

25 May 2023

FY 23 trading update: ahead and unified

In a Trading Update for the year to 30 April 2023, Cohort plc expects performance to be slightly ahead of market expectations based on higher revenue. We note FY23 net funds reported at c.£15.0m - well ahead of ED estimated, at £4.6m - strong order intake of c.£218m (FY22: £186.7m), and a closing order book of £325m - at the Interim £304.2m. This underpins £145m, i.e. 83%, of our FY 24 estimated revenue, compared with 69% in FY23 (E). Overall, the update confirms the strength of momentum into the medium term with delivery projected to 2032.

Streamlined divisional reporting structure

Cohort has amalgamated its six subsidiary operations into two new reporting divisions. Subsidiaries EID, MASS and MCL comprise the new **Communications & Intelligence** division, equating to 42.7% of H1 23 revenue and 67.9% of H1 23 (adj.) EBIT (excluding centralised costs). Chess Dynamics, ELAC Sonar and SEA comprise the **Sensors & Effectors** division; 57.3% of H1 23 revenue and 32.1% of H1 23 (adj.) EBIT. The **new divisional reporting structure aligns** the activities of Cohort's subsidiaries whilst providing **clarity of overall strategic development** and earnings momentum.

FY 23 performance

In the Communications & Intelligence division, Cohort highlights the strength of UK MOD demand offsetting weakness in Portugal which impacted margins. The Sensors & Effectors operation delivered strong performance in all areas: ELAC Sonar for the Italian submarine programme and also improvement at Chess following a period of project-related issues.

FY 24 outlook

As illustrated at the recent Hiroshima G7 gathering, defence-related and geopolitical issues continue to dominate the headlines, notably focused on developments in the conflict in Ukraine and, including Taiwan, the Indo-Pacific region. Cohort foresees continued growth in demand for its **Sensors & Effectors** solutions offering the prospect of improved profitability as contracts reach fruition. In the **Communications & Intelligence** division, the expected realisation of delayed EID orders for the Portuguese Navy adds to the outlook, against the backdrop of normalised UK MOD orders.

Outlook maintained

At the Interim we raised our FY23 revenue outlook by 3% to £165m (+20%YoY) and maintained our (adj.) EBITDA outlook of £22.0m (+13.1%YoY). At this stage, our outlook - analysis below - remains unchanged, with the opportunity to review with full FY 23 results, and which indicates a FY23 EV/EBITDA of 8.9x; and for FY24 (E) 8.2x.

Our Fair Value remains at 650p/share.

Outlook to FY24					
Yr to 30 April (£m)	2020	2021	2022	2023E	2024E
Revenue	131.1	143.3	137.8	165.0	174.4
EBITDA (adj)	20.9	22.1	19.4	22.0	24.0
Pre-Tax Profit (adj)	17.5	17.9	14.7	17.5	19.9
EPS (adj, p)	36.7	33.3	30.9	35.0	36.0
DPS (p)	9.5	11.1	12.2	13.4	14.7
Net debt / (cash)	4.7	(2.5)	(11.0)	(4.6)	(8.6)
P/E	13.5x	14.9x	16.0x	14.2x	13.8x
EV/EBITDA	9.4x	8.9x	10.1x	8.9x	8.2x

Source: Company data, Equity Development estimates.

Company Data

EPIC	CHRT
Price (last close)	496p
52 weeks Hi/Lo	570p/384p
Market cap	£202m
ED Fair Value / share	650p
Proforma net cash	£4.6m

Share Price (p)



Source: LSE

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 design 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.

Next event:

FY23 results, late July 2023

Mike Jeremy (Analyst)

