

Major £135m contract award

26th March 2024

UK MOD contract award to SEA for electronic warfare countermeasures

Cohort announces that its subsidiary SEA (Systems Engineering and Assessment Ltd.) has been awarded a major contract by the UK's Ministry of Defence to provide Electronic Warfare Counter Measures (Increment 1a) (EWCM 1a) to the Royal Navy with a **total value of at least £135m**. This includes provision and support of SEA's Trainable Decoy Launcher System, *Ancilia*.

Ancilia delivers rapid protection against anti-ship threats such as incoming missiles, and incorporates technology from the Chess Dynamics subsidiary. Cohort notes that work will commence immediately and is expected to continue for more than ten years, in addition to which there are options available to the MOD which may increase both the contract's value and delivery period. Overall, the Group estimates the addressable worldwide market for Ancilia systems at £250m.

Cohort notes that: **"Together with other recent order wins the contract is expected to materially enhance the Group's earnings"**. Cohort CEO Andy Thomis commented on the significance of this "real vote of confidence in Ancilia", adding that it will sustain employment for more than 150 skilled professionals.

EWCM forms part of the Royal Navy's Maritime Electronic Warfare Programme (MEWP), to upgrade surface ship electronic surveillance, electronic warfare command and control (EWC2), and anti-ship missile defence (ASMD) capabilities. SEA's bid under EWCM Increment 1a met the requirements for a trainable decoy launcher system which would be compatible with both current and future countermeasure rounds, e.g. the 130-mm calibre Mk 216 and Mk 217 radio frequency (RF) distraction decoys, and the 130-mm MK 245 submunition-based infrared seduction decoy.¹

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 an overall **"increased tempo" of order intake**. The Group reported a closing order book of £354m: **we note that this latest contract takes the closing order book above the £0.5bn mark** at £513.6m.

Raised FY25 estimates. Fair Value raised to 725p.

We have raised our FY25 revenue outlook by 2.6% (£5.0m). Thereafter we estimate a contribution from the SEA EWCM contract of c.£15.0m annually. Our FY25 E (adj.) EBITDA estimate is raised by £2.0m, +7%, with an estimated subsequent incremental annual c.£5.0m contribution. Our FY25 EPS outlook is raised from 36.7p to 40.3p. Accordingly, and in the light of additional recent contract wins (e.g. the 19 March Chess Australian Navy contract) our **Fair Value is raised to 725p**.

Summary financial estimates

Yr to 30 April (£m)	2021	2022	2023	2024E	2025E
Revenue	143.3	137.7	182.7	188.1	199.9
EBITDA (adj)	22.1	19.4	23.2	25.2	29.3
Pre-Tax Profit (adj)	17.9	14.7	17.7	18.7	21.6
EPS (adj, p)	33.3	30.9	36.4	36.2	40.3
Dps (p)	11.1	12.2	13.4	14.7	15.4
Net debt / (cash)	(2.5)	(11.0)	(15.6)	(8.2)	(15.1)
P/E	17.7x	19.1x	16.2x	16.3x	14.6x
EV/EBITDA	10.1x	11.5x	9.6x	8.9x	7.7x

Source: Company data, Equity Development estimates.¹ <https://www.appgov.org/apg/mp/mpdetail/21638>

Company Data

EPIC	CHRT
Price (last close)	594p
52 weeks Hi/Lo	610p/410p
Market cap	£240m
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:

May 2024 Trading Update

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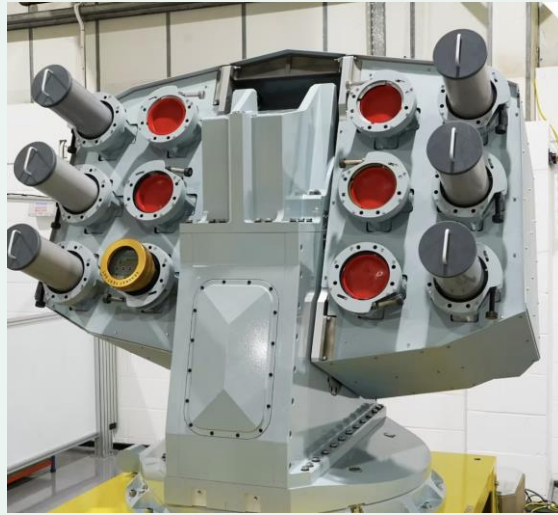
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SEA Ancilia countermeasures system

Illustrated below, Ancilia is a 'trainable' naval countermeasures defence system designed to be effective against incoming threats, such as missiles, at close range. Directional targeting and response means that the system can deploy against a missile threat without the need for the host vessel to itself manoeuvre. As SEA notes: "with decoy-agnostic tubes and an open architecture, the system will launch any standard 130mm NATO decoy and can be retrofitted onto existing platforms with OEM software."

