

Cohort plc

Final Results for
the Year Ended
30 April 2019

Overview and Divisional Highlights

Andrew Thomis, Chief Executive

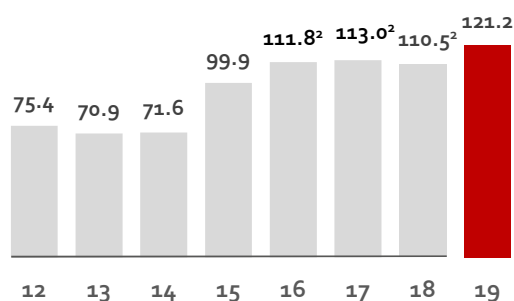


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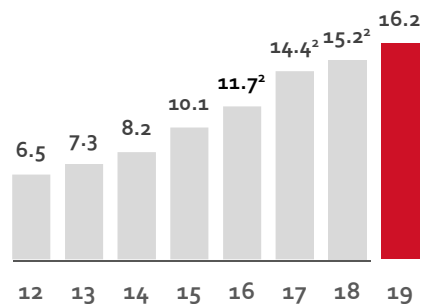
Financial Highlights

- Adjusted¹ operating profit £16.2m, up 6%
- Adjusted¹ earnings per share up 16% to 33.6p
- Group revenue of £121.2m, up 10%
- Group order book at 30 April 2019 of £190.9m (2018²: £103.8m)
- Lower than expected Group net debt of £6.4m (2018: net funds of £11.3m)
- Total dividend of 9.1p per share, up 11%

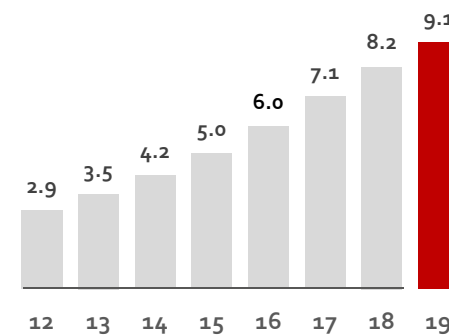
Revenue



Adjusted Operating Profit



Dividend per Share



¹ Before exceptional items, amortisation of other intangible assets, marking FX forward contracts to market and RDEC

² Restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

2019: A year of profit growth and record order intake

- Record order intake of £189.9m
- Strong initial contribution from Chess
- Good growth at MASS
- MCL profit contribution up on higher revenue
- SEA returned to growth following first half restructuring
- Weaker performance at EID: late orders and delivery slippage

Chess Highlights

	2018/19 (5 months)	2017/18
Revenue (£m)	10.7	-
Operating profit (£m)	1.7	-
Operating margin	15.8%	-

- Strong initial contribution
- Better than expected due to supply and support of Counter-UAV systems at Gatwick
- Continues to deliver on longer term naval and land programmes
- Good prospects going forward
- Expect Chess to grow in coming year

MASS Highlights

	2018/19	2017/18
Revenue (£m)	39.0	37.5
Operating profit (£m)	8.2	7.1
Operating margin	21.0%	18.9%

- Higher margin driven by improved EWOS revenue and completion of support contract
- Renewal of long term support contract with UK MOD secured
- Record order intake £97.0m – pipeline of export opportunities remains strong
- Renewal of the JFC contract now likely in 2020/21 (subject to competition)
- Expect more growth, with margin in 2019/20 back to high teens

MCL Highlights

	2018/19	2017/18
Revenue (£m)	21.7	17.4
Operating profit (£m)	2.3	2.1
Operating margin	10.5%	12.1%

- Revenue up 25%, driven by initial supply of submarine systems
- Lower margin a result of increased bought-in content
- Order intake of £26m, 1.2x revenue
- Strong pipeline of opportunities, particularly land EW systems
- Expect growth in 2019/20



