** division exhibited particularly strong order intake, **+1.6x at £328m, i.e. 2.7x FY23 revenue**, reflecting order momentum at SEA (adding £186m in orders), in particular the 26 March £135m UK MOD contract for Electronic Warfare Countermeasures from the Royal Navy for provision and support of SEA's Trainable Decoy Launcher System, Ancilia. In addition, Chess maintained orders momentum for stabilised fire-control and drone tracking systems. The Group highlighted: orders from the Royal Navy for the next generation of Type 26 frigates and Dreadnought submarines; demand related to local variants of the Type 26 from Australia and Canada; ANZAC frigate upgrades from New Zealand; sonar equipment from ELAC for the German Navy (c.£7m) and Italy (c.€70m).

Our FY25 revenue outlook is £130m +8.7%YoY, 11.8% (adj.) EBIT margin.

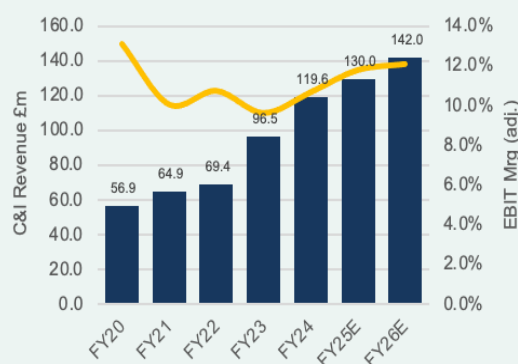
For FY26 our outlook is for revenue of £142m, +9.2%YoY, 12.1% (adj.) EBIT margin.

### Outlook to FY26

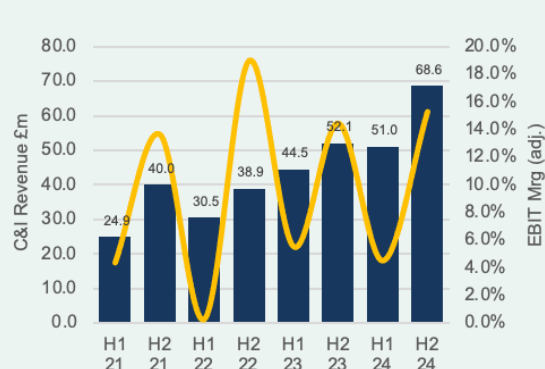
£m	H1 21	H2 21	H1 22	H2 22	H1 23	H2 23	H1 24	H2 24
Revenue	24.9	40.0	30.5	38.9	44.5	52.1	51.0	68.6
EBIT	1.1	5.5	0.1	7.4	2.5	7.5	2.3	10.5
Mrg	4.3%	13.7%	0.3%	19.0%	5.5%	14.5%	4.5%	15.3%
	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Revenue	56.9	64.9	69.4	96.5	119.6	130.0	142.0	
YoY	16.0%	14.1%	6.9%	39.1%	23.9%	8.7%	9.2%	
EBIT	7.5	6.5	7.5	9.3	12.8	15.3	17.2	
Mrg	13.1%	10.1%	10.8%	9.7%	10.7%	11.8%	12.1%	

Source: Company data. Equity Development estimates.

### Annual outlook to FY26



### Semi-annual performance



Source: Company data. Equity Development estimates.



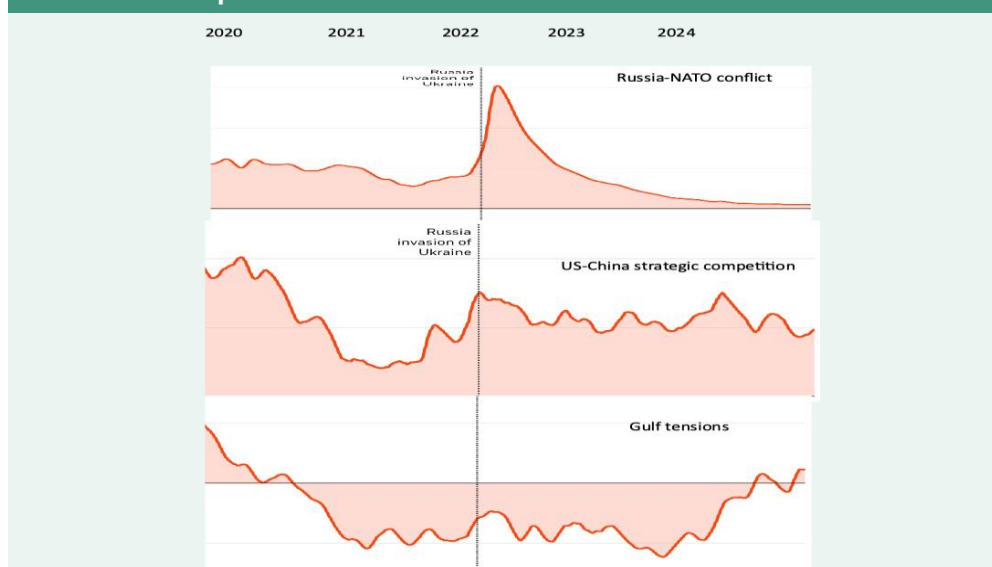
## Outlook – medium-term background positive

