

Trading update: performance ahead of expectations

23 May 2024

FY24 momentum to continue into FY25

In a Trading Update for the year to 30 April 2024 Cohort Group reports overall performance slightly ahead of market expectations. We note that the Group reports very strong order intake of c.£387m (compared to £218m in FY23) resulting in a closing order book which stood at c.£518m (FY23: £329.1m), inclusive of the March SEA Royal Navy £135m Ancilia contract. The order book now covers c.£180m, i.e. 90%, FY 25 revenue market expectations (FY24 was 84% covered at £145m). We see the momentum established in FY24 continuing into FY25.

The Group notes strong H2 performance, with overall growth in the Sensors & Effectors division, notably Chess and SEA, outpacing the Communications & Intelligence division where, as expected, UK MOD orders decreased from the 2022/23 peak, and Portugal continued to experience some contract delays.

Closing net funds were healthy, at c.£23m (FY23: £15.6m, H1 24, £13.3m), due to timing of working capital inflows combined with delays to capital projects caused by winter weather, principally the new ELAC submarine systems test tank facility in Germany, with cap-ex now scheduled for 2024/25 and completion, as planned, in early FY26. Cohort CEO, Andrew Thomis, highlighted the strength of the net funds position as a 'robust platform' for both investment in operations and, potentially, acquisitions.

Order book above £0.5bn mark

At the FY 24 interim results ([Strong H1 24 results backed by a record order book](#)) Cohort had commented on the overall "**increased tempo**" of order intake. The Group had then reported a closing order book of £354m. The SEA Ancilia order raised the closing order book above the £0.5bn mark (£513.6m); a figure now amended to approx.£518m, with on-order revenue **visibility to 2037**.

Outlook combines firm demand with visibility.

The Group reports good demand from both domestic customers and for exports, noting increased attention to defence spending spurred by conflict in Ukraine and the Middle East, and ongoing tension in the Indo-Pacific region. We note the significance of the scale of the MOD Electronic Warfare Countermeasures *Ancilia* contract from the Royal Navy, and the upward inflection in share price performance from late CY23 in the context of both awareness of macro factors and, importantly, the consistency of Cohort's order build.

We had raised our FY25 revenue outlook +3% (£5.0m), inclusive of an estimated contribution from the SEA EWCM *Ancilia* contract of c.£15.0m annually, and (adj.) EBITDA estimate +7% (£2.0m), with an estimated subsequent annual c.£5.0m contribution.

At this stage we maintain our outlook to FY25 and a Fair Value of 725p / share.

Company Data

EPIC	CHRT
Price (last close)	808p
52 weeks Hi/Lo	828p/436p
Market cap	£328m
ED Fair Value / share	725p
Proforma net cash	£13.3m

Share Price (p)



Source: ADVFN

Description

Operating in the UK, Germany and Portugal, Cohort Group has two divisions, each with 3 subsidiaries.

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

Sensors & Effectors comprising: 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 defence and transport markets, and specialist research and training services.

Next event: FY24 results, late July.

Summary financial estimates

Yr to 30 April (£m)	2020	2021	2022	2023	2024E	2025E
Revenue	131.1	143.3	137.7	182.7	188.1	199.9
EBITDA (adj)	20.9	22.1	19.4	23.2	25.2	29.3
Pre-Tax Profit (adj)	17.5	17.9	14.7	17.7	18.7	21.7
EPS (adj, p)	36.7	33.3	30.9	36.4	36.2	40.4
Dps (p)	9.5	11.1	12.2	13.4	14.7	15.4
Net debt / (cash)	4.7	(2.5)	(11.0)	(15.6)	(8.2)	(15.1)
P/E	22.0x	24.2x	26.1x	22.2x	22.3x	20.0x
EV/EBITDA	15.0x	14.1x	16.1x	13.4x	12.4x	10.7x

Source: Company data, Equity Development estimates.

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Summary of FY 24 order book: over £0.5bn

The March Royal Navy *Ancilia* contract takes the total new orders awarded in FY 24 to £215m, and the closing order book to £514m, which the Trading Update takes to c.£518m:

Subsidiary **SEA**, in the Sensors & Effectors business category:

- 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 month.
- 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*.