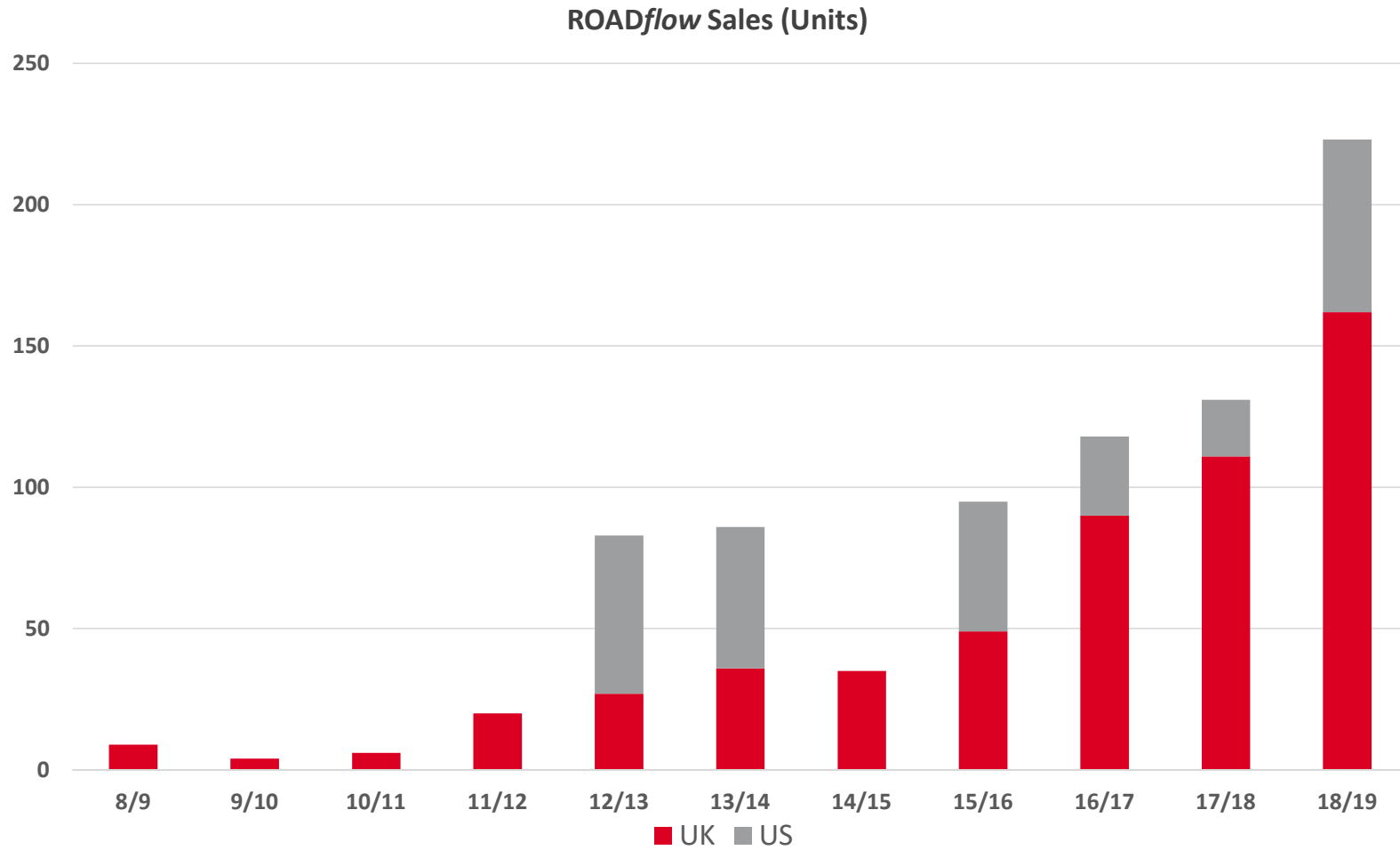
SEA Highlights

	2018/19	2017/18 (restated ¹)
Revenue (£m)	38.3	37.3
Operating profit (£m)	5.5	4.4
Operating margin	14.3%	11.8%

- Return to revenue and profit growth
- Profitability improvement due to better mix and lower overhead, following restructuring in H1
- Restructuring delivered £0.6m of saving in H2 (£1.0m per annum expected)
- Order intake was nearly £37m, higher than last year due to transport and support orders
- Order book of £31.1m underpins £12m revenue in 2019/20 (2018/19: £16m)
- Good order intake in first few months increasing order cover to nearly £17m
- Expect steady performance in coming year
- Key year to win long term naval orders, both export and UK

¹ 2017/18 restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

SEA Highlights – ROADflow



EID Highlights

	2018/19	2017/18 (restated ¹)
Revenue (£m)	11.5	18.3
Operating profit (£m)	1.3	4.3
Operating margin	11.8%	23.6%

- Result weaker than expected due to slippage of delivery into 2019/20
- Order intake of £18m including vehicle intercoms order for Middle East
- Net margin will return to mid/high teens in 2019/20 on higher expected revenue
- Follow on order to be secured for vehicle intercoms in the Middle East
- 2019/20 well underpinned and expect EID to return to growth