### Defence-related geopolitical risk focus on NATO in Europe and on Asia-Pacific

The latest assessment of defence-related geopolitical risk by the BlackRock Investment Institute, in April 2024, placed the overall Geopolitical Risk Indicator at 0.37 compared to 0.99 post the Russian invasion of Ukraine on 24<sup>th</sup> February 2022. We highlight, illustrated below:

- The risk of **Russia-NATO** conflict has receded 6.02 to 0.2. Blackrock states: "The conflict has become a battle between the two sides' industrial bases, and Ukraine enters the war's third year in a vulnerable position. Recently approved additional military aid from the U.S. will likely allow Ukraine to improve its posture during 2024". **For Cohort** we see the attitude of NATO members in Europe towards defence spending commitments – particularly with the possibility of a return to the US Presidency of Donald Trump - as a key driver for investment in equipment and, in particular, electronic warfare counter-surveillance measures.
- **US-China strategic competition** remains relatively high at 0.97 compared to a 2022 peak of 2.02. Blackrock: "The U.S. and China have settled into a long-term and intensely competitive posture". **For Cohort** we expect this to translate into demand for submarine communications and countermeasures systems, channelled through initiatives such as the AUKUS trilateral partnership between the US, Australia and the UK in the Sino-Pacific region. In September AUKUS initially defined two 'pillars' as the basis for coordination: Pillar 1 is focused on supporting Australia to acquire its first conventionally armed, nuclear-powered submarine fleet; Pillar 2 is focused on cooperation in eight advanced military capability areas: artificial intelligence (AI), quantum technologies, innovation, information sharing, and cyber, undersea, hypersonic and counter-hypersonic<sup>1</sup> and electronic warfare domains. (<https://lordslibrary.parliament.uk/aukus-security-partnership/>). <sup>1</sup> We note Cohort's Ancilia system.
- The risk attached to **tensions in the Gulf** has recently moved from negative territory to 0.23, with Blackrock noting Iran's production and use of drones.
- Blackrock also rates the **threat from cyber-attacks** as 'High', noting persistent activity surrounding infrastructure and the increased use of AI to plant false information on social media during electoral campaigns.

### BlackRock Geopolitical Risk Dashboard: selected areas



Source: BlackRock Geopolitical Risk Dashboard April 2024 <https://www.blackrock.com/corporate/insights/blackrock-investment-institute/interactive-charts/geopolitical-risk-dashboard>

