



Cohort plc

Results for the six months ended 31 October 2019

Acquisition of Wärtsilä ELAC Nautik GmbH

Highlights

Andrew Thomis, Chief Executive



Cohort plc

Financial Highlights

Half Year trading result
ahead of last year

(% like for like growth)

Revenue

£60.2m

+17%

(H1 18: £39.5m)

Adjusted
Operating Profit

£4.0m

+120%

(H1 18: £1.0m)

Adjusted EPS

6.94p

(H1 18: 1.99p)

Strong revenue cover for H2

Order intake

£77.2m

(H1 18: £45.6m)

Order book

£206.7m

+8%

(30/4/19: £190.9m)

Revenue cover

83%

(2018/19: 71%)

Modest net debt, similar to
year end 2018/19

Operating Cash flow

+£4.8m

(H1 18 : -£3.8m)

Net debt

£6.8m

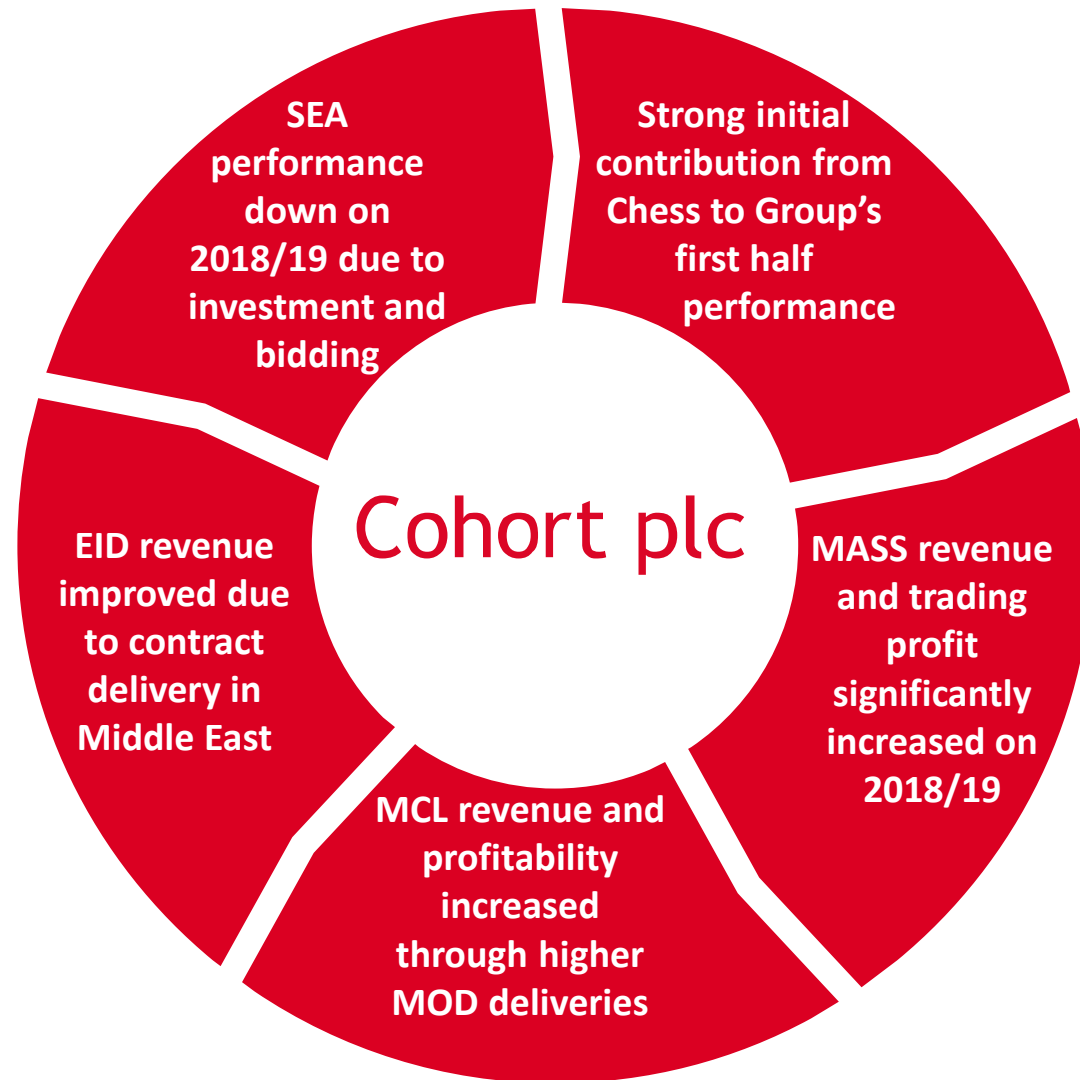
(30/4/19 : £6.4m)