¹ 2017/18 restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

Financial Review

Simon Walther, Finance Director



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Income statement

Year ended 30 April 2019

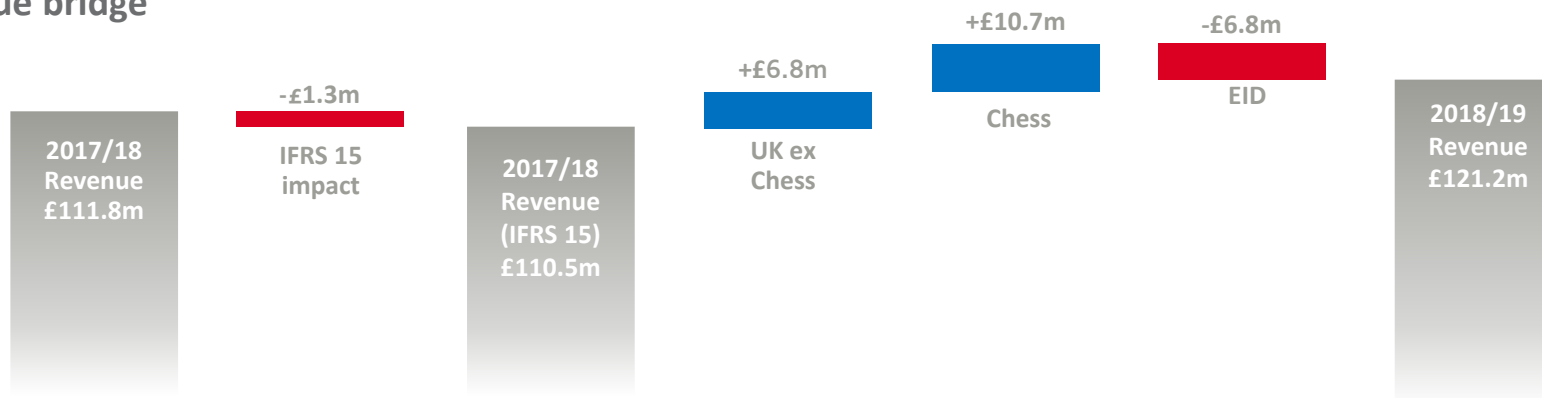
	2019		2018 (restated ²)	Variance
	£m		£m	%
Revenue	121.2		110.5	10%
Gross profit	42.3	34.9%	39.3	35.5%
Overhead	(26.1)		(24.1)	
Adjusted¹ operating profit	16.2		15.2	6%
Exceptional items	(1.5)		-	
Adjusted¹ profit before interest and tax	14.7		15.2	(3)%
Net finance cost	(0.3)		(0.1)	
Adjusted ¹ profit before tax	14.4		15.1	(5)%
Adjusted ¹ earnings per share (pence)	33.60		29.08	16%

¹ Before exceptional items, amortisation of other intangible assets, marking FX forward contracts to market and RDEC

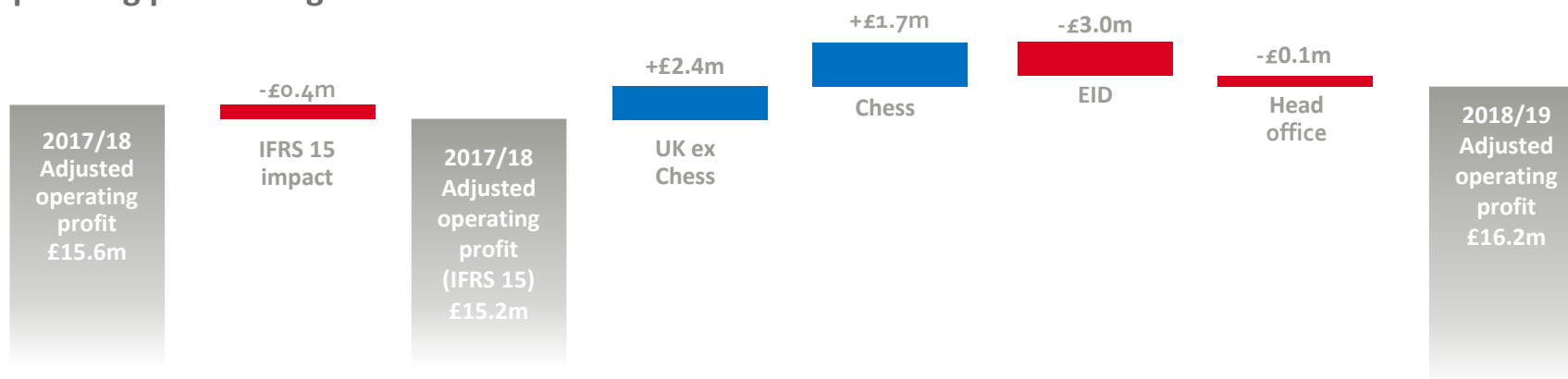
² Restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