## UK Defence spending outlook under Labour: “boosting British industry”.

### UK spending on Defence continues to target 2.5% of GDP

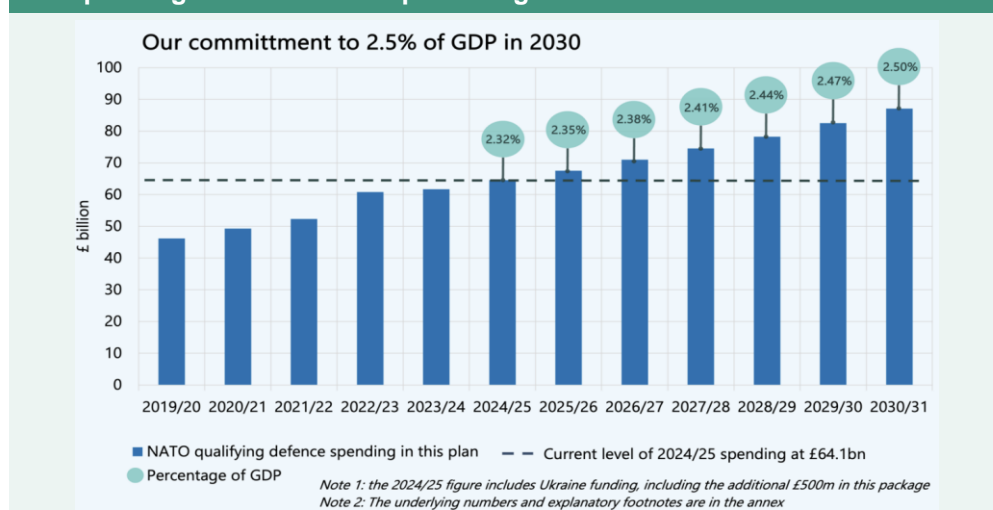
As the UK exited the period of Conservative government, the UK ranked 8<sup>th</sup> out of 30 NATO member states in defence spending as a percentage of GDP, Poland leading at an estimated 3.8% and the US at 3.2%. In April 2024, as part of the ‘Integrated Review Refresh 2023’<sup>1</sup> - also outlined in the ‘Defencing Britain’<sup>2</sup> policy paper - the then government set out its ambition to raise spending on defence to 2.5% of GDP by 2030/31 (illustrated below). At the NATO meeting in New York on 9 July Labour Prime Minister Sir Keir Starmer reiterated his stance on UK spending on defence, saying: “I am committed to that 2.5% within our fiscal rules, but that strategic review needs to come first”<sup>3</sup>; a Strategic Defence Review is scheduled during the first year of government. Overall, Labour has proposed a **“more strategic approach to procurement; boosting British industry”**<sup>4</sup>.

### Prior commitments indicated defence spending to reach 2.32% of GDP in 2024/25

In the 2023/24 budget the UK spent £54.2bn on defence, expected to rise to £57.1bn in 2024/25, i.e. 2.32% of the UK’s c.£2,460bn estimated GDP. The four-year ‘Defence Spending Review 2020’ allocated an additional £16.5bn for the period 2020/21 to 2024/25 in line with a Government commitment to increase spending by 0.5% above inflation<sup>4</sup>. The 2023 Spring Budget added £5.0bn over the 2023/24 to 2024/25 period and committed to an additional £2.0bn annually to 2027/28, i.e. £11.0bn over five years. This will now be reviewed. Based on the current outlook, spending of 2.5% of GDP on defence in 2030/31 would require a budget estimated at c.£76bn (2p6), i.e. averaging 8.8% annual growth in real terms.

The preponderance of spending is allocated to major projects and investment, in contrast to a decline in real terms in funds for operations available to the MOD. Labour has, for example, committed to spending in areas such as forces accommodation, whilst the July 2023 ‘Defence Command Paper’ had already outlined plans to spend £400m on services family accommodation<sup>5</sup>. Below outlines the recent government projections for defence spending.

### UK spending on defence as a percentage of GDP outlook to 2030/31



Source: <https://www.gov.uk/government/publications/defending-britain>

<sup>1</sup> <https://www.gov.uk/government/publications/integrated-review-refresh-2023-responding-to-a-more-contested-and-volatile-world>

<sup>2</sup> <https://www.gov.uk/government/publications/defending-britain>

<sup>3</sup> <https://www.reuters.com/world/uk/uk-starmer-committed-increasing-defence-spending-25-gdp-2024-07-09/>

<sup>4</sup> <https://commonslibrary.parliament.uk/research-briefings/cbp-8175/>

<sup>5</sup> <https://www.forces.net/politics/defence-command-paper-how-will-ps400m-be-invested-service-family-accommodation>