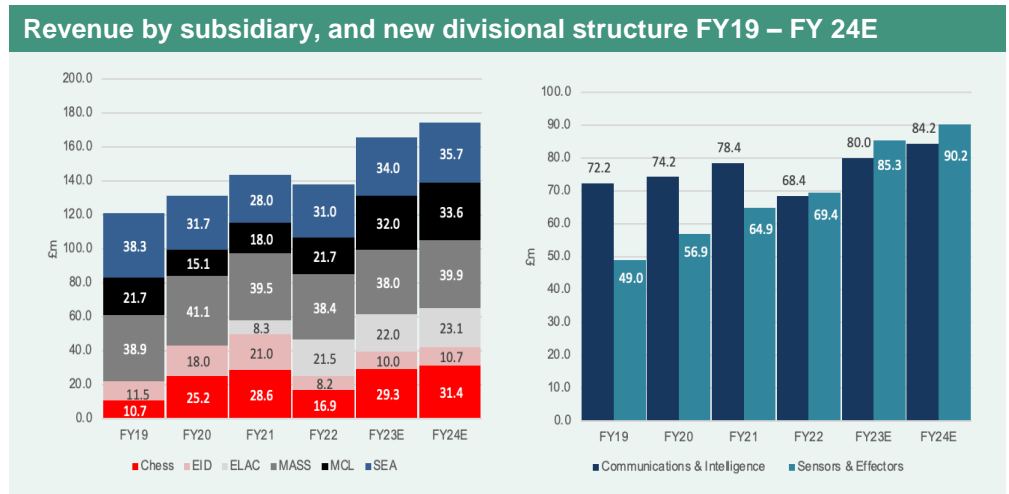
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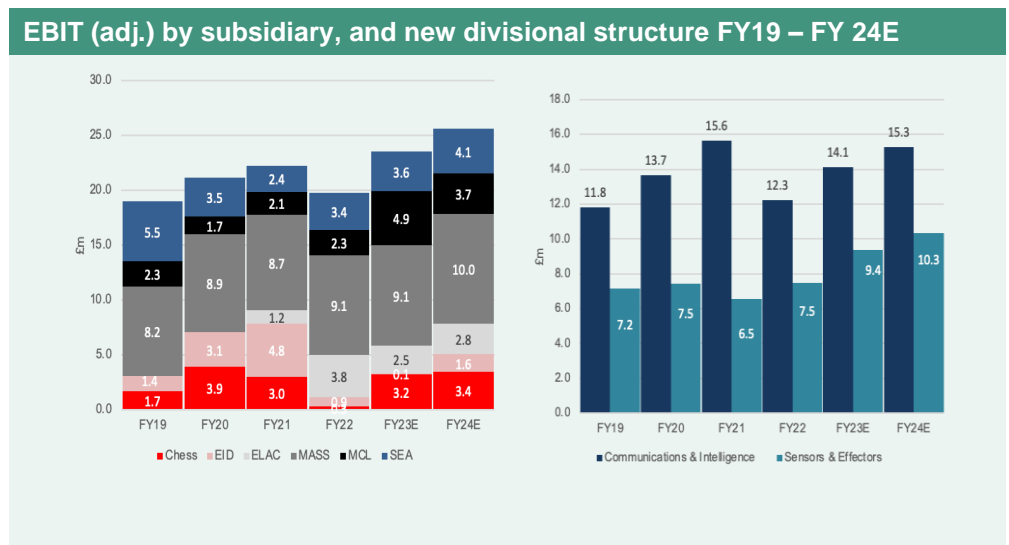
Streamlined divisional reporting structure

We illustrate the impact on earnings visibility of the new divisional alignment into **Communications & Intelligence** and **Sensors & Effectors** below, contrasting the prior six-subsidary structure with the two new divisions.



Source: Company data. Equity Development estimates. Data excludes centralised costs.

Similarly, below, we illustrate new divisional alignment at (adj.) EBIT level.



Source: Company data. Equity Development estimates. Data excludes centralised costs.

Summary of recent contracts

On 9 May, **SEA** (Systems Engineering & Assessment) received a MoD contract worth £26.2m under Phase 2 of a naval surface vessels upgrade, running to year-end 2026. This follows a number of contract extensions awarded in 2023:

- on 23 March **MASS** received a 2-year, £5.0m,
- extension to a UK MOD contract for software development, modelling and countermeasures services, on 5 April, a 5-year, £8.7m, extension to its longstanding UK MOD contract for countermeasures development;

- on 22 March **CHESS** received a contract extension, worth c.£11.0m, to its £20m July 2020 contract to supply surveillance equipment to a European customer.

Divisional amalgamation: summary

Revenue, EBIT (adj.) to FY24 (E)							
Revenue (£m)	FY19	FY20	FY21	FY22	FY23E	FY24E	
Chess	10.7	25.2	28.6	16.9	29.3	31.4	
ELAC	0.0	0.0	8.3	21.5	22.0	23.1	
SEA	38.3	31.7	28.0	31.0	34.0	35.7	
EID	11.5	18.0	21.0	8.2	10.0	10.7	
MASS	38.9	41.1	39.5	38.4	38.0	39.9	
MCL	21.7	15.1	18.0	21.7	32.0	33.6	
Inter-segment	0.0	0.0	0.0	(0.0)	(0.3)	0.0	
Communications & Intelligence	72.2	74.2	78.4	68.4	80.0	84.2	
Sensors & Effectors	49.0	56.9	64.9	69.4	85.3	90.2	
Revenue	121.2	131.1	143.3	137.7	165.0	174.4	
	YoY	8.4%	8.2%	9.3%	-3.9%	19.8%	5.7%
EBIT (adj) (£m)							
Chess	1.7	3.9	3.0	0.3	3.2	3.4	
ELAC	0.0	0.0	1.2	3.8	2.5	2.8	
SEA	5.5	3.5	2.4	3.4	3.6	4.1	
EID	1.4	3.1	4.8	0.9	0.1	1.6	
MASS	8.2	8.9	8.7	9.1	9.1	10.0	
MCL	2.3	1.7	2.1	2.3	4.9	3.7	
Central costs	(2.8)	(2.9)	(3.6)	(4.2)	(5.0)	(5.2)	
EBIT Adjusted	16.2	18.2	18.6	15.5	18.5	20.5	
Communications & Intelligence	11.8	13.7	15.6	12.3	14.1	15.3	
Sensors & Effectors	7.2	7.5	6.5	7.5	9.4	10.3	
EBIT Reported	5.9	10.7	7.8	11.1	13.8	18.5	
EBIT Adjusted	16.2	18.2	18.6	15.5	18.5	20.5	
	Margin	13.3%	13.9%	13.0%	11.3%	11.2%	11.7%