2017/18 to 2018/19 revenue & profit bridge

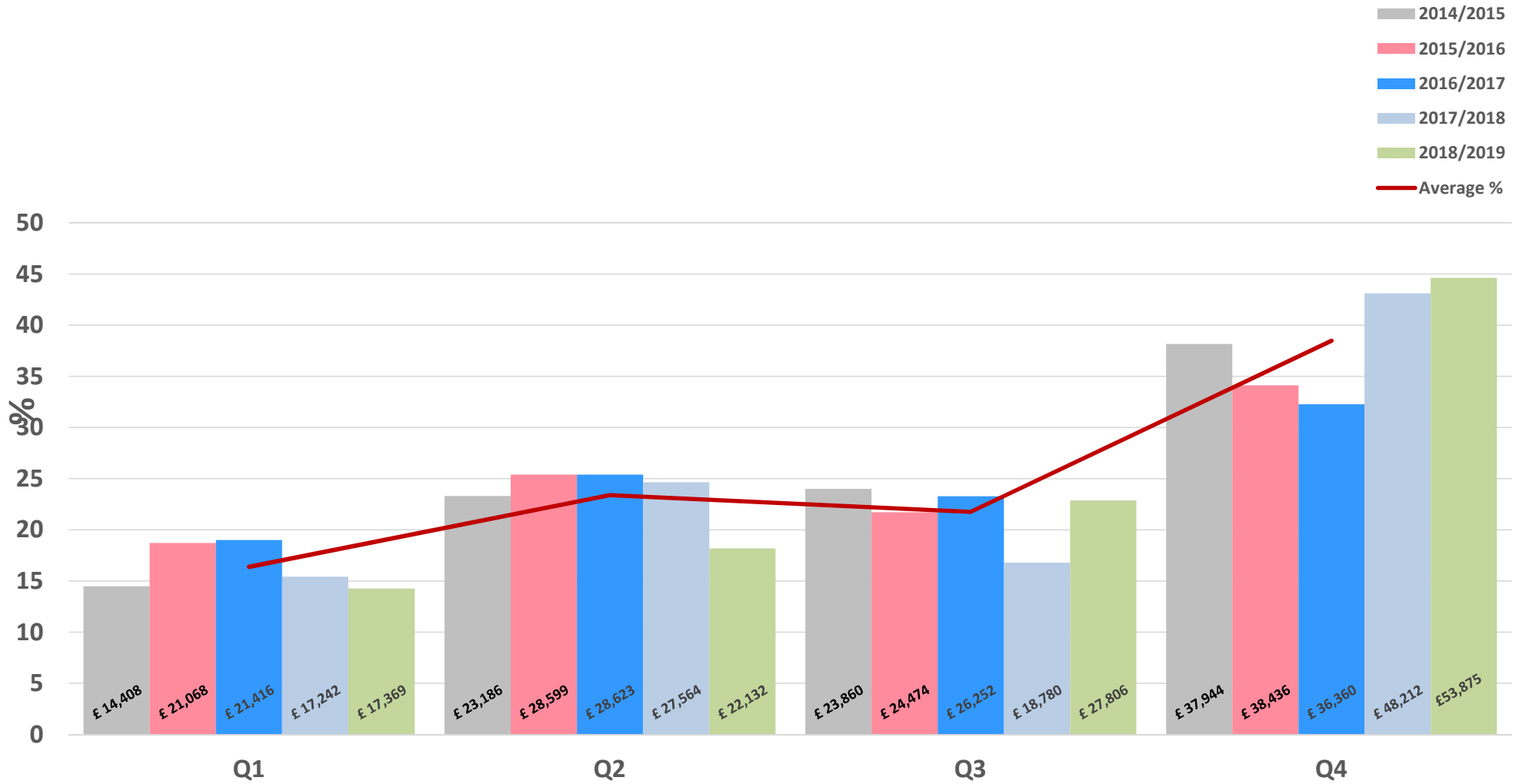
Revenue bridge



Operating profit bridge



Quarterly profile of Group revenue



Earnings per share

- 16% increase in adjusted earnings per share from 6% growth in adjusted operating profit
- Reconciled as follows:

	<i>Adjusted operating profit £m</i>	<i>Adjusted earnings per share pence</i>
2018 (restated ¹)	15.2	29.08
Dilution from share options	-	(0.10)
Tax (higher R&D credits in Portugal)	-	2.08
Chess (81.84% owned from 12 December 2018)	1.7	2.72
EID (80% owned)	(3.0)	(4.51)
100% owned businesses	2.3	4.33
	16.2	33.60

¹ Restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

Balance Sheet

- Goodwill test at full year
 - No impairment
- Other intangibles reflect contracts and prospects of Chess, EID, MCL & J+S (in SEA)
 - Anticipate amortisation of £7.4m in 2019/20, £6.6m in 2020/21, £3.5m in 2021/22 and around £1.5m in each of the two years thereafter
- Estimated £5.5m payable 2021/22 to acquire minority (including earn out) of Chess

Net Cash Flow

<i>Year ended 30 April 2019</i>	2019	2018 (restated ¹)
	£m	£m
Adjusted operating profit	16.2	15.2
Working capital	(5.0)	(0.9)
Depreciation and share based payments	1.4	1.4
Net funds inflow from operations	12.6	15.7
Acquisition of Chess (including costs of acquisition & net debt acquired)	(22.0)	-
Acquisition of MCL	-	(2.5)
Reorganisation of SCS	(0.5)	(0.6)
Restructuring of SEA	(0.5)	-
Acquisition of EID	-	(3.5)
Capital expenditure	(2.0)	(0.7)
Net sale/(purchase) of own shares	0.1	(0.8)
Dividends	(3.5)	(3.0)
Other (including tax, interest and FX)	(1.9)	(1.8)
Net funds (out)/in flow	(17.7)	2.8
Opening net funds	11.3	8.5
Closing net (debt)/funds	(6.4)	11.3

Net funds flow from operations 2015-2019 (5 years) is ~ £59m compared with adjusted operating profit of £68m over the same period

¹ Restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

Expected Cash Projection 2019/20



	<u>£m</u>
Opening net debt	(6.4)
Operating cash flow	9.4
Tax/capex/dividends	<u>(10.0)</u>
Closing net debt at 30 April 2020	<u>(7.0)</u>

Banking and Tax

- Banking facilities

- £18.4m cash at 30 April 2019
- £5m of £30m facility available (renewed with two banks until November 2022)
- €1.5m dividend from EID to be paid this calendar year

- Tax

- Headline tax charge of £0.6m (2018: charge of £2.1m)
- Underlying tax rate (applying to adjusted operating profit) was 15.1% (2018: 21.0%), lower due to R&D credit in Portugal
- UK tax credits (RDEC) now in operating profit (excluded from adjusted operating profit for comparability year on year). Explains higher reported tax rates than shown historically
- Rates going forward assumed at 16% (excluding reported RDEC) but still hold tax provisions