## FY 24 cashflow

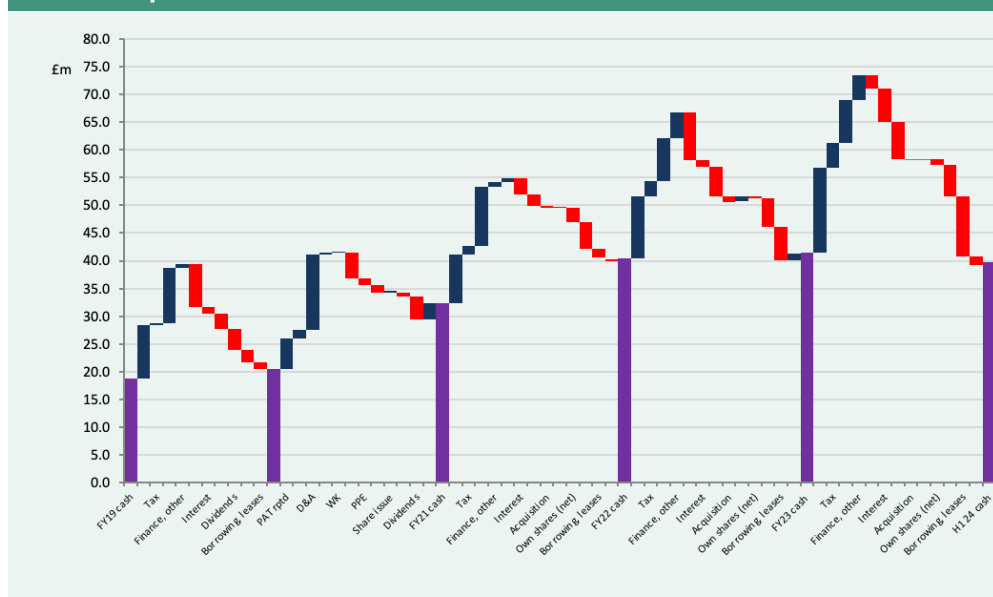
As shown, the Group continues to consistently add to the cash balance. In FY24 the Group recorded:

- Operating cashflow generation of £31.9m, underpinned by (adj.) EBITDA of £25.7m (81% conversion).
- Net working capital movement of £(2.3)m compared to £(8.4)m a year earlier. Both trade receivables and payables increased due to the increase in orders, by £24.7m and £23.7m respectively, but closely matched.
- Net cash from operations of £23.1m compared to £6.5m in FY23.
- Capital spending was £6.6m, compared to £5.2m a year earlier

We expect net funds to be reduced in FY25 to c.£15m (E) as a result of the completion of the next phase (partly delayed by weather) of the ELAC test facility in Germany and acquisition, for £3.0m in cash, of Interactive Technical Solutions. To date the Group has spent £4.1m on the ELAC facility, with a further £12m earmarked for FY25(E) cap-ex and around £3m in FY26 when it completes in the summer of 2025.

As of 30 April 2024 the Group reported cash and credit facilities readily available of £58.1m (FY23: £50.6m). We note that FY24 reported balance sheet cash is recorded at £55.16m (FY23: £50.96m) compared to cashflow year-end cash of £39.67m and £41.45m respectively. This results from the treatment of overdraft facilities as both a cash equivalent item and an item of debt, in FY23, £9.5m and in FY24 £6.0m. Our forecasts exclude this back-to-back entry to more clearly show the match between cashflow and balance sheet cash. The Group renewed the £35m RCF (plus £15m option) to July 2027, of which £16.5m is drawn.

### Cashflow performance FY19-24



Source: Company data, Equity Development estimates.

### Dividend policy

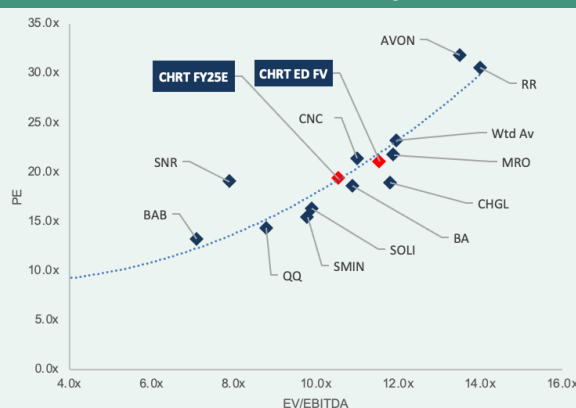
The Group maintained a progressive dividend policy, at 14.8p for FY24 (+10%YoY). Our outlook includes a 5.0%YoY increase in FY25 and FY26.

## Valuation update: Fair Value 910p/share

Below we update the comparative positioning of Cohort, at current valuation and at ED Fair Value, alongside a sample of peers in the UK defence and military equipment sector: Amedeo Air Force Plus, Avon Protection plc, Babcock International, BAE Systems plc, Chemring Group, Concurrent Technologies plc, Melrose Industries plc, QinetiQ Group plc, Rolls-Royce Holdings, Senior plc, Smiths Group plc and Solid State plc. Cohort currently trades on a FY25E PE of 20.1x and EV/EBITDA of 10.6x, which is in line with the valuations of BAE Systems (mkt. cap. £49bn) and Melrose Industries (£9.8bn). This compares to a market cap weighted average for the peer group PE of 23.2x and EV/EBITDA of 12.0x (*source: Koyfin*).