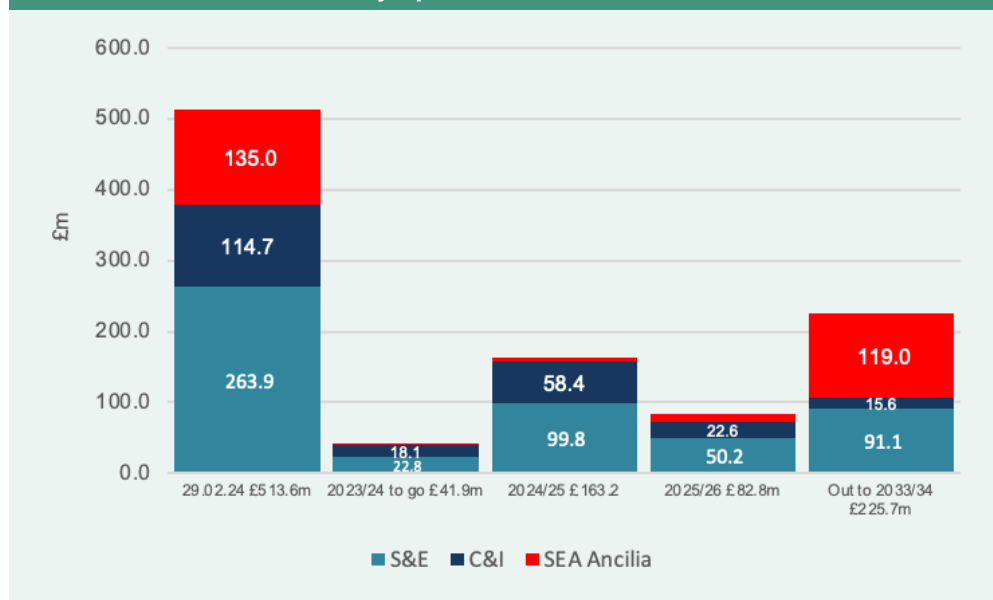
Subsidiary **ELAC**, in the Sensors & Effectors business category:

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

Subsidiary **Chess Dynamics**, in the Sensors & Effectors business category:

- 19 March £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.

Order book at £514m: latterly updated to £518m



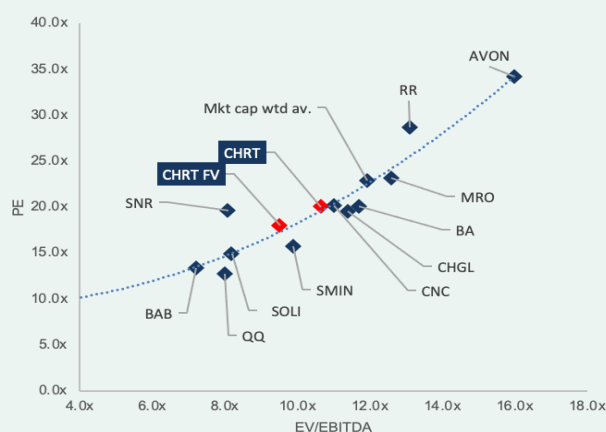
Source: Company data.

Valuation update

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 20.0x and EV/EBITDA of 10.7x, which is in line with the valuations of BAE Systems (mkt. cap. £41.1bn) and Melrose Industries (£6.2bn).
- This compares to a market cap weighted average for the peer group PE of 22.9x and EV/EBITDA of 11.9x (source: Koyfin).
- Below illustrates Cohort's current valuation position and at the FY25E ED Fair Value-implied EV/EBITDA of 9.5x and PE of 18.0x.

Comparative valuation: PE and EV/EBITDA multiples



Source: Equity Development estimates, Koyfin. 17.05.2024.