Outlook

Andrew Thomis, Chief Executive



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Progress against 2018/19 Strategic Opportunities

	In-year value	Long-term value	Achieved
UK MOD Strategic Systems	Low	High	✓
Middle East Typhoon EW Support	High	High	✓
Southeast Asia Thurbon sale	High	Low	✓
UK Submarine Tactical Intelligence	Low	High	✓
North Africa Vehicle Intercoms	High	Medium	✓

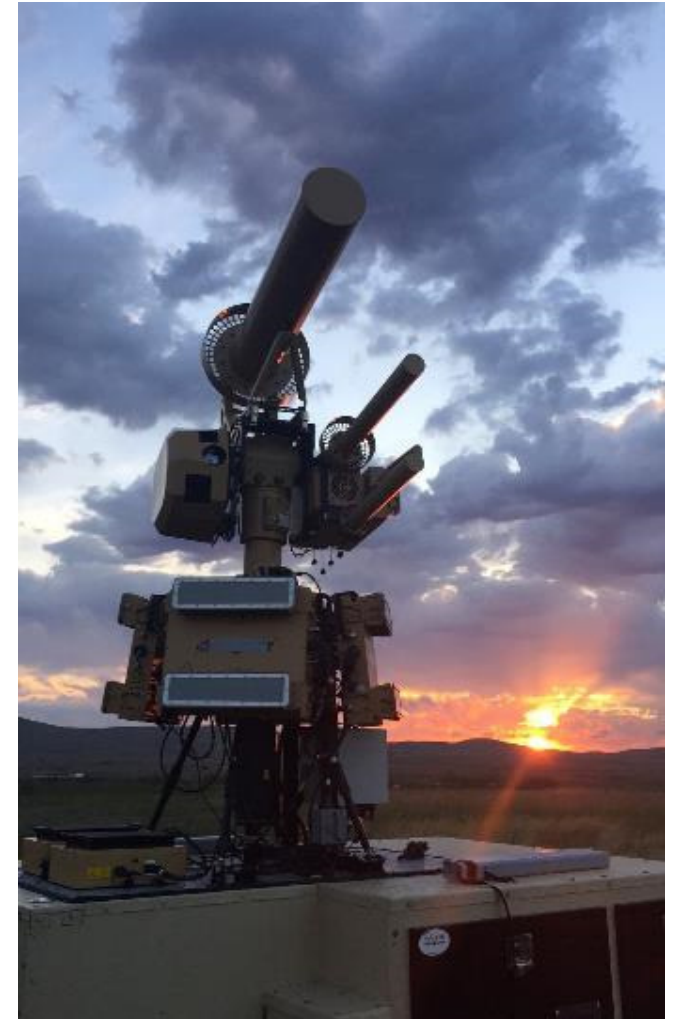
Market Prospects

Home markets

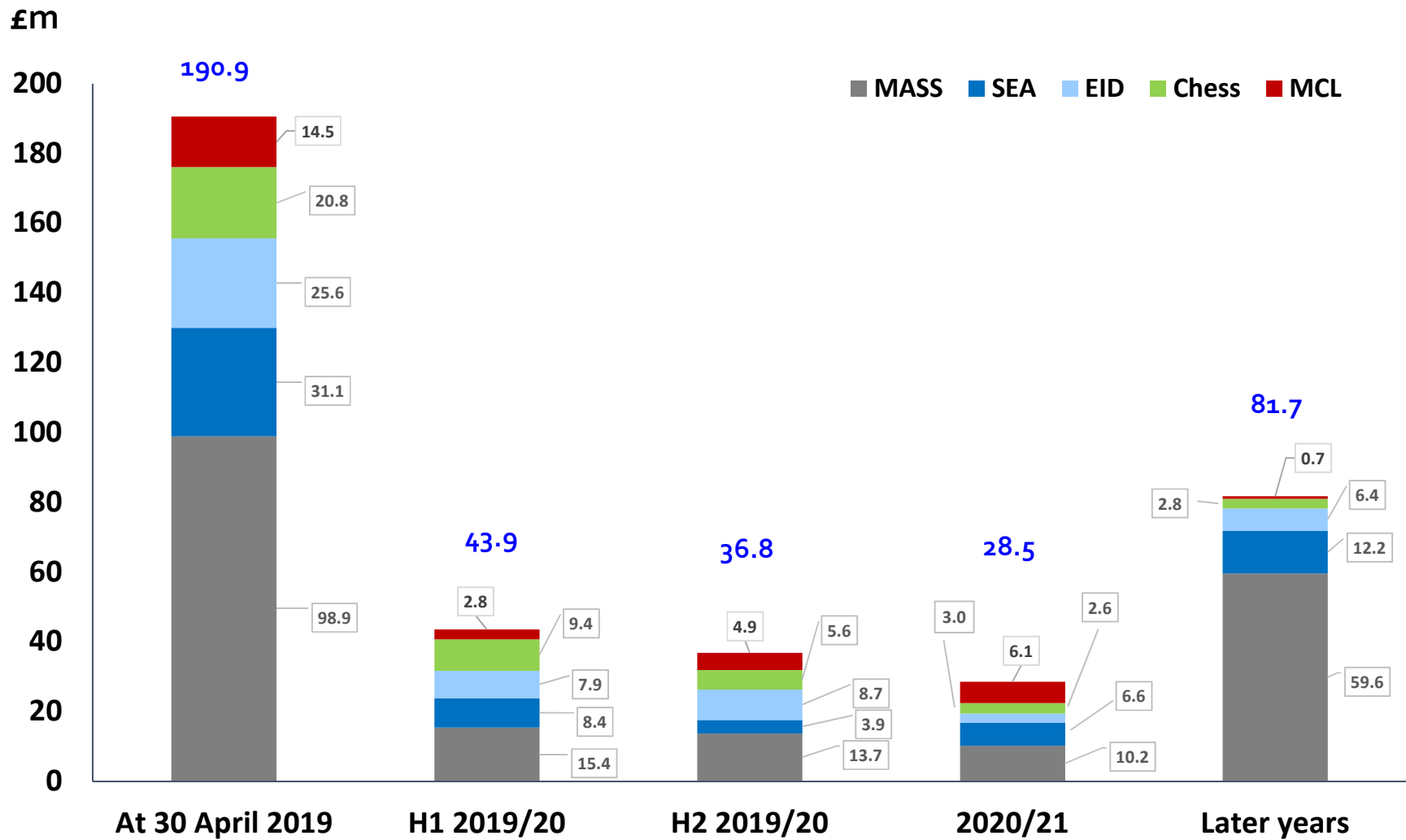
- UK MOD is less cash constrained but still a tight market
- Cohort's major programmes are stable, long term and operationally important
- Developing new markets including civil counter-drone and digital forensics
- Portuguese market stable

