

12 August 2022

FY22 results – record orders bode well

For the year ended 30 April 2022 Cohort PLC reported revenue of £137.8m, -3.9%YoY (FY21: £143.3m), adjusted EBIT of £15.5m, -16.6% YoY (FY21 £18.6m), 11.3% margin (FY21: 13.0%), and EPS (adj. basic) of 31.08p -7.6%YoY (FY21: 33.63p). Order intake was £186.4m, +3.4%YoY, whilst the year-end order book reached £291.0m, +20.0%YoY. FY22 dividend was increased by 10% to 12.2p/share.

Record year-end order book

The year-end order book, a **record at £291m**, underpins £128m or 78% of market FY23 revenue outlook (FY22: 64%) providing increased visibility and management confidence in FY23 performance which is “expected to be ahead of 2021/22”. In fact, the company reports that **revenue coverage reached 90%** by early July, adding that order longevity is also increasing.

Sea change for the defence industry

Cohort notes that the nature and duration of the conflict in Ukraine, and its impact on near-term Group performance, is hard to predict. However, the recent change in stance by NATO and in general towards overseas defence, adds confidence and momentum to our medium-term outlook.

Subsidiaries performance

- MASS**, the expert in cyber-hardened digital systems, remained the mainstay of FY22 EBIT (adj.) at 46% of divisional total, with a £73m order book providing medium-term visibility.
- ELAC**, specialist in hydro-acoustic naval systems, contributed 19% of EBIT (adj.) in a strong first year, adding the largest ever technical/product contract (£42m) as the basis for further growth.
- SEA**, offering technology-based products and services for defence and transport markets, posted 11%YoY revenue growth and EBIT (adj.) +43%YoY, with 79% order cover for FY23E revenue.
- MCL**, expert in advanced electronic communications, information systems and signals intelligence, posted +21%YoY revenue growth, with 80% of FY23E revenue covered by orders and sound medium-term prospects as demand for its expertise rises.
- Chess**, the surveillance, tracking and gunfire control specialist, experienced a difficult FY22 with delayed orders and a contract termination contributing to a -41%YoY decline in revenue. With a change of management, we expect a 69% rebound in revenue to FY21 levels.
- EID**, revenue at the Portuguese-based tactical and naval C3 systems subsidiary declined 61%YoY; we expect a modest 33% rebound and gradual return to pre-FY21 levels.

For the year to 30 April 2023, we project total revenue growth of 16.5%YoY to £160.5m and EBITDA growth of 13.5%YoY to £22.0m. **We initiate coverage with a Fair Value of 650p/share.**

Company Data

EPIC	CHRT
Price (last close)	539p
52 weeks Hi/Lo	630p/446p
Market cap	£223m
ED Fair Value / share	650p
Proforma net cash	£11m

Share Price



Source: ADVFN

Description

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

The six are: **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.

It has c.1,050 full time employees.

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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	14.6x	16.2x	17.4x	15.3x	14.7x
EV/EBITDA	10.3x	9.7x	11.1x	9.8x	8.9x

Source: Company data, Equity Development estimates.

FY22 performance highlights

Total Group FY22 revenue declined 3.9%YoY. Four of Cohort's six subsidiaries - ELAC, MASS, MCL and SEA - performed strongly, growing 6.9%YoY on a reported basis, or 20.2%YoY if adjusted for a full year of estimated contribution from ELAC rather than 5 months reported in FY21, totalling 82% of total revenue. Two subsidiaries, Chess and EID, exhibited poor performance, declining a combined 49.3%YoY.

Group order book reached a record £291.0m with combined order coverage of FY23 revenue at an estimated 79% (by July, 90%). The Chess and EID FY22 order book rose 2.4%, although order intake fell 57% during the year. Orders at the remaining four subsidiaries grew 35.1% in FY22, with the order book at a combined £227.2m, +26.2%YoY.

- Chess, EID FY22 orders: £26.6m, -57.1%. Order book: £63.8M, +2.4%.
- ELAC, MASS, MCL, SEA FY22 orders: £159.8m, +35.1%YoY. Order book: £227.2m, +26.2%YoY.

Gross profitability increased from 37.2% in FY21 to 41.1%, with a H1/H2 combination of 35.2% and 45.7% compared to 36.1% and 38.0% in the first and second halves of FY21.

EBIT (adjusted) was £15.5m, 11.3% margin (FY21: 13.0% margin). The EBIT contribution from ELAC, MASS, MCL and SEA totalled £14.3m +29.4%YoY, or, if adjusted for a full year estimated contribution (in FY21) from ELAC, +15.4%YoY. The margin on this group registered 16.4% compared to 15.3% in FY21 and comprised 94% of total EBIT excluding centralised costs. For Chess and EID, the combined EBIT contribution declined 23%YoY, although, on diminished revenue, margin improved from 12.1% to 18.4%.

Performance FY20 – FY22, semi-annual H1 21 – H2 22								
Year to 30 April (£m)	FY20	FY21	FY22	YoY	H1 21	H2 21	H1 22	H2 22
Revenue	131.1	143.3	137.8	-3.9%	54.4	88.9	60.1	77.7
YoY	8.2%	9.3%	-3.9%		0.0%	0.0%	10.4%	-12.6%
Gross Sum	51.0	53.4	56.6	6.1%	19.6	33.7	21.1	35.5
Margin	38.9%	37.2%	41.1%		36.1%	38.0%	35.2%	45.7%
Underlying op-ex	(32.8)	(34.7)	(41.1)	18.2%	(15.3)	(19.5)	(19.4)	(21.7)
% of revenue	64.3%	65.1%	72.6%		77.9%	57.7%	91.9%	61.1%
EBIT Reported	10.7	7.8	11.1	42.0%	(0.0)	7.9	(1.3)	12.4
EBIT Adjusted	18.2	18.6	15.5	-16.6%	4.3	14.3	1.7	13.8
Margin	13.9%	13.0%	11.3%		8.0%	16.1%	2.9%	17.8%
EBITDA Reported	20.7	21.4	21.8	2.2%	4.8	16.6	4.0	17.9
EBITDA Adjusted	20.9	22.1	19.4		5.9	16.2	3.6	15.8
Margin	15.9%	15.4%	14.1%		10.8%	18.2%	6.0%	20.3%
PBT Reported	10.0	7.1	10.2		(0.4)	7.4	(1.7)	11.9
PBT Adjusted	17.5	17.9	14.7		4.0	13.9	1.3	13.3

Source: Company data.