Ancilia countermeasures system



Source: Cohort SEA: <https://www.sea.co.uk/defence/ship-fleet-protection/ancilia-countermeasure-system>

FY 24 order book now over £0.5bn

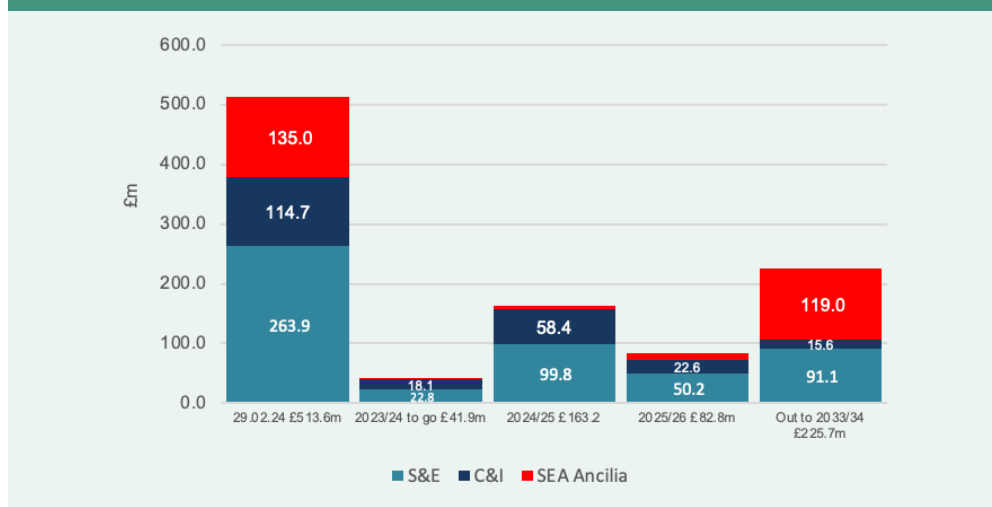
For the financial year to date the Group recorded five major contract wins, totalling £80m, to which the contract awarded today brings the total to £215m. The addition to the closing order book takes this over the £0.5bn mark. Below we summarise the major contracts won so far in FY24:

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; **25 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



Source: Company data.

FY25 estimates raised

Our FY 24 outlook is unchanged: revenue of £188.1m, gross profit margin of 41.0%, EBITDA (adj.) of £25.2m, a 13.4% margin. **Our outlook to FY25 is revised.** Our FY25 prior estimate was: revenue of £192.5m, gross profit margin of 41.5%, EBITDA (adj.) of £27.3m, a 14.0% margin. Our revised FY25 estimate is: revenue of £199.9m, gross profit margin of 41.5%, EBITDA (adj.) of £29.3m, a 14.6% margin.