Export markets

- Exports up on 2017/18 (£32m vs £26m) due to increases at MASS, SEA and the introduction of Chess
- Strong regional demand including Middle East, SE Asia, Australia, North America and Europe
- Developing international partnerships – and new ones through Chess



Order Book – Underpinning 2019/20 and Beyond



Record order book – good underpinning for coming year

	30 April 2019 £m	To be delivered 2019/20 £m	30 April 2018 ¹ £m	Last year's to be delivered 2018/19 £m
Chess	20.8	15.0	-	-
EID	25.6	16.6	19.0	8.2
MASS	98.9	29.1	40.9	20.2
MCL	14.5	7.7	10.3	9.7
SEA	31.1	12.3	33.6	15.7
	190.9	80.7	103.8	53.8

- EID well underpinned in naval and land systems. Large order expected in Tactical division
- MASS well covered
- MCL – key UK land programmes to secure
- SEA – recent inflow has increased cover to £16.6m
- Overall, 55% of consensus external revenue on contract (46% last year) at 30 April 2019. Now up to 60% (53% last year) in late June.

¹ Restated for the impact of IFRS 15 'Revenue from Contracts with Customers'

Investing for organic growth

- Well-established private venture and customer-funded R&D activities. Self-funded R&D increased to £2.7m in 2019 (2018: £2.0m)
- Group priorities include:
 - Anti-Submarine Warfare (ASW)
 - Roadflow development
 - Next generation vehicle intercom system
 - Upgrades to naval communications system
 - Air Shield and Air Guard for airports
 - Machine learning for target discrimination



Good prospects for orders and organic growth

- Nearly £81m of orders deliverable in 2019/20, 55% of external forecast revenue
- Including recent wins order cover now 60%
- Another strong year of order intake expected
- Important order opportunities in the year ahead:
 - Export EWOS work at MASS to be renewed and extended
 - Chess and SEA to secure initial work on Canadian and Australian frigate programmes
 - Follow on order for vehicle intercoms for EID from Middle East customer
 - Orders from Portuguese Army for radios and communications equipment

2019/20 Outlook & Summary

- Growth expected across the subsidiaries:
 - MASS will continue to grow and lead as largest contributor to profits
 - EID expected to grow with net margin back to historical levels, large follow-on opportunity
 - Chess expected to grow, with good order prospects
 - MCL expected to grow. Key orders in UK land programmes to win
 - SEA has had a good start in order wins and expects to see steady performance
- Domestic defence markets have both challenges and opportunities
- Export and other markets also show promise
- Our level of success in large order opportunities will be important for our medium term performance
- Continued investment in growth, organically and by acquisition

"Strong base for coming year"

Appendix



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Cohort Business Model

- Subsidiaries enjoy a significant degree of operational autonomy in order to develop their potential fully:
 - Enables streamlined decision-making and focus on solving customer's immediate problems
 - Provides competitive advantage over larger rivals where the decision-making process can be more extended
 - Attractive model for high calibre employees
- Group operates a light-touch but rigorous financial and strategic control regime:
 - Cost-effective as avoids need for additional layers of management and a large HQ team

Being part of Cohort brings significant advantages compared to operating individually

Acquisition Strategy

- Continue to see opportunities to accelerate growth by making targeted acquisitions in the UK and overseas
- Stand-alone acquisitions
 - Likely to be operating in defence and security markets
 - Ready to join a larger public group
 - Growth potential and sustainable competitive advantage
- Bolt-in acquisitions
 - To be integrated with an existing group business
 - Closely-linked capabilities and/or customer relationships
- Disciplined and cautious approach – experienced team

Acquisition Track Record

- **2006:** **SCS** acquisition helped create the Group at IPO (SCS now fully integrated within other divisions)
- **2006:** **MASS** acquired for £13m
- **2007:** **SEA** acquired for £25m
- **2014:** Disposal of Space Division for £6.5m
- **2014:** **J+S** acquired for £12m (now fully integrated within SEA)
- **2014:** 50% **MCL** acquired. 100% acquired 2017. Final price £14m
- **2015/16:** **EID** acquired for £13.3m (80% ownership, balance retained by Portuguese Government)
- **2018:** **Chess** acquired for £20.1m (81.84%)



**Platforms
(39%)**

Fire control, surveillance and tracking systems for naval and land platforms as well as security applications at fixed installations.