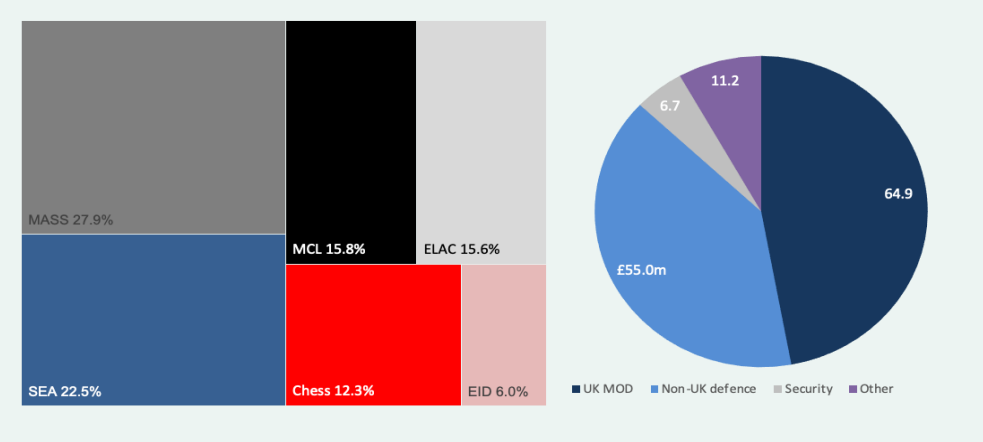
Group overview

Cohort PLC comprises six operational subsidiaries spanning sophisticated electronics, communications, detection and engineering systems development, training and support services:

- **CHESS** - surveillance and tracking systems: revenue -41%YoY, 12.3% of total.
- **EID** – tactical and naval communications design and manufacture: -60.8%YoY, 6.0%.
- **ELAC SONAR** – naval sonar and communications: 15.6% of total (5 months' contribution).
- **MASS** - electronic warfare operational support and digital services: -2.7%YoY, 27.9%.
- **MCL** – advanced electronic communications and signals intelligence technology :+20.9%YoY, 15.8%
- **SEA** – ship and fleet protection and maritime mission systems: +10.8%YoY, 22.5%.

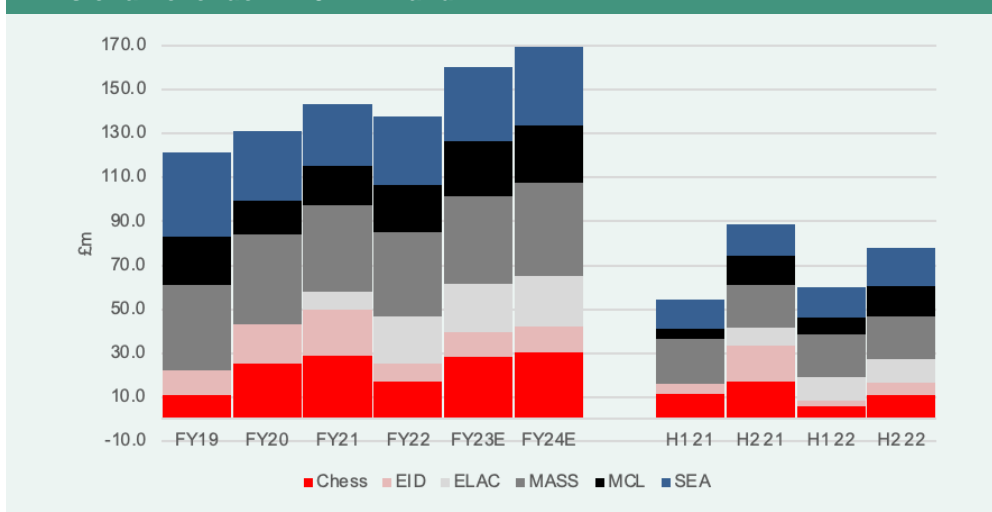
Sales to the defence and security sectors comprised 92% of FY 22 total revenue (FY21: 94%).

Divisional revenue and sector exposure, FY22



Source: Company data, Equity Development estimates

Divisional revenue FY19-FY22 and H1 21 – H2 22



Source: Company data, Equity Development estimates

Defence now a priority

Ukraine sharpens NATO focus

One of the impacts of the war in Ukraine, now in its sixth month, has been to refocus attention on the defence of Europe, in particular Eastern Europe, and draw together NATO's assets and members, extending to the application by Sweden and Finland to join the 30-country European and US alliance.

In addition to NATO's twin strategies, the 'Concept for Deterrence and Defence of the Euro-Atlantic Area', and long-term development under its 'Warfighting Capstone Concept', at the Brussels summit in 2021 the alliance introduced additional measures under the 'NATO 2020' initiative. Mindful of broadening cyber and terrorist threats in addition to its foremost responsibility for European defence, since 2014 NATO has received a total of US\$140bn in increased defence spending.

This was recently augmented by the decision by the German governing coalition parties and conservative opposition to agree a €100bn special fund for military armament, in response to the war in Ukraine.



Source: NATO March 2022

Heightened geopolitical risk

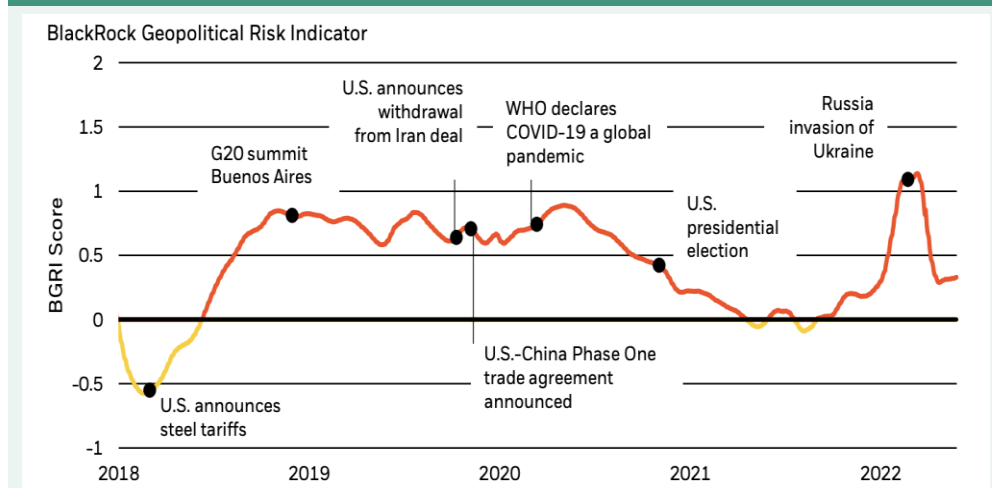
Cohort has established customer relationships amongst domestic and overseas government agencies, and a number of joint development projects underway, notably with the US Defence Advanced Research Projects Agency (DARPA) and UK government agencies. Recent geopolitical developments have added to security threats which hitherto prioritised terrorism. As observers such as BlackRock have noted, these new threats are unlikely to dissipate in the near term.

In July the BlackRock Investment Institute raised its Geopolitical Risk Indicator – a data-driven market attention assessment derived from analysis of 68 'risk events' recorded since 1962 – to 'high'. BlackRock summarises its outlook (ED emphasis) as follows:

- "The Russian invasion of Ukraine is the most serious security situation and humanitarian crisis in Europe since WWII, in our view. It's also the most dangerous standoff between the U.S. and Russia since the Cuban Missile Crisis. Our BlackRock Geopolitical Risk Indicator is hovering at heightened levels, **meaning markets are focused on political risks**. Geopolitical events typically have a modest and short-lived impact on markets and economies. Our analysis of 68 risk events since 1962 shows that.*

The Ukraine crisis is different. The war is having a direct and likely lasting effect, we believe, in large part because of its upward pressure on commodities prices. De-globalization is poised to accelerate amid Russia's increased isolation from the global economy, ongoing sanctions and export controls, and a push for self-reliance and diversifying supply chains. The Ukraine war is also likely to deepen fragmentation and the emergence of blocs. U.S.-China tensions and China's position with the West will likely deteriorate, in our view."