- Below illustrates Cohort's current valuation position and at the FY25E ED Fair Value-implied EV/EBITDA of 11.6x and PE of 21.8x.
- Our read-across to FY26 (adj.) EBITDA (£32.9m) visibility and peer group market cap-weighted multiples indicates a **Fair Value of 910p/share**.

### Comparative valuation: PE and EV/EBITDA multiples



Source: Equity Development estimates, Koyfin.06.06.2024.

This chart compares and contrasts the evolution of revenue (ED outlook to FY25E) compared to the past five years' share price performance.

### Cohort PLC: 5 year share price evolution and (adj.) EBITDA



Source: Company data, LSE, Equity Development estimates.

## Summary financial data

P&L					
Year to 30 April (£m)	FY22	FY23	FY24	FY25E	FY26E
Communications & Intelligence	68.4	86.2	82.9	90.0	98.0
Sensors & Effectors	69.4	96.5	119.6	130.0	142.0
Inter-segment	(0.0)	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>137.7</b>	<b>182.7</b>	<b>202.5</b>	<b>220.0</b>	<b>240.0</b>
<b>Gross</b>	<b>56.6</b>	<b>64.9</b>	<b>76.3</b>	<b>91.3</b>	<b>99.6</b>
<i>Margin</i>	<i>41.1%</i>	<i>35.5%</i>	<i>37.7%</i>	<i>41.5%</i>	<i>41.5%</i>
COGS	(81.1)	(117.9)	(126.3)	(128.7)	(140.4)
Underlying op-ex	(41.1)	(45.8)	(55.1)	(67.3)	(72.6)
Amortisation intangibles	(6.9)	(3.7)	(3.1)	(1.0)	0.0
R&D credits	1.0	0.9	2.9	1.0	1.0
Forex	0.7	(1.1)	0.3	0.0	0.0
One-off charges	0.7	0.0	0.0	0.0	0.0
EBIT Reported	11.1	15.3	21.2	24.0	28.0
<b>EBIT Adjusted</b>	<b>15.5</b>	<b>19.1</b>	<b>21.1</b>	<b>24.0</b>	<b>27.0</b>
<i>EBIT (adj.) mrg</i>	<i>11.3%</i>	<i>10.4%</i>	<i>10.4%</i>	<i>10.9%</i>	<i>11.2%</i>
Amortisation Intangibles	(6.9)	(3.7)	(3.1)	(1.0)	0.0
Depreciation PPE	(2.2)	(2.4)	(2.6)	(4.0)	(4.0)
Depreciation RoU	(1.7)	(1.8)	(2.0)	(2.0)	(2.0)
EBITDA Reported	21.8	23.1	28.9	31.0	33.9
<b>EBITDA Adjusted</b>	<b>19.4</b>	<b>23.2</b>	<b>25.7</b>	<b>30.0</b>	<b>32.9</b>
<i>Margin</i>	<i>14.1%</i>	<i>12.7%</i>	<i>12.7%</i>	<i>13.6%</i>	<i>13.7%</i>
Financial income	0.0	0.1	0.5	0.5	0.5
Financial expense	(0.9)	(1.5)	(1.9)	(2.5)	(2.5)
PBT Reported	10.2	13.9	19.8	22.1	26.0
<b>PBT Adjusted</b>	<b>14.7</b>	<b>17.7</b>	<b>19.8</b>	<b>22.1</b>	<b>25.0</b>
Tax	(1.5)	(2.7)	(4.5)	(5.3)	(6.0)
Reported tax rate	15.1%	19.2%	22.9%	24.0%	23.0%
<i>Tax rate % adjusted</i>	<i>10.5%</i>	<i>15.1%</i>	<i>22.9%</i>	<i>24.0%</i>	<i>23.9%</i>
PAT Reported	8.7	11.3	15.3	16.8	20.0
<b>PAT Adjusted</b>	<b>13.1</b>	<b>15.1</b>	<b>15.2</b>	<b>17.0</b>	<b>19.2</b>
Basic wtd. Av. shares (m)	40.8	40.7	40.4	40.4	40.4
Diluted wtd. av. shares (m)	41.0	40.8	40.6	40.6	40.6
EPS Reported Basic (p)	22.5	27.9	37.9	41.4	49.5
EPS Reported Diluted (p)	22.4	27.9	37.7	41.3	49.3
EPS Adjusted Basic (p)	31.1	36.5	42.9	41.9	47.6
<b>EPS Adjusted Diluted (p)</b>	<b>30.9</b>	<b>36.4</b>	<b>42.7</b>	<b>41.8</b>	<b>47.4</b>

Source: Company data, Equity Development estimates.