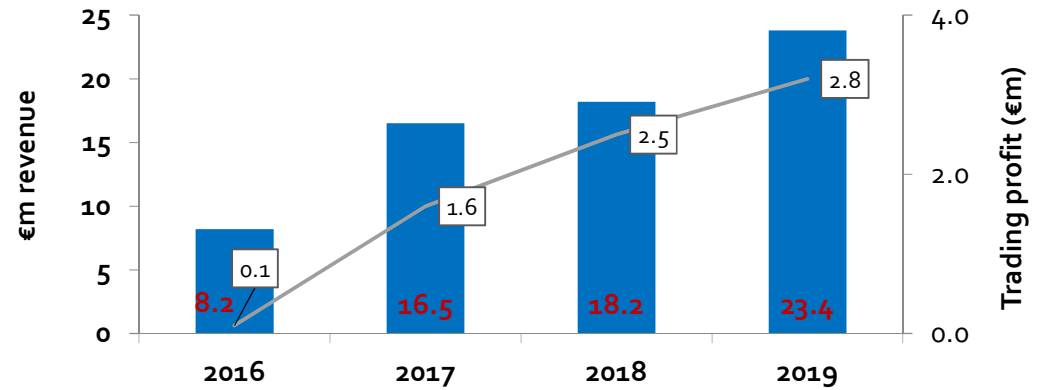
**Counter UAV
(52%)**

Counter UAV systems for military and civilian applications. Both fixed and platform mounted.

**Vison4ce
(9%)**

Provider of software for surveillance, tracking and fire control system hardware.

Trading History
(Under Cohort – 5 months ended 30 April 2019)





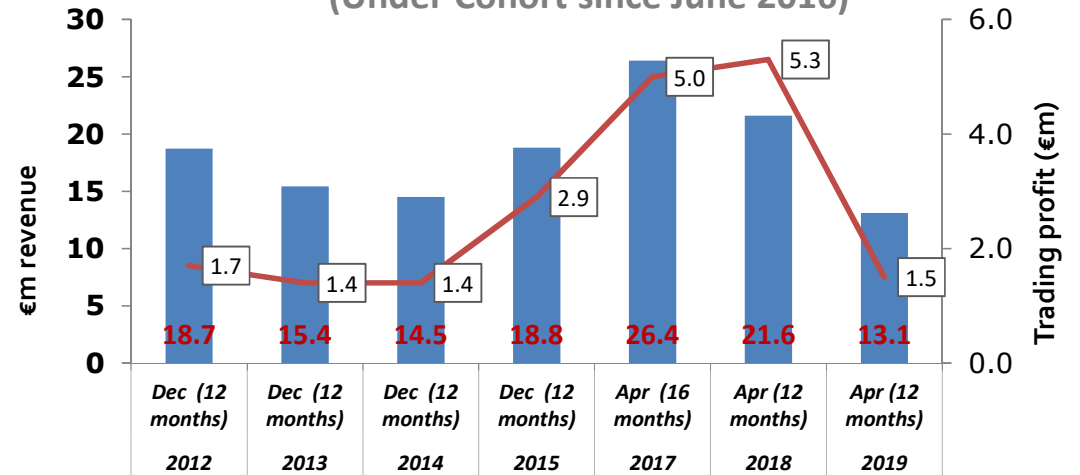
**Tactical Communications
(43%)**

EID designs and manufactures sophisticated, reliable Tactical Communication Products, Systems and Networks including Vehicular Intercoms, Personal Radios and Field Communications which are extensively used in a variety of military operations worldwide.

**Naval Communications
(57%)**

EID provides state-of-the-art, high performance Fully Integrated Information and Communications Systems, meeting the most stringent requirements of any type of warship.

**Trading History
(Under Cohort since June 2016)**





Electronic Warfare (EW) 30%

Mainly based in Lincoln, delivering EW Operational Support solutions (including Thurbon™) and training. Also operating overseas providing EWOS for combat aircraft and other platforms.

Strategic Systems 26%

Technical managed service offering to UK.

Cyber 20%

Mainly based in St Neots, delivery of solutions and services to security, other Government and commercial organisations.