Interim
Dividend

+12%

3.20p

Operational Highlights



Acquisition of Wärtsilä ELAC Nautik GmbH

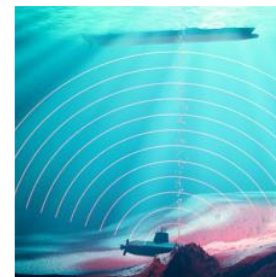
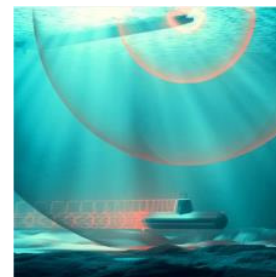
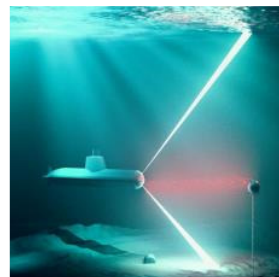
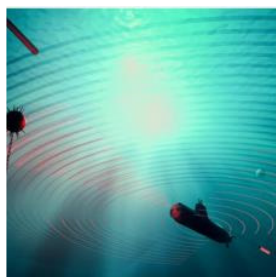


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Acquisition update

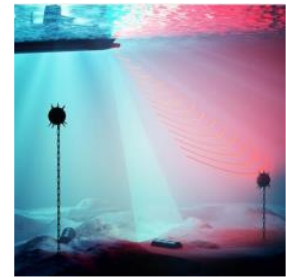
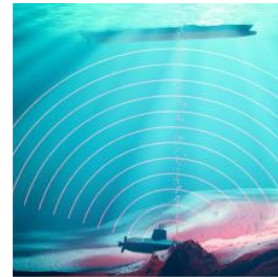
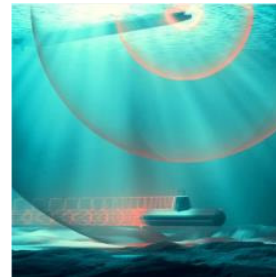
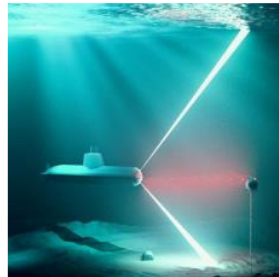
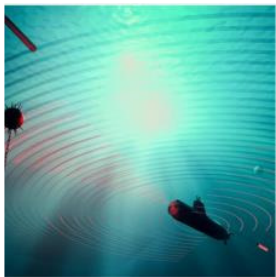
Acquisition of Wärtsilä ELAC Nautik GmbH (ELAC)

- Cohort's sixth standalone subsidiary
- In line with Cohort's stated strategy to accelerate growth by making targeted acquisitions of agile, innovative stand-alone businesses
- A leader in sonar systems for naval surface ships and submarines
- Headquartered in Kiel, Germany, employing c.120 people – management remaining in place
- Focused on defence export, with 80-90% revenue focused on naval markets, particularly SE Asia and Europe. Adds Germany as a domestic market
- Customers include Indonesian, Singaporean, Taiwanese, Dutch and Portuguese navies
- Completion expected by 30 June 2020



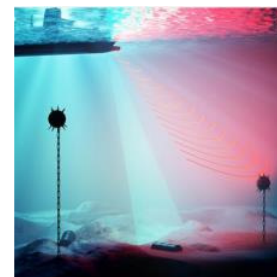
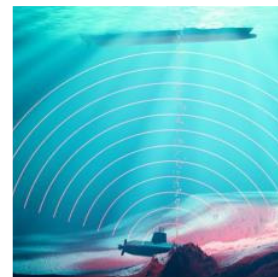
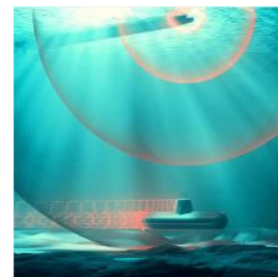
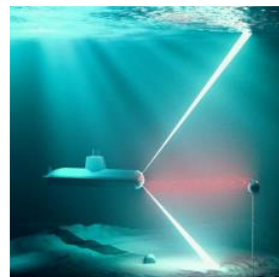
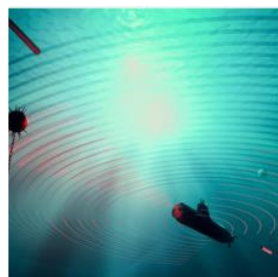
Reasons for and benefits of the acquisition