BlackRock Investment Institute Geopolitical Risk Dashboard



Source: BlackRock Geopolitical Risk Dashboard July 2022

BlackRock highlights ten areas of concern: Russia-NATO conflict (rated 'high'); global technology decoupling between the US and China (high); cyberattacks (high); tensions in the Gulf, notably Iran (high); political crises in emerging markets, exacerbated by resource and climate-related environmental stress (medium); US-China strategic competition focused on Taiwan and the South China Sea (rated medium, but probably raised by recent events); terror attacks (medium); North Korea, where nuclear ballistic missile development continues (medium); climate policy inertia (medium); and, to a lesser degree (category 'low') fragmentation of European policy where events in Ukraine have proved a unifying force. Recent events which highlight the concerns raised in this risk assessment include:

- The invasion of Ukraine by Russia on 24 February.
- Heightened terror-related alert following the death of al-Qaeda leader Ayman al-Zawahiri in a US drone strike on 31 July.
- The reaction of the government of The People's Republic of China to the visit to Taiwan of the US Senate Speaker, Nancy Pelosi, on 2 August.

UK defence spending outlook

The Integrated Review 2021 outlined UK defence policy based on three principles, Sovereignty, Security and International Policy, described in detail in the white paper, Defence in a Competitive Age. These outline a commitment to increase spending on defence by 14% to £188bn in the four years to 2025, whilst the 2021 Defence Equipment Plan outlines the budget for projected ten-year spending of £238bn on equipment and support.

Of this £6.6bn is allocated to R&D, co-ordinated via a network of defence innovation hubs backed by a commitment to providing partners in industry with "the certainty they need to plan, invest and grow". (UK Defence Command Plan 2021, 'Defence in a Competitive Age', Ch8, 8.4).

Implications for Cohort

The impact of the war in Ukraine on European defence strategy, notably the unity and stance of NATO, combined with the issues and priorities outlined in the recent UK defence spending reviews, suggest that opportunities for Cohort's group expertise will be balanced between theatres closer to home and markets such as the Middle East, SE Asia, and Australia-Pacific. This has the potential to increase both the size and longevity of orders, as Cohort has noted, and revenue visibility.

The current Cohort portfolio contains a number of key areas of focus and competence, and associated concentration of R&D efforts. These are: secure communications and surveillance; anti-submarine warfare; artificial intelligence; cyber security and cyber defence.

R&D focus

Cohort has highlighted key areas of R&D focus for each of its subsidiaries:

- SEA – FILS weapon systems development, anti-submarine warfare systems.
- EID - Integrated soldier systems development, next generation ICCS.
- Chess - target acquisition technology, novel sensor and control technology, deep learning for target detection and classification, reduced size / weight / power EO sensor systems for UGVs.
- ELAC – enhanced Sphere functionality including hull- and flank-mounted arrays.
- MASS – expanded training support offering.

Across the Group, there is an increased emphasis on the development of systems that can address (and counter) the threat from drones (UAVs) and from rapid incoming (e.g. hypersonic) weapons.

Order book analysis

Cohort notes that, as of July, 90% of FY23 revenue is now covered by Group orders secured.

Group orders, year-end order book and coverage of FY23 revenue

£m	Order intake			Order book			Cover E FY22
	FY21	FY22	YoY	FY21	FY22	YoY	
Chess	57.7	15.2	-73.7%	42.3	40.7	-3.8%	77%
EID	4.3	11.4	165.1%	20.0	23.1	15.5%	70%
ELAC	7.2	57.1	693.1%	21.2	56.8	167.9%	90%
MASS	25.6	34.1	33.2%	77.2	72.8	-5.7%	60%
MCL	21.8	31.8	45.9%	12.4	22.5	81.5%	80%
SEA	63.7	36.8	-42.2%	69.3	75.1	8.4%	79%
Sum	180.3	186.4	3.4%	242.4	291.0	20.0%	78%

Source: Company data, Equity Development estimates. Coverage as of year-end FY22.

Subsidiaries FY22 performance and outlook

We now look at each subsidiary – Chess Dynamics, EID, ELAC, MASS, MCL and SEA – in detail, reviewing FY22 performance, order intake and order book, market dynamics, FY23 and medium-term prospects:

Chess



Chess develops and manufactures precision stabilised and non-stabilised weapons systems platforms, sensors and positioners for electro-optic, radar, communications, and security and targeting systems, and specialised cameras and sensors. This includes the development and worldwide sales of drone (UAV) protection systems. Manufacture is backed by survey and assessment services and maintenance and training, including customised projects. During FY22, its **Vision4ce** subsidiary which develops digital video tracking systems, ruggedised PC hardware, and *GRIP View* and *DART* video software, was integrated into **Chess Dynamics**. Chess was founded in 2005. Cohort acquired 81.84% on 12 December 2018 for an initial cash consideration of c.£20.0m (recognising 100% as it has active control). Cohort expects to acquire the remaining 18.16% by 31 October 2022 for £1.4m.

FY22 performance and outlook: recovery to FY21 levels

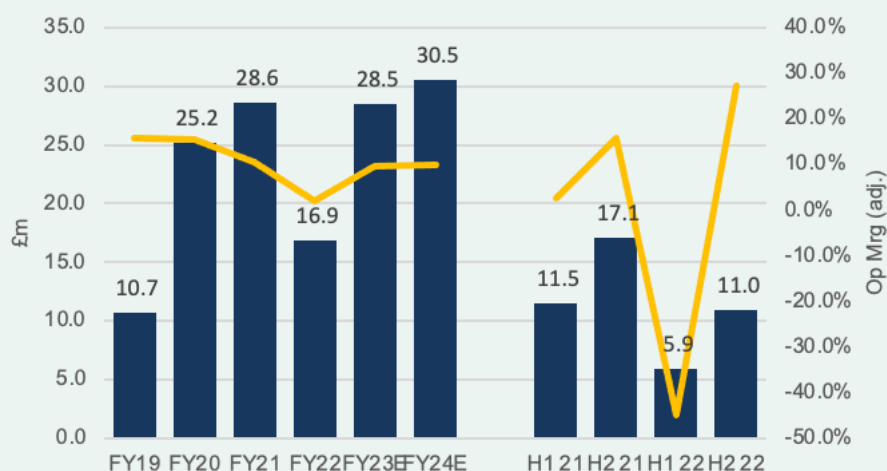
For the full year the subsidiary recorded revenue of £16.9m, -41.0%YoY, (12.3% of total) and EBIT (adj.) of £0.31m (1.9% margin). Operating cashflow was £(5.8)m compared to £(1.0)m a year earlier. The closing order book was £40.7m, -3.8%YoY (FY21: £42.3m).

Cohort reports that in FY22 Chess suffered from a combination of factors which resulted in poor performance for its largely export-driven business: delays caused by technical issues including deferral whilst an equipment upgrade underwent tests, the reduced profitability of legacy projects, the reversal of c.£6m of prior recognised revenue, and the impact of COVID-19-related travel restrictions on its presence at trade shows. Cohort added that rapid growth in recent years had resulted in working capital processes which are being reviewed, backed by a change of management.

For the current year we expect a return to levels of revenue and (adj.) EBIT similar to FY21. Orders at £40.7m provide cover for c.£22m of FY23 revenue. £15.2m of order intake is focussed on European land-based systems, and there is potential for further land- and naval-led demand. For FY23 we expect:

- Revenue of £28.5m, +68.6%YoY, i.e. returning towards FY21 levels (£28.6m).
- EBIT (adj.) of 2.7m, 9.5% margin, i.e. 90% of FY21 levels (£3.02m).