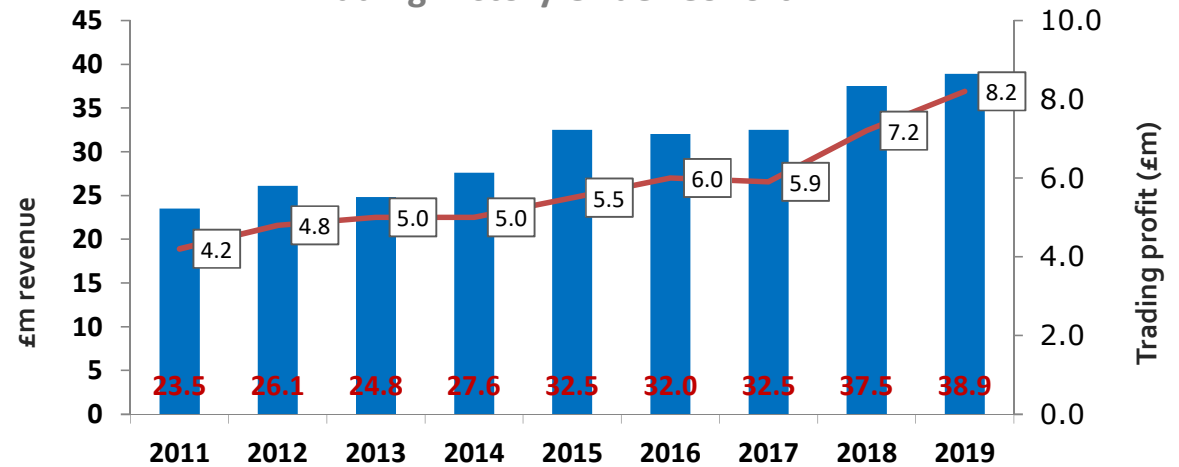
Information Management as a Service 8%

Design, delivery and support of secure systems for UK MOD, Government agencies, education and commercial organisations.

Training Support 16%

Design, planning, execution and support infrastructure for major military exercises for the UK and export customers.

Trading History Under Cohort





Electronic Warfare

34%

Equipment for the UK MOD for use on Astute submarines and in the British army, especially for Special Forces.

Communications

60%

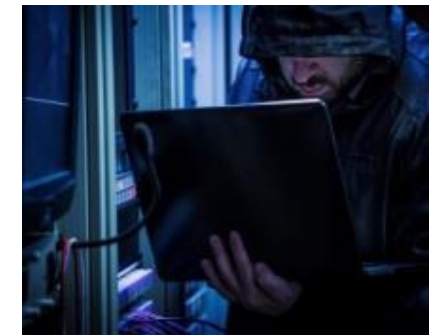
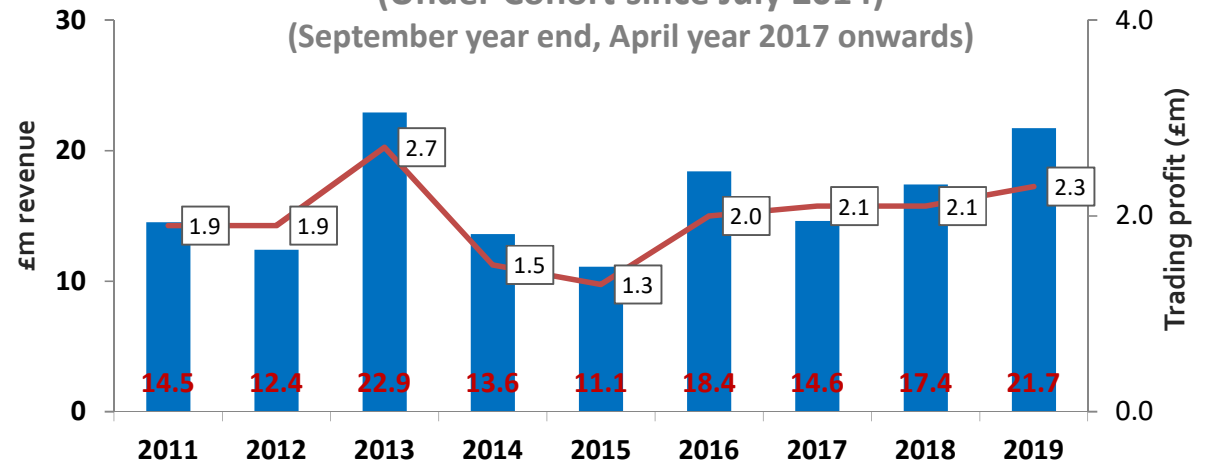
Communications equipment for the UK MOD and other customers, including the provision of advanced hearing protection systems

Surveillance and UAVs

6%

Supplying the UK Special Forces and regular army, other Government departments and overseas customers with covert surveillance equipment and systems. Includes specialist UAVs.

Trading History
(Under Cohort since July 2014)
(September year end, April year 2017 onwards)





**Defence
(71%)**

Based in Beckington, Bristol and Barnstaple delivering software, hardware and through life support to the UK MOD, prime contractors and overseas customers on land, air and sea. Also acts as a lead contractor on various research programmes for the MOD. Now includes former SCS divisions of Airworthiness and Capability Development.

**Transport
(24%)**

Based in Bristol delivering software and hardware solutions (based on sensors and strategic planning) to commercial customers including TfL, Network Rail and the Highways Agency.

**Offshore energy
(5%)**

Based in Aberdeen providing product and support services to the North Sea oil and gas industry.

Trading history under Cohort