- Enhancing Cohort's maritime defence system offering with market leading technology in high-growth sector
- Opportunity to take advantage of strong submarine new build market, with growth in Asia and Europe
- Naval export market in APAC (excl. China) expected to reach US\$150bn spend in next 10 years
- Strong global aftermarket for sonar refit and upgrade on existing submarine and surface platforms
- Highly complementary expertise, capabilities and technologies with SEA with significant opportunities to cross-sell
- Complementary well diversified customer base, including new markets to Cohort



Financial terms and highlights of acquisition

- Headline price is €11.25m for 100% shares, no earnout
- Initial cash payment of €10.5m
- Funded from existing cash resources and £30m credit facility agreed in 2018
- Subject to satisfaction of regulatory requirements of German government
- ELAC results for financial year ended 2018 - €20.7m revenue, EBIT €1.4m, total assets of €21.7m
- Order back log as at 31 October 2019 €26.4m, of which c.€20m for delivery during 2020, with some long term orders to 2025
- Growth in revenues and profitability is expected for the year ending 31 December 2019
- Expected to be immediately earnings enhancing on completion



Financial and Divisional Review

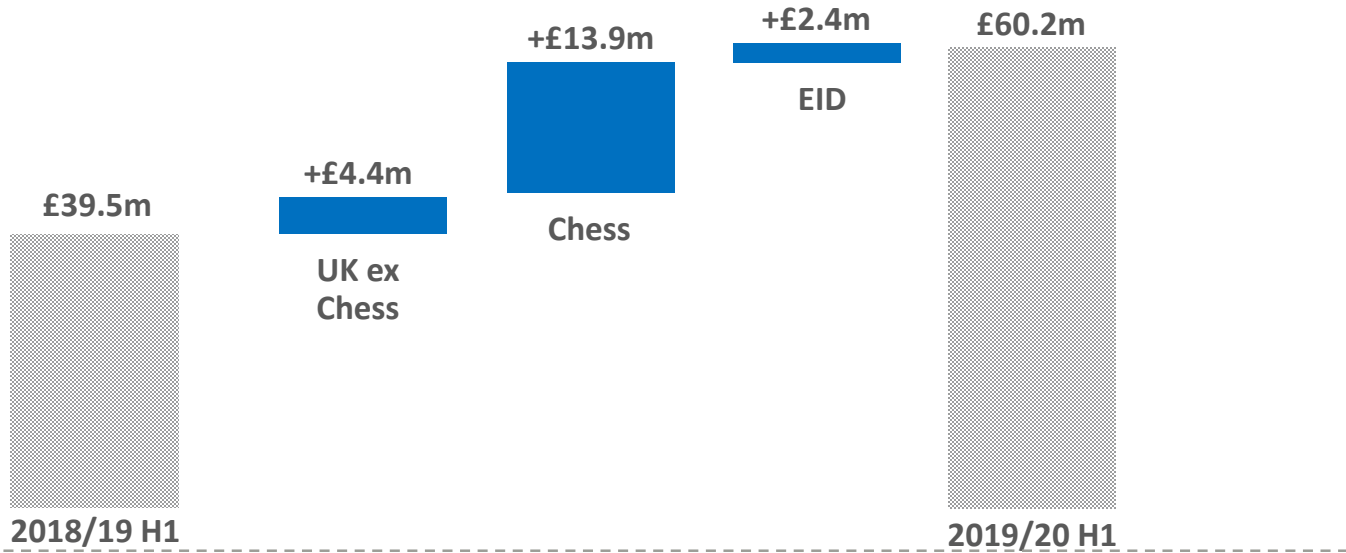
Simon Walther, Finance Director



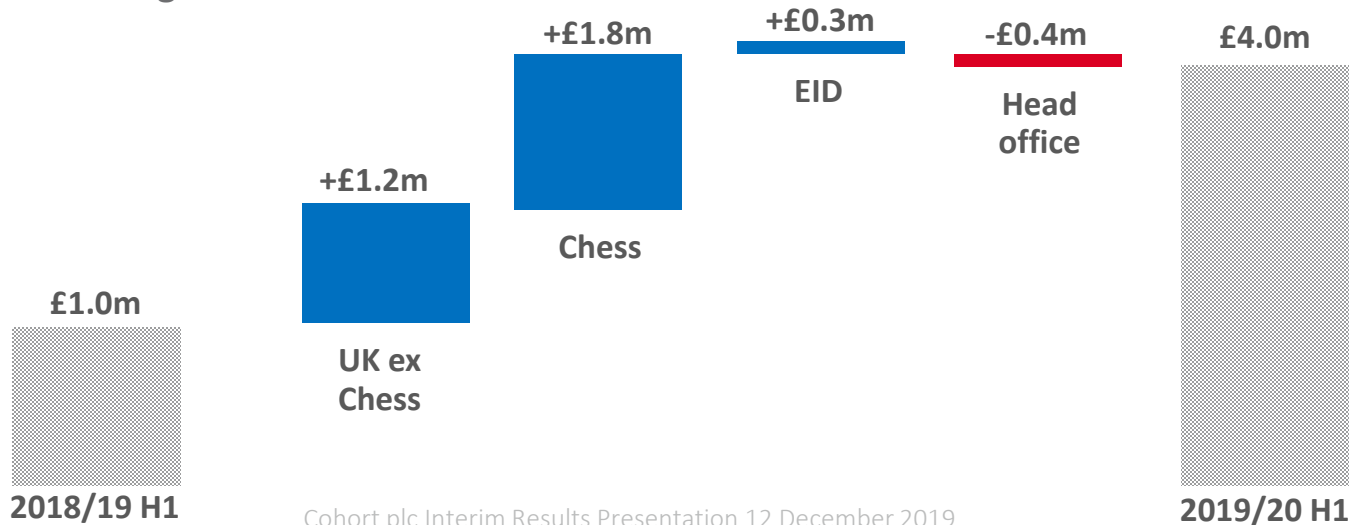
Cohort plc

Revenue & adjusted operating profit bridge

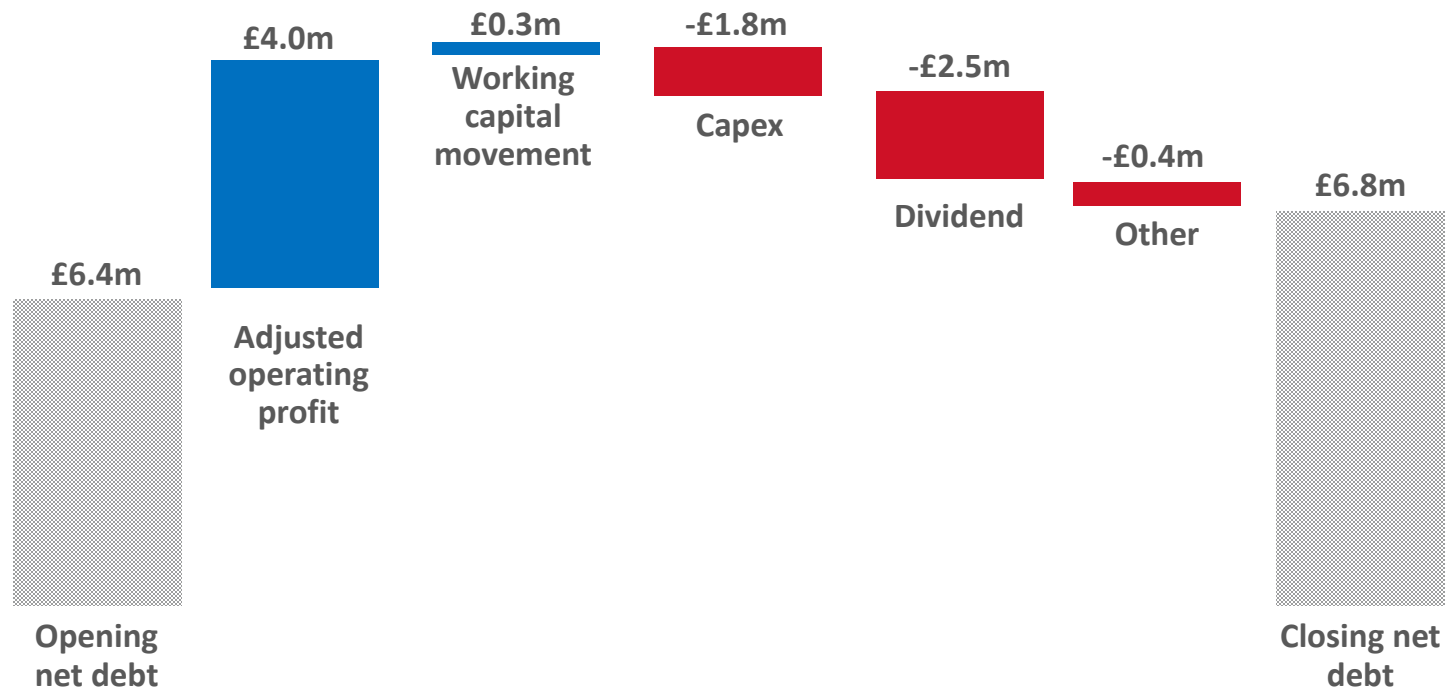
Revenue bridge



Adjusted operating profit bridge



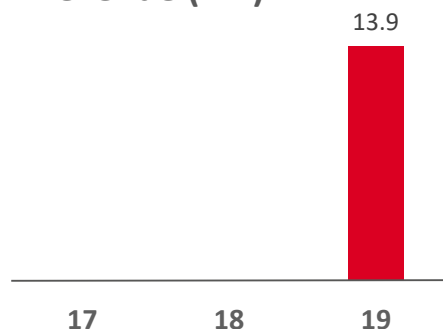
Cash bridge



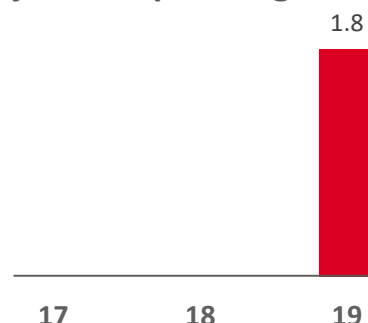