Chess revenue, annual and semi-annual, and EBIT (adj.) margin



Source: Company data, Equity Development estimates

EID

80%-owned by Cohort (20% by the Portuguese government, mostly through the idD defence arm), based in Portugal, EID (*Empresa de Investigação e Desenvolvimento de Electrónica*) designs and manufactures naval C3 (command, control and communications) equipment for navy and army customers in Portugal and for overseas defence clients, including the Royal Navy. EID systems are deployed on c.145 vessels worldwide including those of the Portuguese, Dutch, Spanish and Belgian navies, and other non-NATO countries.

FY22 performance and outlook – solid base for FY23

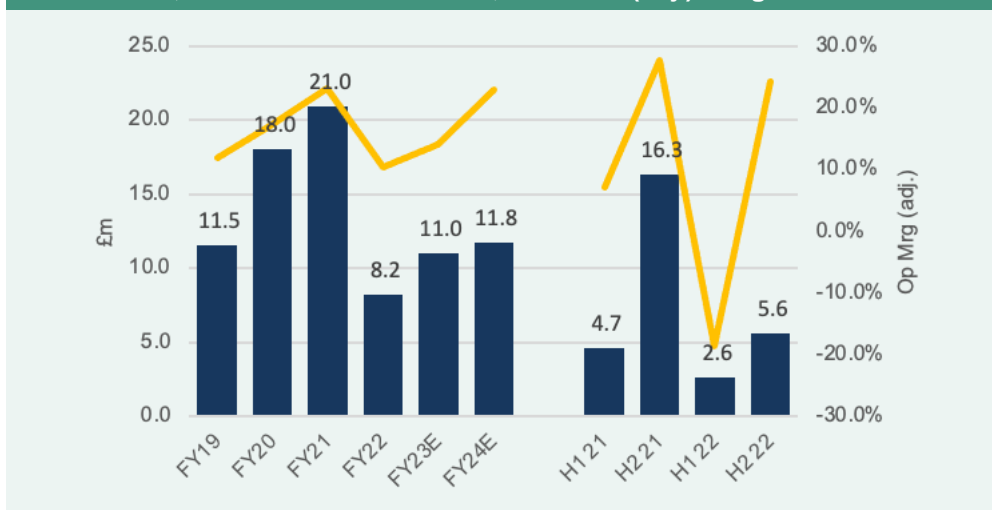
For the full year the subsidiary recorded revenue of £8.2m, -60.8%YoY, (6.0% of total) and EBIT (adj.) of £0.86m (10.5% margin). Operating cashflow was £1.7m compared to £5.4m a year earlier. The closing order book was £23.1m, +15.5%YoY (FY21: £20.0m) underpinning c.£11m of revenue in the current year; Cohort reports c.75% of revenue expectation covered, compared to below 50% at the same point in FY22. EID's FY22 order intake was £11.4m (FY21: £4.3m).

EID's reliance on exports introduces variability in annual orders, although c.50% of revenue originates with the Portuguese MOD, including in FY22 a significant army order to be augmented in FY23 with a significant navy order. Cohort reports that EID is stock building to meet expected demand, and in early FY23 should receive payment on orders delivered in the latter part of the prior year.

Cohort notes that it expects improved performance in FY23, albeit below past levels. For FY23 we expect:

- Revenue of £11.0m, +33.8%YoY, compared to FY21 at £21.0m.
- EBIT (adj.) of 1.5m, 14.0% margin.

EID revenue, annual and semi-annual, and EBIT (adj.) margin



Source: Company data, Equity Development estimates

ELAC SONAR

ELAC SONAR was acquired in H2 21 and specialises in hydro-acoustic naval sensors and underwater digital communications equipment for both submarines and surface vessels. Founded in Germany in 1926 (*Electroacoustic GmbH*) and located in Kiel, close to the German Navy and NATO *Centre of Excellence for Confined and Shallow Waters*, ELAC develops sophisticated underwater communications systems, such as *UT3000* (which combines analogue and digital communications) and *KaleidoScope* submarine sonar suite which processes acoustic information into digital data and contact information. ELAC's *Sphere® 360°* sonar system offers a wide range of applications, as illustrated.

ELAC Sphere® surveillance and communication system applications			
	submarine operations	submarine hunting	submarine rescue
surveillance (active & passive)	✓	✓	✓
mine and collision avoidance	✓	✓	✓
underwater communication	✓	✓	✓
measurement (depth & speed)	✓	✓	✓

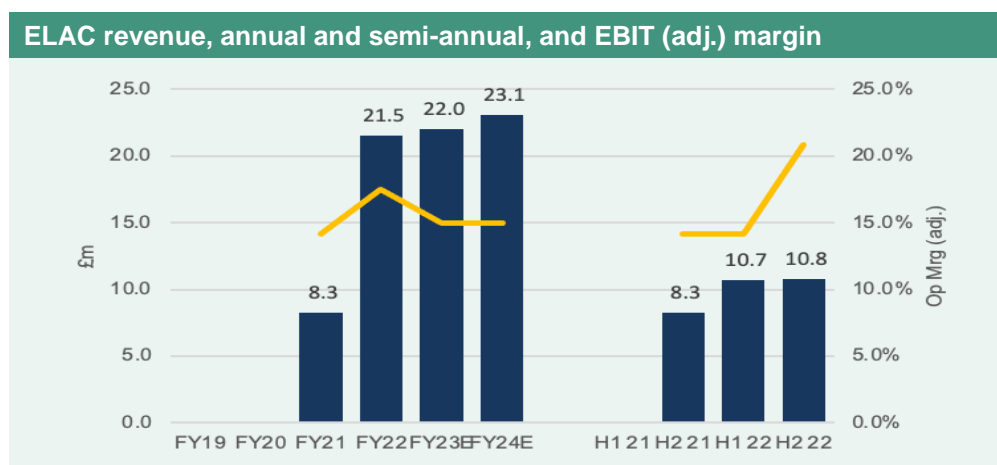
Source: Company data.

FY22 performance and outlook

For the full year the subsidiary recorded revenue of £21.5m, (15.6% of total) compared to £8.3m in FY21 (5 months: equivalent to an annualised £19.9m). and EBIT (adj.) of £3.77m (17.5% margin). Operating cashflow was £6.6m compared to £0.4m a year earlier. The closing order book was £56.8m, +1.7xYoY (FY21: £21.2m), with FY22 order intake of £57.1m (FY21: £7.2m).

The distinct upturn on orders reflected the largest product delivery contract ever product delivery won by the group, worth £42m awarded in July 2021 for sonar systems for the U212 Near Future Submarines supplied by Fincantieri for the Italian Navy, backed by a training and support services contract. Contract life to 2030 includes the option to install the same system in two further submarines. Cohort noted the addition of further underwater communications system orders, spares and training.

For FY23 we expect revenue of £22.0m, +2.2%YoY, 90% covered by orders in place, and EBIT (adj.) of £3.3m, 15.0% margin. FY22 performance was distorted by payment of £1.1m relating to costs incurred on a contract bid ongoing at the time of acquisition; up to £0.5m is receivable in FY23.