Summary outlook to FY25

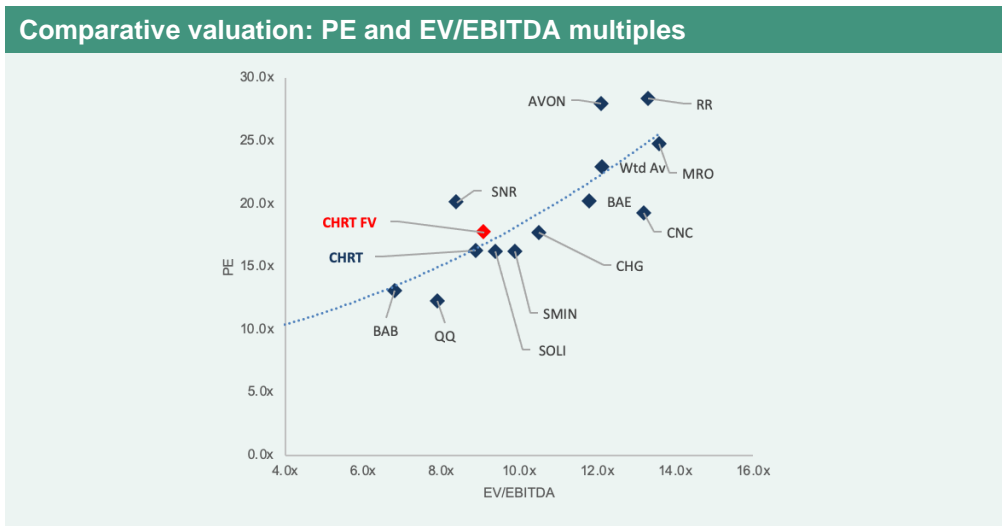
£m	FY21	FY22	FY23	FY24E	FY25E
Communications & Intelligence	78.4	68.4	86.2	89.6	97.5
Sensors & Effectors	64.9	69.4	96.5	98.4	102.4
Revenue	143.3	137.7	182.7	188.1	199.9
Revenue YoY	9.3%	-3.9%	32.7%	2.9%	6.3%
Gross	53.4	56.6	64.9	77.1	83.0
Margin	37.2%	41.1%	35.5%	41.0%	41.5%
Central costs	(3.6)	(4.2)	(5.2)	(5.4)	(5.5)
Comms & Intel EBIT	15.6	12.3	14.9	14.3	16.3
Sensors & Effectors EBIT	6.5	7.5	9.3	11.5	12.7
EBIT Reported	7.8	11.1	15.3	18.0	23.5
EBIT Adjusted	18.6	15.5	19.1	20.5	23.5
EBIT (adj.) mrg	13.0%	11.3%	10.4%	10.9%	11.7%
Underlying op-ex	(34.7)	(41.1)	(45.8)	(56.7)	(59.5)
% of revenue	65.1%	72.6%	70.6%	73.5%	71.7%
EBITDA Reported	21.4	21.8	23.1	26.2	30.3
EBITDA Adjusted	22.1	19.4	23.2	25.2	29.3
Margin	15.4%	14.1%	12.7%	13.4%	14.6%
PBT Reported	7.1	10.2	13.9	16.2	21.6
PBT Adjusted	17.9	14.7	17.7	18.7	21.6

Source: Company data. Equity Development estimates.

Valuation update

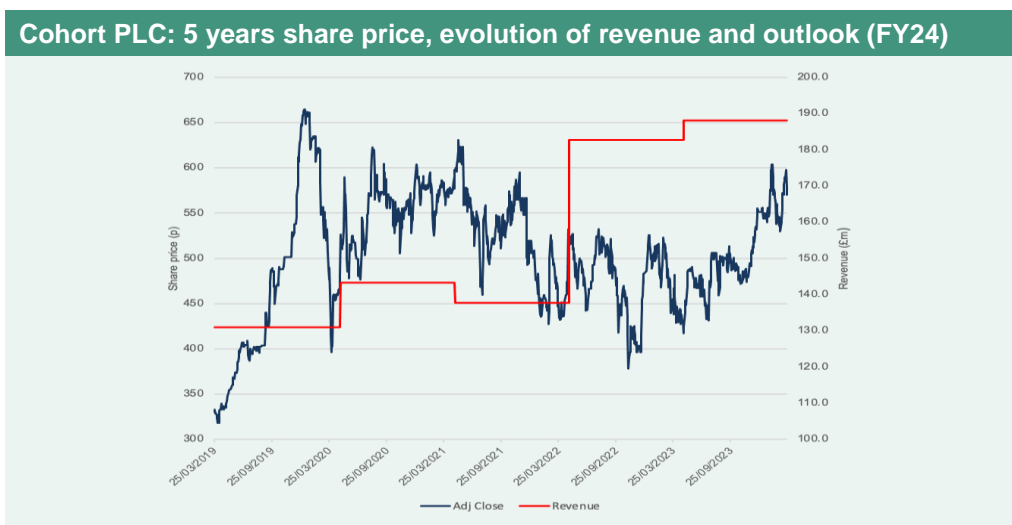
Below we update the comparative positioning of Cohort, at current valuation and at ED Fair Value, alongside a sample of peers in the UK defence and military equipment sector: Amedeo Air Force Plus, Avon Protection plc, Babcock International, BAE Systems plc, Chemring Group, Concurrent Technologies plc, Melrose Industries plc, QinetiQ Group plc, Rolls-Royce Holdings, Senior plc, Smiths Group plc and Solid State plc.

- Cohort currently trades on a FY24E PE of 16.3x and EV/EBITDA of 8.9x, which is in line with the valuations of Smiths Group (mkt. cap. £7.3bn) and Solid State (£13.9m).
- This compares to a market cap weighted average for the peer group PE of 22.9x and EV/EBITDA of 12.1x (source: Koyfin).
- Below illustrates Cohort’s current valuation position and at FY24 E ED Fair Value-implied EV/EBITDA of 11.0x and PE of 20.0x (FY25: 9.5x; 18.0x).



Source: Equity Development estimates, Koyfin.25.03.2024.

This chart compares and contrasts the evolution of revenue (ED outlook to FY24E) compared to the past five years’ share price performance.



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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