Source: Company data, Equity Development estimates.

Summary P&L

Cohort PLC, P&L, annual outlook to FY24

Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	131.1	143.3	137.8	165.0	174.4
Gross Sum	51.0	53.4	56.6	66.0	71.5
<i>Margin</i>	38.9%	37.2%	41.1%	40.0%	41.0%
COGS	(80.0)	(90.0)	(81.2)	(99.0)	(102.9)
Underlying op-ex	(32.8)	(34.7)	(41.1)	(47.5)	(51.0)
Amortisation intangibles	(7.4)	(10.1)	(6.9)	(3.1)	(3.0)
R&D credits	0.8	1.0	1.0	0.0	1.0
Forex	(0.1)	(0.4)	0.7	(1.6)	0.0
One-off charges	(0.8)	(1.3)	0.7	0.0	0.0
EBIT Reported	10.7	7.8	11.1	13.8	18.5
EBIT Adjusted	18.2	18.6	15.5	18.5	20.5
<i>Margin</i>	13.9%	13.0%	11.3%	11.2%	11.7%
Amortisation Intangibles	(7.3)	(10.1)	(6.9)	(3.1)	(3.0)
Depreciation PPE	(1.5)	(2.0)	(2.2)	(2.0)	(2.0)
Depreciation RoU	(1.2)	(1.5)	(1.7)	(1.5)	(1.5)
EBITDA Reported	20.7	21.4	21.8	20.4	25.0
EBITDA Adjusted	20.9	22.1	19.4	22.0	24.0
<i>Margin</i>	15.9%	15.4%	14.1%	13.3%	13.7%
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.8)	(0.8)	(0.9)	(1.0)	(1.0)
PBT Reported	10.0	7.1	10.2	12.8	17.4
PBT Adjusted	17.5	17.9	14.7	17.5	19.4
Tax	(0.3)	(1.6)	(1.5)	(2.7)	(4.2)
Reported tax rate	3.0%	22.0%	15.1%	21.0%	24.0%
<i>Tax rate % adjusted</i>	1.7%	8.7%	10.5%	15.4%	21.5%
PAT Reported	9.7	5.5	8.7	10.1	13.2
PAT Adjusted	17.2	16.3	13.1	14.8	15.2
Basic wtd. av. shares (m)	40.7	40.8	40.8	40.8	40.8
Diluted wtd. av. shares (m)	41.1	41.3	41.0	41.0	41.0
EPS Reported Basic (p)	23.5	13.4	22.5	24.9	32.5
EPS Reported Diluted (p)	23.2	13.2	22.4	24.7	32.3
EPS Adjusted Basic (p)	37.1	33.6	31.1	35.2	36.2
EPS Adjusted Diluted (p)	36.7	33.3	30.9	35.0	36.0

Source: Company data, Equity Development estimates.