Source: Company data, ED estimates

MASS

Based in Cambridgeshire, MASS develops cyber security and electronic warfare operational support (EWOS) systems, including signal collection analysis and planning, data management, countermeasures and threat analysis.

MASS comprises four divisions: EWOS, containing its THURBON™ electronic warfare database supplied to the UK MoD; Digital Services, providing solutions and training, secure network design and information protection systems; Strategic Systems, focused on specific managed services for the MoD; and, Training Support, which provides training simulation and support to the UK Joint Warfare Centre and other command-level domestic and overseas customers.

FY22 performance - strong and stable

For the full year the subsidiary recorded revenue of £38.4m, -2.7%YoY, at 27.9% of total the cornerstone of Group revenue, and EBIT (adj.) of £9.14m (23.8% margin), comprising a leading 46% of total EBIT (adj.) before central costs. Operating cashflow was £9.9m compared to £4.6m a year earlier. The closing order book was £72.8m, -5.7%YoY (FY21: £77.2m).

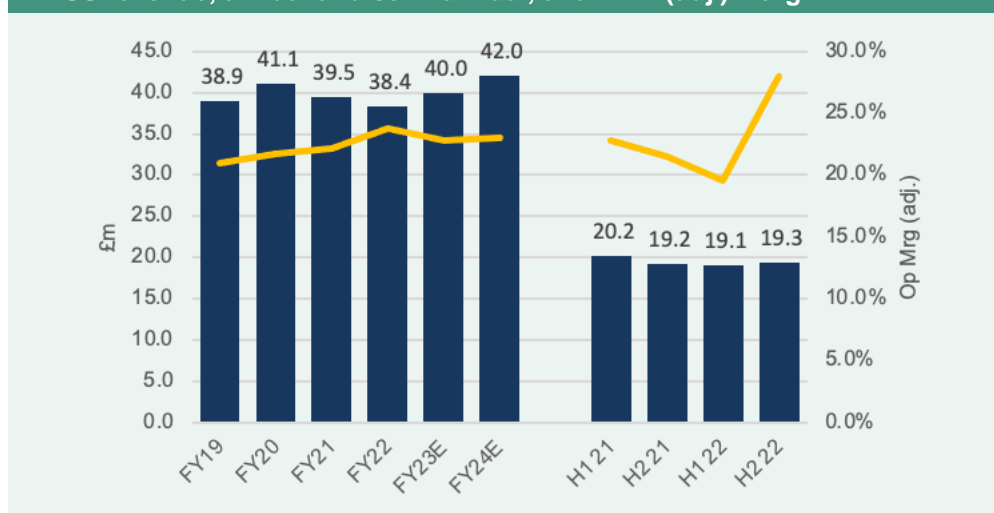
The stability of earnings contribution reflects the role of MASS's skillset in relation to long-term threat analysis and planning; FY22 performance was hampered, however, by the impact of COVID-19 restrictions on its role in training and interaction with Joint Forces Command and in the EWOS division where overseas roles predominate.

Cohort highlighted the strength of FY22 cashflow, noting the contribution from receipts delayed from FY21, with the caveat that this is unlikely to be repeated in FY23. An order book of £73m indicates revenue coverage of 60% in FY23, slightly below recent years, but gives good visibility in the medium term.

For FY23 we expect:

- Revenue of £40.0m, +4.2%YoY.
- EBIT (adj.) of 9.1m, 22.8% margin.

MASS revenue, annual and semi-annual, and EBIT (adj.) margin



Source: Company data, Equity Development estimates

MCL

MCL (*Marlborough Communications Limited*) specialises in advanced electronic communications and information systems, and signals intelligence technology for defence and security implementation, including C4is - Command, Control, Communications, Computers, Intelligence, Surveillance – and ISTAR - Intelligence, Surveillance, Target Acquisition and Reconnaissance – capabilities for its clients. Examples of recent contracts include:



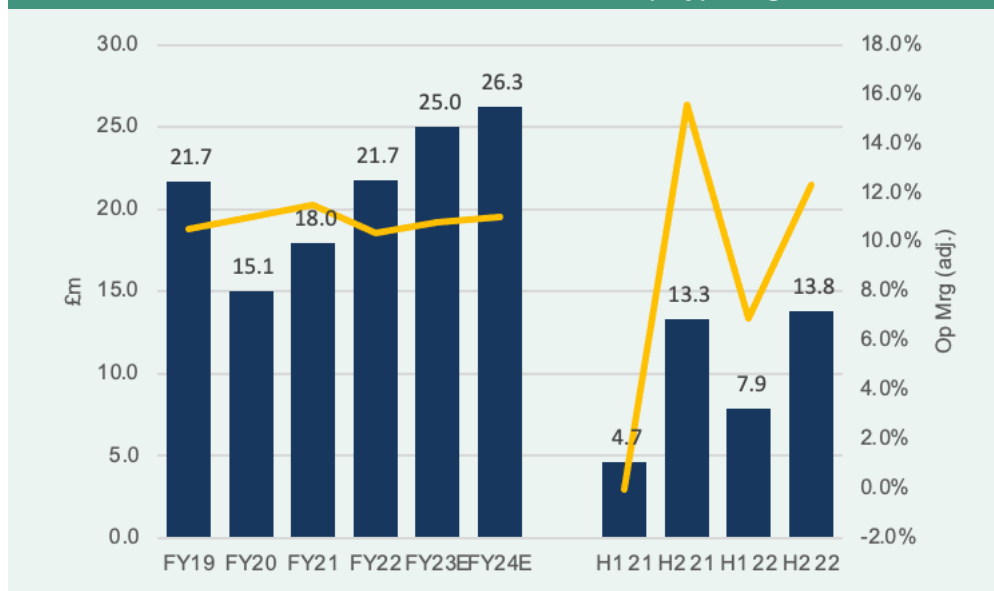
- February 2022, in collaboration with US drone manufacturer Skydio, a £3m contract from the MoD as part of the *Future Capabilities Group nano unmanned aerial systems* (nUAS) framework (Spiral 4) to develop drones with AI and 3D scan technology for “over the hill” rapid reconnaissance.
- February 2022, in collaboration with Israel Aerospace Industries (IAI) a contract to develop automated ground and air resupply networks as part of Project Theseus within the MoD Future Capabilities Group, (FCG) a 24-7 automated all-weather resupply system. As FCG notes, the task is to establish “whether mission-critical supplies can be delivered autonomously” in front-line ‘last mile’ conditions. The network is based on REX MK-2 uncrewed ground vehicles (illustrated) with a mobile, portable manned interface. MCL also received a contract alongside IAI to deliver Robotic Platoon Vehicles with the Mod Spiral 2 framework.

FY22 performance and outlook

For the full year the subsidiary recorded revenue of £21.7m +20.9%YoY to 15.8% of total, and EBIT (adj.) of £2.2m +8.9% on 10.4% margin. Orders increased from £12.5m in April 2021 to £22.5m, underpinning 90% of FY23E revenue. For FY23 our outlook is:

- Revenue of £25.0m, +15.0%YoY.
- EBIT (adj.) of £2.7m, +19.7%, 10.8% margin (FY22: 10.4%).

MCL revenue, annual and semi-annual, and EBIT (adj.) margin



Source: Company data, Equity Development estimates

SEA

Founded in 1987 and acquired by Cohort in 2007, SEA provides engineering and software solutions to government agencies, industrial primary contractors and academia. Products include:

- Maritime-use *Krait* smaller vessel defence and directional sensing arrays, torpedo launcher systems.
- Simulation and training systems including deck operational and equipment training.
- Transport systems: the *ROADflow* road traffic management, observation and control systems.