Divisional Highlights

CHESS Highlights

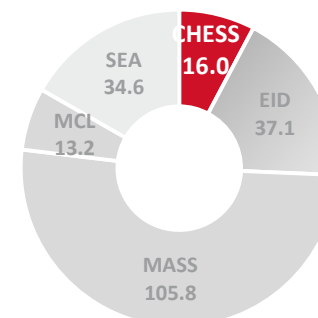
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



Financial

- Strong initial H1 contribution following December 2018 acquisition
- 2018/19 H1 trading profit of £1.0m on £10.3m of revenue

Operational

- Good contributions from counter-drone system to US and Norway
- Completed deliveries of naval systems for UK and export customers

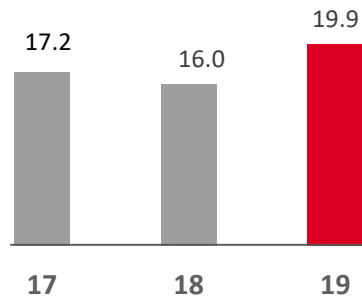
Outlook

- Good order book plus short term prospects support profitable second half
- Long term prospects for naval, land and counter-drone systems remain strong

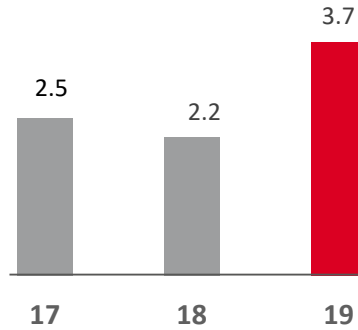
Divisional Highlights

MASS Highlights

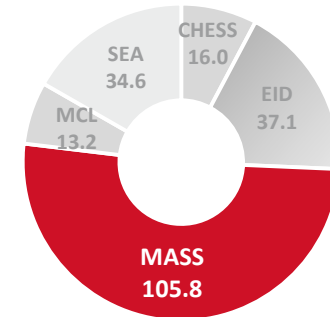
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