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 outlook to FY25 E						
Year to 30 April (£m)	FY20	FY21	FY22	FY23	FY24E	FY25E
Communications & Intelligence	74.2	78.4	68.4	86.2	89.6	97.5
Sensors & Effectors	56.9	64.9	69.4	96.5	98.4	102.4
Inter-segment	0.0	0.0	(0.0)	0.0	0.0	0.0
Revenue	131.1	143.3	137.7	182.7	188.1	199.9
Gross	51.0	53.4	56.6	64.9	77.1	83.0
<i>Margin</i>	38.9%	37.2%	41.1%	35.5%	41.0%	41.5%
COGS	(80.0)	(90.0)	(81.1)	(117.9)	(111.0)	(116.9)
Underlying op-ex	(32.8)	(34.7)	(41.1)	(45.8)	(56.7)	(59.5)
Amortisation intangibles	(7.4)	(10.1)	(6.9)	(3.7)	(3.5)	(1.0)
R&D credits	0.8	1.0	1.0	0.9	1.0	1.0
Forex	(0.1)	(0.4)	0.7	(1.1)	0.0	0.0
One-off charges	(0.8)	(1.3)	0.7	0.0	0.0	0.0
EBIT Reported	10.7	7.8	11.1	15.3	18.0	23.5
EBIT Adjusted	18.2	18.6	15.5	19.1	20.5	23.5
<i>EBIT (adj.) mrg</i>	13.9%	13.0%	11.3%	10.4%	10.9%	11.7%
Amortisation Intangibles	(7.3)	(10.1)	(6.9)	(3.7)	(3.5)	(1.0)
Depreciation PPE	(1.5)	(2.0)	(2.2)	(2.4)	(3.0)	(4.0)
Depreciation RoU	(1.2)	(1.5)	(1.7)	(1.8)	(1.8)	(1.8)
EBITDA Reported	20.7	21.4	21.8	23.1	26.2	30.3
EBITDA Adjusted	20.9	22.1	19.4	23.2	25.2	29.3
<i>Margin</i>	15.9%	15.4%	14.1%	12.7%	13.4%	14.6%
Financial income	0.0	0.0	0.0	0.1	0.1	0.1
Financial expense	(0.8)	(0.8)	(0.9)	(1.5)	(1.9)	(2.0)
PBT Reported	10.0	7.1	10.2	13.9	16.2	21.6
PBT Adjusted	17.5	17.9	14.7	17.7	18.7	21.6
Tax	(0.3)	(1.6)	(1.5)	(2.7)	(3.7)	(5.2)
Reported tax rate	3.0%	22.0%	15.1%	19.2%	23.0%	24.0%
<i>Tax rate % adjusted</i>	1.7%	8.7%	10.5%	15.1%	19.9%	24.0%
PAT Reported	9.7	5.5	8.7	11.3	12.5	16.4
PAT Adjusted	17.2	16.3	13.1	15.1	15.0	16.4
Basic wtd. Av. shares (m)	40.7	40.8	40.8	40.7	40.7	40.7
Diluted wtd. av. shares (m)	41.1	41.3	41.0	40.8	40.8	40.8
EPS Reported Basic (p)	23.5	13.4	22.5	27.9	31.0	40.4
EPS Reported Diluted (p)	23.2	13.2	22.4	27.9	30.9	40.3
EPS Adjusted Basic (p)	37.1	33.6	31.1	36.5	36.3	40.4
EPS Adjusted Diluted (p)	36.7	33.3	30.9	36.4	36.2	40.3

Source: Company data, Equity Development estimates.

Cashflow outlook to FY25 E

Year to 30 April (£m)	FY20	FY21	FY22	FY23	FY24E	FY25E
PAT rptd	9.7	5.5	8.7	11.3	12.5	16.4
Tax	0.3	1.6	1.5	2.7	3.7	5.2
Depreciation	2.6	3.5	3.9	4.2	4.8	5.8
Amortisation	7.4	10.1	6.9	3.7	3.5	1.0
Finance net	0.8	0.8	0.9	1.3	1.8	1.9
Derivatives/forex	0.1	0.4	(0.7)	1.1	0.0	0.0
Share-based payments	0.3	0.4	0.6	1.5	0.0	0.0
Provisions	(0.5)	(1.3)	0.1	0.7	0.0	0.0
Operating Cash Flow	20.7	20.9	21.8	26.4	26.2	30.3
 (Increase)/Decrease inventories	2.0	0.6	(9.9)	(8.6)	(0.3)	(1.0)
(Increase)/Decrease in receivables	(4.6)	(13.1)	10.5	3.0	(10.3)	(0.6)
Increase/(Decrease) in payables	(5.1)	12.6	0.0	(3.0)	1.2	4.3
Movement in working capital	(7.7)	0.0	0.7	(8.5)	(9.4)	2.6
 Cash generated by operations	13.0	20.9	22.5	17.9	16.8	32.9
Interest paid	(0.8)	(0.8)	(0.9)	(1.2)	(2.6)	(2.7)
Tax (paid)/received	(0.6)	(3.9)	(2.1)	(0.1)	(3.7)	(5.2)
Net cash from operations	11.6	16.2	19.5	16.5	10.4	25.0
Investing activities						
Interest received	0.0	0.0	0.0	0.1	0.1	0.1
PPE	(2.7)	(1.2)	(2.0)	(5.2)	(10.0)	(10.0)
Acquisition	0.0	(1.3)	(0.4)	(1.0)	0.0	0.0
Net cash used in investing	(2.6)	(2.5)	(2.4)	(6.1)	(9.9)	(9.9)
Net OpFCF	9.0	13.7	17.2	10.4	0.6	15.1
Financing activities						
Share issue	0.0	0.3	0.6	1.0	0.0	0.0
Dividends	(3.9)	(4.2)	(4.7)	(5.1)	(6.0)	(6.3)
Purchase own shares	(3.7)	(1.4)	(2.9)	(0.6)	0.0	0.0
Sale own shares	1.5	0.8	0.3	0.1	0.0	0.0
Borrowings	0.1	12.1	0.0	0.0	0.0	0.0
Repayments	(0.1)	(7.2)	(0.1)	(4.0)	0.0	0.0
Lease repayments	(1.1)	(1.9)	(1.9)	(2.0)	(2.0)	(2.0)
Net cash from financing	(7.2)	(1.6)	(8.7)	(10.6)	(8.0)	(8.3)
Net increase in cash	1.8	12.1	8.4	(0.2)	(7.4)	6.8
Forex	(0.0)	(0.4)	(0.4)	1.2	0.0	0.0
Cash at beginning of year	18.8	20.6	32.3	40.4	41.5	34.1
 Cash at year end	20.6	32.3	40.4	41.5	34.1	40.9