Its divisions are distributed geographically: Complex Systems, at Beckington near Bath, Maritime Solutions, Barnstaple, and Transport Management, Bristol.

The subsidiary was marginally impacted by the termination of a submarine-related contract resulting from the decision by the Australian government to cancel its contract for the supply of submarines with the French Naval Group and develop instead a nuclear-powered capability in conjunction with the UK and US (AUKU initiative). Nevertheless, Cohort notes its optimism that SEA's external communications systems will, in due course, follow UK links as the preferred system. During FY22 SEA added orders from the Royal New Zealand Navy and a follow-on Torpedo Launcher System contract. The selection by the Royal Canadian Navy of SEA's torpedo launcher system, via its JSK Canadian subsidiary, for its new Canadian Surface Combatant is expected to result in a series of orders over the next seven years.

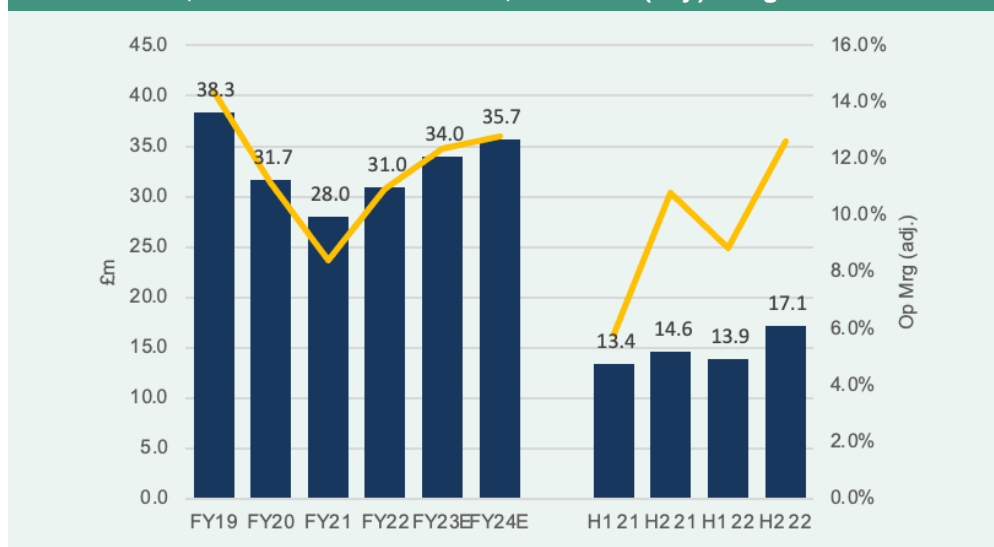
SEA recorded c.£100m of orders over the past two years, adding £36.8m in FY22 to conclude a year-end order book of £75.1m (FY21: £69.3m) +8.4%YoY.

FY22 performance and outlook

SEA recorded FY22 revenue of £31.0m, +10.8%YoY, EBIT (adj.) of £3.39m, +43.9%YoY on a 10.9% margin (FY21: 8.4%), with an order book covering an estimated 79% of FY23 revenue. For FY23 we estimate:

- Revenue of £34.0m, +9.8%YoY.
- EBIT (adj.) of £4.2m, +24.1%YoY on a 12.4% margin.
- We expect continued margin improvement post FY23.

SEA revenue, annual and semi-annual, and EBIT (adj.) margin



Source: Company data, Equity Development estimates

Group cashflow

Cohort's cashflow shows a combination of healthy contribution to profits and prudent working capital management resulting in incremental increases in cash balance enabling a well-covered (EPS based) annual dividend:

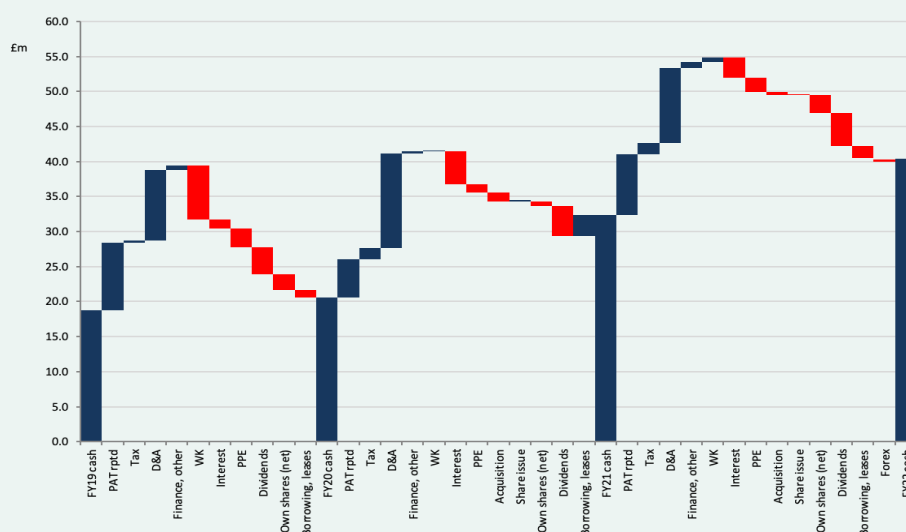
- FY19 cash balance £18.76m, dividend £3.46m, dividend cover 1.5x.
- FY20 cash balance £20.58m, dividend £3.85m, dividend cover 2.5x.
- FY21 cash balance £32.29m, dividend £4.25m, dividend cover 1.3x.
- FY22 cash balance £40.34m, dividend £4.68m, dividend cover 1.9x.

Cashflow FY20 – FY22

Year to 30 April (£m)	FY21	H1 22	H2 22	FY22
PAT rptd	5.50	(1.42)	10.11	8.69
Depreciation	3.47	1.90	1.99	3.89
Amortisation	10.10	3.39	3.48	6.87
Operating Cash Flow	20.93	4.52	17.28	21.81
Movement in working capital	0.00	4.62	(3.96)	0.67
Net cash from operations	16.22	8.85	10.68	19.52
PPE	(1.25)	(0.64)	(1.36)	(2.01)
Acquisition	(1.31)	(0.37)	0.00	(0.37)
Net cash used in investing	(2.54)	(1.01)	(1.36)	(2.37)
Net OpFCF	13.68	7.84	9.31	17.15
Dividends	(4.25)	(3.11)	(1.58)	(4.68)
Purchase own shares	(1.42)	(0.55)	(2.37)	(2.92)
Net cash from financing	(1.56)	(4.18)	(4.52)	(8.70)
Cash at year end	32.29	35.54	40.37	40.37

Source: Company data

Cashflow FY20 – FY22



Source: Company data, Equity Development estimates

Valuation considerations

Valuations in a group of Cohort's peers with exposure to the defence sector indicates a market cap-weighted average EV/EBITDA of 9.1x and PE of 18.0x

Peer group comparative valuation (1 year forward)