Financial

- Higher revenue driven by new electronic warfare operational support projects for export customers

Operational

- Significant order intake in 2018/19, contract renewals in H1 2019/20

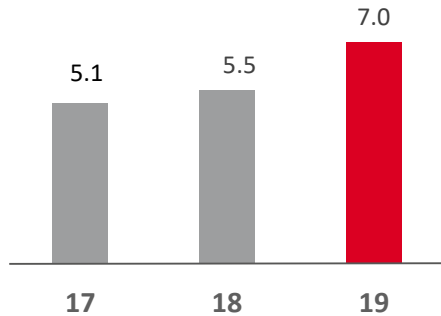
Outlook

- Operating margin expected to be maintained in H2
- Order book expected to be maintained into 2020/21

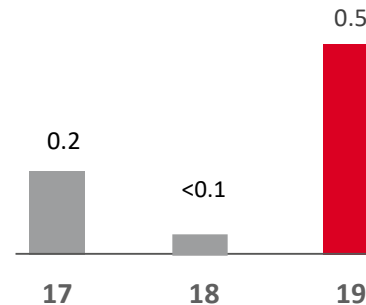
Divisional Highlights

MCL Highlights

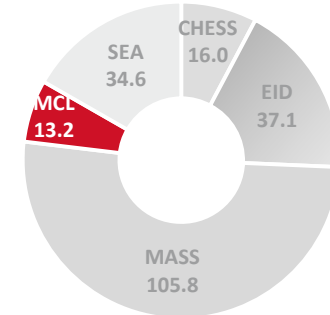
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



Financial

- Higher revenue and profit due to increased activity with UK MOD

Operational

- Increased activity with Royal Navy

Outlook

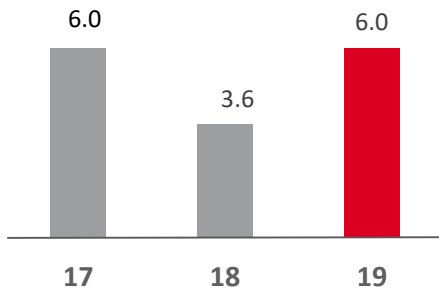
- Strong order book and good pipeline
- Expected to deliver stronger profit in 2019/20 H2; overall in line with 2018/19



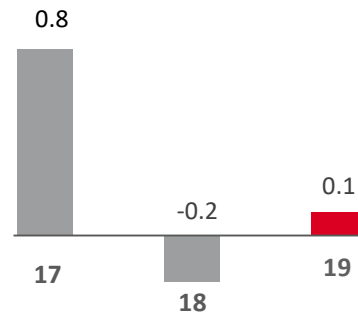
Divisional Highlights

EID Highlights

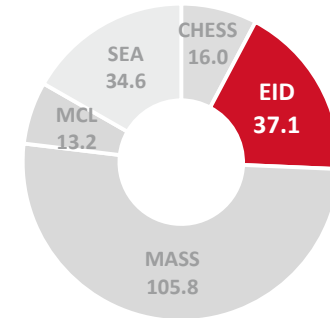
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



Financial

- Operating profit on back of increased revenue
- Lower net margin due to lower naval systems activity and investment in new vehicle intercom

Operational

- Higher revenue from Tactical (Land) division due to delivery of large order to Middle East customer

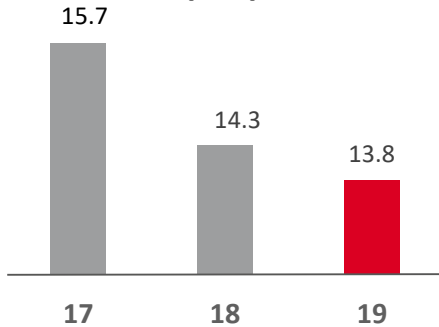
Outlook

- Strong order book underpins high percentage of expected H2 revenue
- Net margin expected to return to more appropriate levels
- Good prospects for securing significant orders in H2, giving a good base for 2020/21 and beyond