Source: Company data, Equity Development estimates.

Balance sheet outlook to FY25 E

Year to 30 April (£m)	FY20	FY21	FY22	FY23	FY24E	FY25E
Fixed Assets						
Goodwill	42.1	43.7	50.1	50.1	50.1	50.1
Intangible assets	13.2	15.1	9.6	6.0	2.5	1.5
RoU assets	6.9	7.1	9.6	8.5	6.7	5.0
PPE net	12.1	12.5	12.3	15.3	22.3	28.3
Deferred tax, other	0.6	0.6	1.4	1.6	1.6	1.6
Sum Fixed Assets	74.9	79.0	83.1	81.5	83.3	86.5
Current Assets						
Inventories	11.5	12.9	22.8	32.0	32.4	33.4
Trade receivables	47.4	66.7	56.2	55.6	66.0	66.5
Derivatives, tax	0.0	0.0	0.8	0.0	0.0	0.0
Cash, Equivalents	20.6	32.3	40.4	41.5	34.1	40.9
Sum Current Assets	79.5	111.9	120.1	129.1	132.4	140.9
Total Assets	154.4	190.9	203.2	210.7	215.7	227.4
Current Liabilities						
Trade payables	(31.0)	(50.3)	(54.0)	(58.0)	(59.3)	(63.5)
Derivatives, tax	(0.2)	(0.7)	(0.9)	(1.0)	(1.0)	(1.0)
Leases	(1.3)	(1.6)	(1.5)	(1.7)	(1.7)	(1.7)
Borrowings	(0.1)	(0.1)	(29.4)	(0.0)	(0.0)	(0.0)
Provisions	(1.5)	(2.8)	(8.9)	(8.7)	(8.7)	(8.7)
Other payables	0.0	(2.8)	(1.4)	0.0	0.0	0.0
Sum Current Liabilities	(34.1)	(58.2)	(96.0)	(69.4)	(70.7)	(74.9)
Total Assets less Current Liabilities	120.3	132.7	107.2	141.3	145.0	152.4
Long-term Liabilities						
Deferred tax	(2.8)	(2.7)	(1.4)	(1.5)	(1.5)	(1.5)
Leases	(6.2)	(6.0)	(8.6)	(7.5)	(7.5)	(7.5)
Borrowings	(25.2)	(29.8)	(0.0)	(25.8)	(25.8)	(25.8)
Provisions	(0.3)	(1.1)	(1.1)	(1.4)	(1.4)	(1.4)
Retirement benefit	0.0	(8.0)	(6.8)	(5.3)	(5.3)	(5.3)
Other	(4.0)	0.0	0.0	0.0	0.0	0.0
Sum Long-term liabilities	(38.5)	(47.6)	(18.0)	(41.5)	(41.5)	(41.5)
Total liabilities	(72.6)	(105.8)	(114.0)	(110.9)	(112.1)	(116.4)
Net Assets	81.8	85.1	89.2	99.8	103.5	111.0
Capital & Reserves						
Share Capital	4.1	4.1	4.1	4.1	4.1	4.1
Share Premium	29.7	30.0	30.5	31.5	26.8	23.0
Own shares	(1.6)	(1.1)	(3.3)	(3.6)	(3.6)	(3.6)
Share option reserve	0.8	0.9	1.0	2.1	2.1	2.1
Other	(3.6)	(2.4)	(1.4)	0.0	2.0	3.0
Retained earnings	46.1	47.8	53.1	62.9	69.4	79.5
Equity	75.5	79.3	84.0	97.0	100.8	108.2
Non-controlling interests	6.2	5.7	5.2	2.8	2.8	2.8
Net debt / (cash)	4.7	(2.5)	(11.0)	(15.6)	(8.2)	(15.1)

Source: Company data, Equity Development estimates.



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