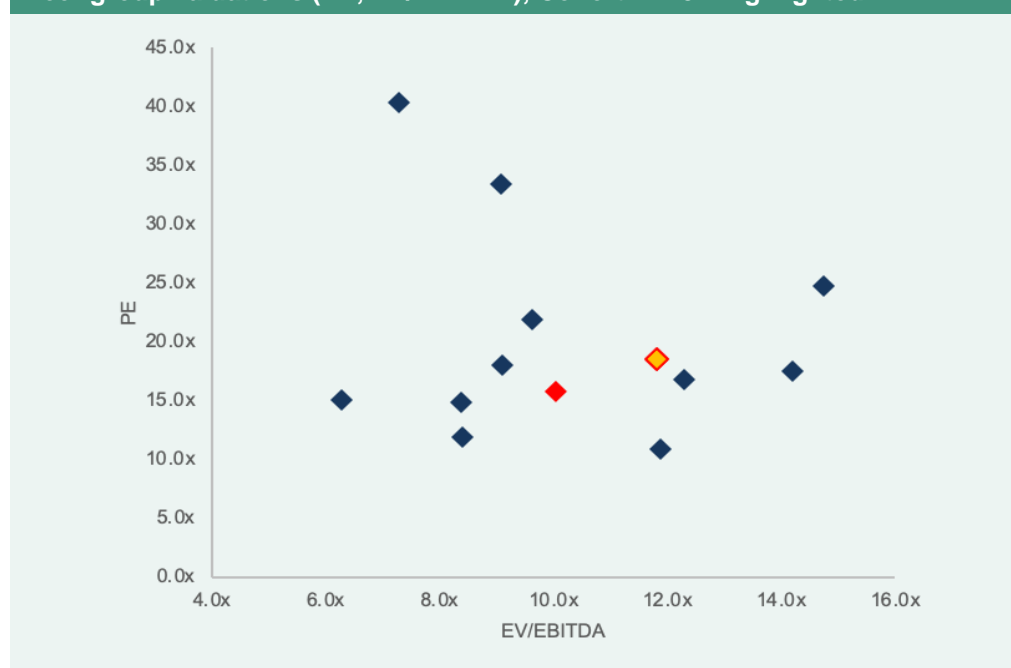
Company	Symbol	EV/Rev	EV/EBITDA	PE
Bae Systems	BA	1.2x	8.4x	14.8x
Smiths Group	SMIN	2.5x	14.2x	17.6x
Rolls Royce Holdings	RR	0.8x	9.1x	33.4x
Ultra Electronics Holdings	ULE	2.4x	9.6x	21.9x
Qinetiq	QQ	0.8x	6.3x	15.1x
Babcock	BAB	0.6x	11.9x	10.9x
Chemring Group	CHG	2.2x	12.3x	16.9x
Senior PLC	SNR	0.8x	7.3x	40.3x
Avon Protection	AVON	1.5x	N.M.	22.1x
Amedeo Air Force Plus	AA4	1.0x	N.M.	N.M.
Solid State	SOLI	1.3x	14.7x	24.8x
Concurrent Technologies	CNC	1.8x	8.4x	11.9x
TP Group	TPG	0.3x	25.3x	N.M.
Market cap. wtd. av.			9.1x	18.0x

Source: Company data, Yahoo Finance.

Cohort's FY23E EV/EBITDA and PE rating places it 'centrally' in the following distribution of peers (data above, negative multiples excluded):

- Indicated in **red**: Cohort FY23E rating.
- Indicated in **orange**: Cohort rating at ED fair value of 650p/share.

Peer group valuations (PE, EV/EBITDA), Cohort FY23E highlighted



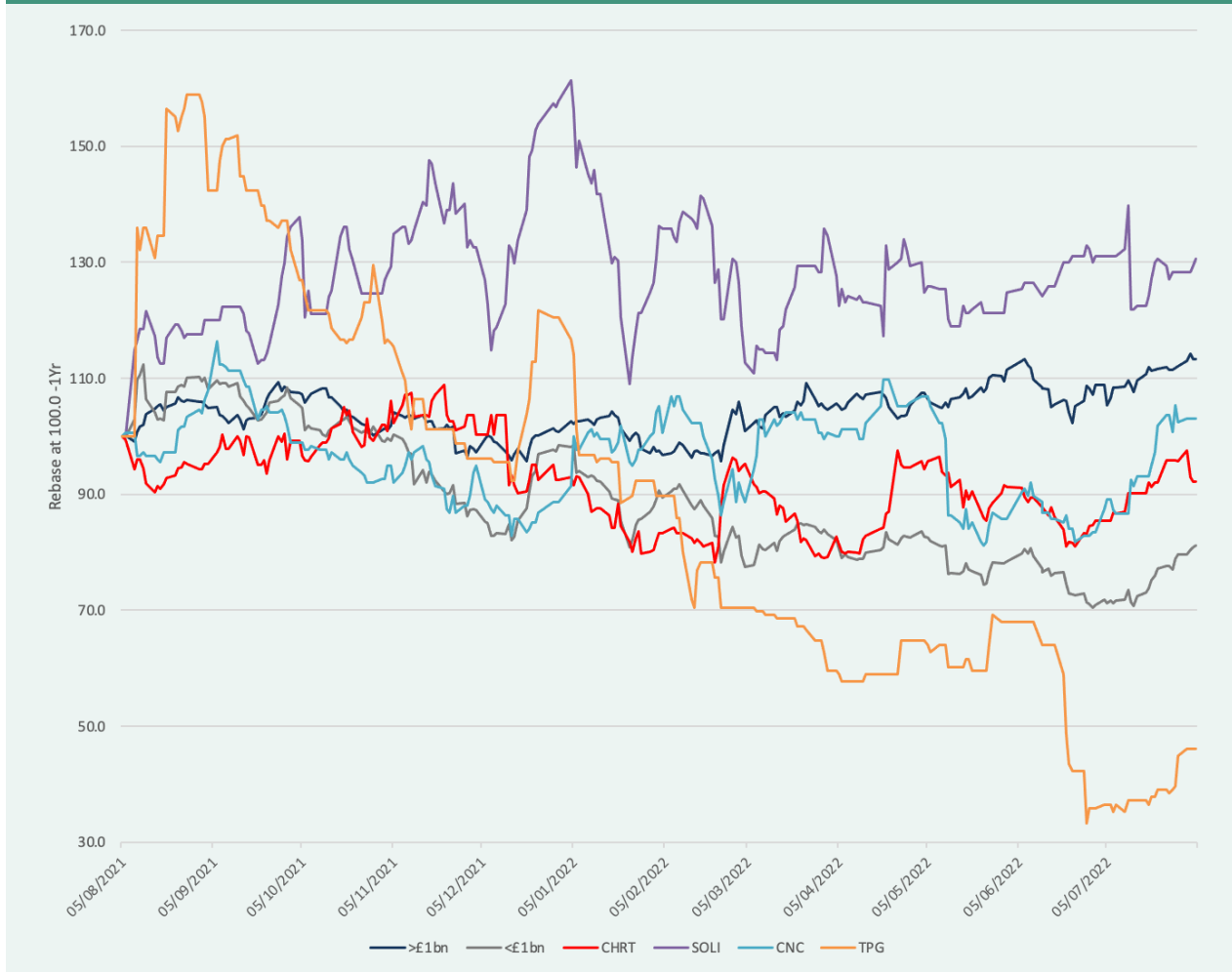
Source: Company data, Yahoo Finance, Equity Development estimates

Share price performance

The chart compares the year-to-date performance (rebased at 100.0) for companies considered peers. Compared to Cohort's performance (chart: red):

- Companies >£1.0bn market capitalisation: BAE Systems; Smiths Group; Rolls Royce; Ultra Electronics; Qinetiq; Babcock; Chemring Group. Performance +13.3%
- Companies <£1.0bn market capitalisation: Senior PLC; Avon Protection; Solid State; Concurrent Technologies; TP Group. Performance -18.9%
- Highlighted: Cohort PLC; Solid State (SOLI); Concurrent Technologies (CNC); TP Group (TPG). Performance: SOLI +30.5%; CNC +3.0%; TPG -53.8%.