## Summary financial data

Cashflow					
Year to 30 April (£m)	FY22	FY23	FY24	FY25E	FY26E
PAT rptd	8.7	11.3	15.3	16.8	20.0
Tax	1.5	2.7	4.5	5.3	6.0
Depreciation	3.9	4.2	4.6	6.0	6.0
Amortisation	6.9	3.7	3.1	1.0	0.0
Finance net	0.9	1.3	1.4	2.0	2.0
Derivatives/forex	(0.7)	1.1	(0.3)	(0.3)	(0.3)
Share-based payments	0.6	1.5	1.1	0.0	0.0
Provisions	0.1	0.7	2.2	0.0	0.0
<b>Operating Cash Flow</b>	<b>21.8</b>	<b>26.4</b>	<b>31.9</b>	<b>30.7</b>	<b>33.6</b>
(Increase)/Decrease inventories	(9.9)	(8.6)	(1.4)	0.2	(3.0)
(Increase)/Decrease in receivables	10.5	3.0	(24.7)	0.3	(6.4)
Increase/(Decrease) in payables	0.0	(3.0)	23.8	8.2	10.7
<b>Movement in working capital</b>	<b>0.7</b>	<b>(8.5)</b>	<b>(2.3)</b>	<b>8.7</b>	<b>1.3</b>
<b>Cash generated by operations</b>	<b>22.5</b>	<b>17.9</b>	<b>29.6</b>	<b>39.4</b>	<b>34.9</b>
Interest paid	(0.9)	(1.2)	(1.9)	(3.3)	(3.5)
Tax (paid)/received	(2.1)	(0.1)	(4.7)	(5.3)	(6.0)
<b>Net cash from operations</b>	<b>19.5</b>	<b>16.5</b>	<b>23.0</b>	<b>30.8</b>	<b>25.5</b>
<b>Investing activities</b>					
Interest received	0.0	0.1	0.5	0.5	0.5
PPE	(2.0)	(5.2)	(6.7)	(10.0)	(5.0)
Acquisition	(0.4)	(1.0)	0.0	(3.0)	0.0
Net cash used in investing	(2.4)	(6.1)	(6.2)	(12.5)	(4.5)
<b>Net OpFCF</b>	<b>17.2</b>	<b>10.4</b>	<b>16.9</b>	<b>18.4</b>	<b>21.0</b>
<b>Financing activities</b>					
Share issue	0.6	1.0	0.7	0.0	0.0
Dividends	(4.7)	(5.1)	(5.6)	(6.3)	(6.6)
Purchase own shares	(2.9)	(0.6)	(1.9)	0.0	0.0
Settlement of own shares	0.3	0.1	0.8	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Repayments	(0.1)	(4.0)	(9.0)	0.0	0.0
Lease repayments	(1.9)	(2.0)	(1.9)	(1.8)	(1.8)
Net cash from financing	(8.7)	(10.6)	(16.9)	(8.1)	(8.4)
<b>Net increase in cash / equivalents</b>	<b>8.4</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>10.3</b>	<b>12.6</b>
Forex	(0.4)	1.2	(1.7)	0.0	0.0
Cash at beginning of year	32.3	40.4	41.5	39.7	49.9
<b>Cash at year end</b>	<b>40.4</b>	<b>41.5</b>	<b>39.7</b>	<b>49.9</b>	<b>62.6</b>
<b>Net debt / (cash)</b>	<b>(11.0)</b>	<b>(15.6)</b>	<b>(23.1)</b>	<b>(14.9)</b>	<b>(23.0)</b>
<b>Reconciliation of net funds</b>					
(as reported)					
Cash at bank		51.0	44.0		
Short-term deposits		0.0	11.2		
Overdrafts		(9.5)	(15.5)		
Cash at bank		41.5	39.7		
Loans		(25.8)	(16.5)		
Leases		(0.0)	0.0		
Debt		(25.8)	(16.5)		
Net debt / (cash)		(15.6)	(23.1)		

Source: Company data, Equity Development estimates.