Summary balance sheet

Cohort PLC, balance sheet outlook to FY24

Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
Fixed Assets					
Goodwill	42.1	43.7	50.1	50.1	50.1
Intangible assets	13.2	15.1	9.6	5.1	2.1
RoU assets	6.9	7.1	9.6	3.9	2.4
PPE net	12.1	12.5	12.3	15.3	18.6
Deferred tax, other	0.6	0.6	1.4	1.4	1.4
Sum Fixed Assets	74.9	79.0	83.1	75.9	74.6
Current Assets					
Inventories	11.5	12.9	22.8	22.6	22.9
Trade receivables	47.4	66.7	56.2	67.8	71.7
Derivatives	0.0	0.0	0.8	0.0	0.0
Cash, Equivalents	20.6	32.3	40.4	29.0	28.0
Sum Current Assets	79.5	111.9	120.1	119.4	122.5
Total Assets	154.4	190.9	203.2	195.2	197.1
Current Liabilities					
Trade payables	(31.0)	(50.3)	(54.0)	(56.5)	(58.3)
Derivative	(0.2)	(0.7)	(0.9)	0.0	0.0
Leases	(1.3)	(1.6)	(1.5)	(1.5)	(1.5)
Borrowings	(0.1)	(0.1)	(29.4)	(24.4)	(19.4)
Provisions	(1.5)	(2.8)	(8.9)	(8.0)	(8.0)
Other payables	0.0	(2.8)	(1.4)	(1.4)	(1.4)
Sum Current Liabilities	(34.1)	(58.2)	(96.0)	(91.8)	(88.5)
Total Assets less Current Liabilities	120.3	132.7	107.2	103.5	108.6
Long-term Liabilities					
Deferred tax	(2.8)	(2.7)	(1.4)	(1.3)	(1.3)
Leases	(6.2)	(6.0)	(8.6)	(9.0)	(9.0)
Borrowings	(25.2)	(29.8)	(0.0)	0.0	0.0
Provisions	(0.3)	(1.1)	(1.1)	(1.1)	(1.1)
Retirement benefit	0.0	(8.0)	(6.8)	(7.0)	(7.0)
Other	(4.0)	0.0	0.0	0.0	0.0
Sum Long-term liabilities	(38.5)	(47.6)	(18.0)	(18.4)	(18.4)
Total liabilities	(72.6)	(105.8)	(114.0)	(110.2)	(106.9)
Net Assets	81.8	85.1	89.2	85.1	90.2
Capital & Reserves					
Share Capital	4.1	4.1	4.1	4.1	4.1
Share Premium	29.7	30.0	30.5	19.3	16.2
Own shares	(1.6)	(1.1)	(3.3)	(3.3)	(3.3)
Share option reserve	0.8	0.9	1.0	1.0	1.0
Other	(3.6)	(2.4)	(1.4)	1.0	2.0
Retained earnings	46.1	47.8	53.1	57.7	65.0
Equity	75.5	79.3	84.0	79.8	85.0
Non-controlling interests	6.2	5.7	5.2	5.2	5.2
Net debt / (cash)	4.7	(2.5)	(11.0)	(4.6)	(8.6)

Source: Company data, Equity Development estimates.

Summary cashflow

Cohort PLC, cashflow outlook to FY24 E					
Year to 30 April (£m)	FY20	FY21	FY22	FY23E	FY24E
PAT rptd	9.7	5.5	8.7	10.1	13.2
Tax	0.3	1.6	1.5	2.7	4.2
Depreciation	2.6	3.5	3.9	3.5	3.5
Amortisation	7.4	10.1	6.9	3.1	3.0
Finance net	0.8	0.8	0.9	1.0	1.0
Derivatives/forex	0.1	0.4	(0.7)	0.0	0.0
Share-based payments	0.3	0.4	0.6	0.0	0.0
Provisions	(0.5)	(1.3)	0.1	0.0	0.0
Operating Cash Flow	20.7	20.9	21.8	20.4	25.0
(Increase)/Decrease inventories	2.0	0.6	(9.9)	0.2	(0.3)
(Increase)/Decrease in receivables	(4.6)	(13.1)	10.5	(11.6)	(3.8)
Increase/(Decrease) in payables	(5.1)	12.6	0.0	2.5	1.8
Movement in working capital	(7.7)	0.0	0.7	(9.0)	(2.4)
Cash generated by operations	13.0	20.9	22.5	11.5	22.6
Interest paid	(0.8)	(0.8)	(0.9)	(1.3)	(1.1)
Tax (paid)/received	(0.6)	(3.9)	(2.1)	(2.7)	(4.2)
Net cash from operations	11.6	16.2	19.5	7.5	17.2
Investing activities					
Interest received	0.0	0.0	0.0	0.0	0.0
PPE	(2.7)	(1.2)	(2.0)	(5.0)	(5.3)
Acquisition	0.0	(1.3)	(0.4)	(1.4)	0.0
Net cash used in investing	(2.6)	(2.5)	(2.4)	(6.4)	(5.2)
Net OpFCF	9.0	13.7	17.2	1.1	12.0
Financing activities					
Share issue	0.0	0.3	0.6	0.0	0.0
Dividends	(3.9)	(4.2)	(4.7)	(5.5)	(6.0)
Purchase own shares	(3.7)	(1.4)	(2.9)	0.0	0.0
Sale own shares	1.5	0.8	0.3	0.0	0.0
Borrowings	0.1	12.1	0.0	0.0	0.0
Repayments	(0.1)	(7.2)	(0.1)	(5.0)	(5.0)
Lease repayments	(1.1)	(1.9)	(1.9)	(2.0)	(2.0)
Net cash from financing	(7.2)	(1.6)	(8.7)	(12.5)	(13.0)
Net increase in cash	1.8	12.1	8.4	(11.4)	(1.0)
Forex	(0.0)	(0.4)	(0.4)	0.0	0.0
Cash at beginning of year	18.8	20.6	32.3	40.4	29.0
Cash at year end	20.6	32.3	40.4	29.0	28.0

Source: Company data, Equity Development estimates.

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