Share price performance vs peers, 1 year to date



Source: Yahoo Finance, LSE. Updated 5.8.2022

FINANCIALS

Divisional revenue performance

Summary of divisional revenue and EBIT performance, and outlook to FY24.

Divisional revenue FY19 - FY24E						
Year to 30 April (£m)	FY19	FY20	FY21	FY22	FY23E	FY24E
Chess	10.7	25.2	28.6	16.9	28.5	30.5
EID	11.5	18.0	21.0	8.2	11.0	11.8
ELAC			8.3	21.5	22.0	23.1
MASS	38.9	41.1	39.5	38.4	40.0	42.0
MCL	21.7	15.1	18.0	21.7	25.0	26.3
SEA	38.3	31.7	28.0	31.0	34.0	35.7
Revenue	121.2	131.1	143.3	137.8	160.5	169.3
YoY						
Chess		136%	14%	-41%	69%	7%
EID	-40%	56%	16%	-61%	34%	7%
ELAC					2%	5%
MASS	4%	6%	-4%	-3%	4%	5%
MCL	25%	-31%	19%	21%	15%	5%
SEA	1%	-17%	-12%	11%	10%	5%
Revenue	8%	8%	9%	-4%	12%	5%
EBIT adj						
Chess	1.68	3.92	3.02	0.31	2.7	3.0
EID	1.36	3.11	4.83	0.86	1.5	2.7
ELAC			1.17	3.77	3.3	3.5
MASS	8.18	8.91	8.74	9.14	9.1	9.7
MCL	2.28	1.66	2.07	2.26	2.7	2.9
SEA	5.49	3.53	2.35	3.39	4.2	4.1
Central costs	(2.82)	(2.91)	(3.58)	(4.20)	(5.0)	(5.2)
EBIT mrg						
Chess	15.8%	15.6%	10.5%	1.9%	9.5%	10.0%
EID	11.8%	17.2%	23.1%	10.5%	14.0%	23.0%
ELAC			14.1%	17.5%	15.0%	15.0%
MASS	21.0%	21.7%	22.1%	23.8%	22.8%	23.0%
MCL	10.5%	11.0%	11.5%	10.4%	10.8%	11.0%
SEA	14.3%	11.1%	8.4%	10.9%	12.4%	11.5%

Source: Company data, Equity Development estimates

Summary performance

Summary of financial performance, FY19 – FY24E. We note:

- Stable gross margin outlook, base case 40.0% to FY24.
- EBITDA margin (adj.) stable at 13.6%.

Summary financial performance, FY19 - FY24E

Year to 30 April (£m)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	121.2	131.1	143.3	137.8	160.5	169.3
Gross Sum	43.0	51.0	53.4	56.6	64.2	69.4
<i>Margin</i>	35.5%	38.9%	37.2%	41.1%	40.0%	41.0%
COGS	(78.1)	(80.0)	(90.0)	(81.2)	(96.3)	(99.9)
EBIT Reported	5.9	10.7	7.8	11.1	16.4	18.7
EBIT Adjusted	16.2	18.2	18.6	15.5	18.5	20.7
<i>Margin</i>	13.3%	13.9%	13.0%	11.3%	11.6%	12.2%
EBITDA Reported	16.6	20.7	21.4	21.8	23.0	25.2
EBITDA Adjusted	17.3	20.9	22.1	19.4	22.0	24.2
<i>Margin</i>	14.3%	15.9%	15.4%	14.1%	13.7%	14.3%
Financial income	0.0	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.3)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)
PBT Reported	5.7	10.0	7.1	10.2	15.6	17.8
PBT Adjusted	15.9	17.5	17.9	14.7	17.7	19.8
Tax	(0.6)	(0.3)	(1.6)	(1.5)	(2.8)	(4.3)
PAT Reported	5.1	9.7	5.5	8.7	12.8	13.5
PAT Adjusted	15.3	17.2	16.3	13.1	14.9	15.5
EPS Reported Basic (p)	13.4	23.5	13.4	22.5	31.3	33.2
EPS Reported Diluted (p)	12.4	23.2	13.2	22.4	31.1	33.0
EPS Adjusted Basic (p)	33.6	37.1	33.6	31.1	35.3	36.9
EPS Adjusted Diluted (p)	33.4	36.7	33.3	30.9	35.1	36.7

Source: Company data, Equity Development estimates

Summary 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

Investment metrics

Key investment metrics: growth, ratios, valuation

	FY20	FY21	FY22	FY23E	FY24E
Growth & margins					
Revenue growth	8.2%	61.3%	77.3%	16.5%	5.5%
EBITDA (adj.) growth	20.5%	36.4%	22.9%	13.5%	9.9%
EBIT (adj.) growth	12.7%	30.3%	12.4%	19.5%	11.7%
FCF growth	31.8%	32.4%	26.2%	5.7%	9.4%
EBITDA (adj.) margin	15.9%	15.4%	14.1%	13.7%	14.3%
EBIT (adj.) margin	13.9%	13.0%	11.3%	11.6%	12.2%
PAT (rptd.) margin	7.4%	3.8%	6.3%	7.9%	8.0%
FCF margin	15.8%	14.6%	15.8%	14.4%	14.9%
Ratios					
Net debt/equity	6.2%	-3.1%	-13.1%	-5.5%	-6.7%
Net debt/EBITDA (adj.)	22.6%	-11.2%	-56.6%	-20.5%	-24.1%
Av. cost of debt	3.1%	2.6%	3.0%	5.4%	5.9%
Tax rate (rptd.)	3.0%	22.0%	15.1%	18.0%	24.0%
Interest cover	23.4x	24.2x	17.9x	20.7x	22.5x
Payout ratio	22.4%	26.0%	35.7%	36.8%	38.6%
ROCE	22.3%	21.9%	17.4%	21.2%	22.3%
Capex/sales	2.0%	0.9%	1.5%	3.1%	3.1%
Capex/Dep.	1.8x	0.6x	0.9x	2.5x	2.6x
Valuation					
PE (dil adj.)	14.6x	16.2x	17.4x	15.3x	14.7x
P/book	1.2x	1.2x	1.2x	1.1x	1.1x
FCF yield	5.7%	9.3%	9.9%	5.1%	8.8%
Div yield	1.8%	2.0%	2.3%	2.5%	2.7%
EV/rev	1.7x	4.1x	2.5x	1.5x	3.7x
EV/EBITDA (adj.)	10.6x	10.0x	11.4x	10.1x	9.1x
EV/EBIT (adj.)	12.2x	11.9x	14.3x	11.9x	10.7x
EV/FCF	10.7x	10.6x	10.2x	9.6x	8.8x
EV/cap employed	2.7x	2.6x	2.5x	2.5x	2.4x

Source: Company data, Equity Development estimates.



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