## Summary financial data

Balance sheet						
Year to 30 April (£m)	FY22	FY23	FY24	FY25E	FY26E	
<b>Fixed Assets</b>						
Goodwill	50.1	50.1	50.1	53.1	53.1	
Intangible assets	9.6	6.0	2.8	1.8	1.8	
RoU assets	9.6	8.5	7.8	5.9	3.9	
PPE net	12.3	15.3	19.4	25.4	26.4	
Deferred tax, other	1.4	1.6	2.5	2.5	2.5	
<b>Sum Fixed Assets</b>	<b>83.1</b>	<b>81.5</b>	<b>82.7</b>	<b>88.8</b>	<b>87.8</b>	
<b>Current Assets</b>						
Inventories	22.8	32.0	33.3	33.2	36.2	
Trade receivables	56.2	55.6	79.4	79.1	85.5	
Derivatives, tax	0.8	2.2	1.9	2.1	2.4	
Cash, Equivalents	40.4	51.0	55.2	49.9	62.6	
<b>Sum Current Assets</b>	<b>120.1</b>	<b>140.8</b>	<b>169.8</b>	<b>164.3</b>	<b>186.7</b>	
<b>Total Assets</b>	<b>203.2</b>	<b>222.3</b>	<b>252.5</b>	<b>253.1</b>	<b>274.5</b>	
<b>Current Liabilities</b>						
Trade payables	(54.0)	(55.9)	(81.0)	(89.2)	(99.9)	
Derivatives, tax	(0.9)	(5.3)	(2.5)	(2.8)	(3.2)	
Leases	(1.5)	(1.7)	(1.8)	(1.8)	(1.8)	
Borrowings	(29.4)	(9.5)	(15.5)	(18.5)	(23.0)	
Provisions	(8.9)	(8.7)	(8.9)	(9.8)	(11.0)	
Other payables	(1.4)	0.0	0.0	0.0	0.0	
<b>Sum Current Liabilities</b>	<b>(96.0)</b>	<b>(81.1)</b>	<b>(109.7)</b>	<b>(122.1)</b>	<b>(139.0)</b>	
<b>Total Assets less Current Liabilities</b>	<b>107.2</b>	<b>141.3</b>	<b>142.8</b>	<b>130.9</b>	<b>135.5</b>	
<b>Long-term Liabilities</b>						
Deferred tax	(1.4)	(1.5)	(0.9)	(1.0)	(1.2)	
Leases	(8.6)	(7.5)	(6.7)	(4.9)	(3.1)	
Borrowings	(0.0)	(25.8)	(16.5)	(16.5)	(16.5)	
Provisions	(1.1)	(1.4)	(3.2)	(3.5)	(4.0)	
Retirement benefit	(6.8)	(5.3)	(5.6)	(5.6)	(5.6)	
Other	0.0	0.0	0.0	0.0	0.0	
<b>Sum Long-term liabilities</b>	<b>(18.0)</b>	<b>(41.5)</b>	<b>(33.0)</b>	<b>(31.6)</b>	<b>(30.4)</b>	
<b>Total liabilities</b>	<b>(114.0)</b>	<b>(122.5)</b>	<b>(142.7)</b>	<b>(153.8)</b>	<b>(169.3)</b>	
<b>Net Assets</b>	<b>89.2</b>	<b>99.8</b>	<b>109.8</b>	<b>99.3</b>	<b>105.1</b>	
<b>Capital &amp; Reserves</b>						
Share Capital	4.1	4.1	4.2	4.2	4.2	
Share Premium	30.5	31.5	32.2	11.3	3.6	
Own shares	(3.3)	(3.6)	(4.6)	(4.6)	(4.6)	
Share option reserve	1.0	2.1	2.9	2.9	2.9	
Other	(1.4)	0.0	0.0	0.0	0.0	
Retained earnings	53.1	62.9	74.1	84.5	98.0	
<b>Equity</b>	<b>84.0</b>	<b>97.0</b>	<b>108.7</b>	<b>98.3</b>	<b>104.0</b>	
Non-controlling interests	5.2	2.8	1.2	1.1	1.1	
<b>Net debt / (cash)</b>	<b>(11.0)</b>	<b>(15.6)</b>	<b>(23.1)</b>	<b>(14.9)</b>	<b>(23.0)</b>	

Source: Company data, Equity Development estimates.



## Contacts

### **Andy Edmond**

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### **Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690