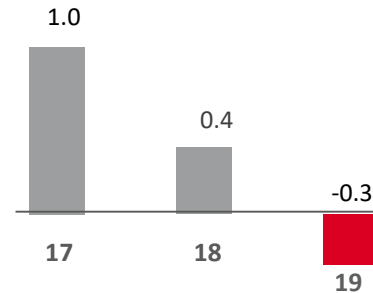
Divisional Highlights

SEA Highlights

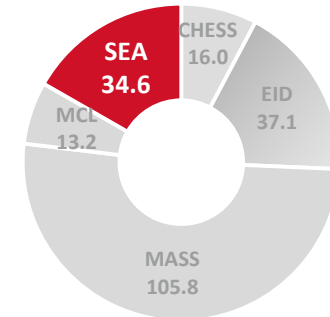
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



Financial

- Adjusted operating loss of £0.3m on slightly lower revenue of £13.8m
- Weaker profit performance due to investment in bidding activity for export and anti-submarine warfare Krait Defence System product development

Operational

- Successful sea trial of anti-submarine warfare with Portuguese Navy

Outlook

- Expected to deliver strong order intake in 2019/20 H2
- Reasonably well-underpinned and overall performance in 2019/20 expected to be profitable and similar to 2018/19

Other financial items

Income Statement

- Headline tax credit of £0.1m (2018: credit of £0.4m)

Balance Sheet

- No goodwill impairment
- Estimated £5.5m payable on or before 31 October 2021 to acquire minority (including earn out) of Chess

Banking Facilities

- £18.4m cash at 31 October 2019
- £30m facility of which £25m is drawn

Auditors

- KPMG LLP stepping down
- RSM UK AUDIT LLP appointed and will audit 30 April 2020 year end

2019/20 modelling guidance

Income Statement

- Underlying tax rate of 16% (excluding RDEC) but still hold tax provisions

Cash flow

- Operating cash inflow of £10m
- Tax/capex/dividends £8m
- Closing net debt at 30 April 2020 expected to be £7m

Balance Sheet

- 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

H2 strongly weighted like previous years

Outlook and prospects

Andrew Thomis, Chief Executive



Cohort plc

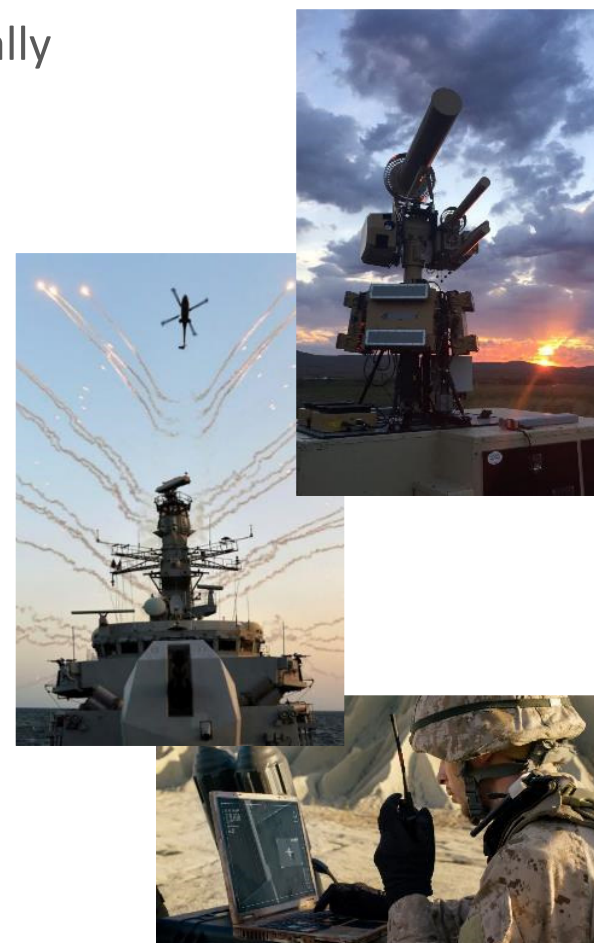
Market Prospects

Home markets

- General election not expected to materially impact UK defence spending in short term
- Cohort's major programmes are stable, long term and operationally important
- Developing new markets including civil counter-UAV and digital forensics
- Portuguese market stable

Export markets

- Exports strongly up on 2018/19 (£21.5m vs £6.8m) due to increases at EID, MASS, SEA and the introduction of Chess
- Strong regional demand including Middle East, SE Asia, Australia, North America and Europe
- Developing international partnerships – ELAC will reinforce and bring more of these

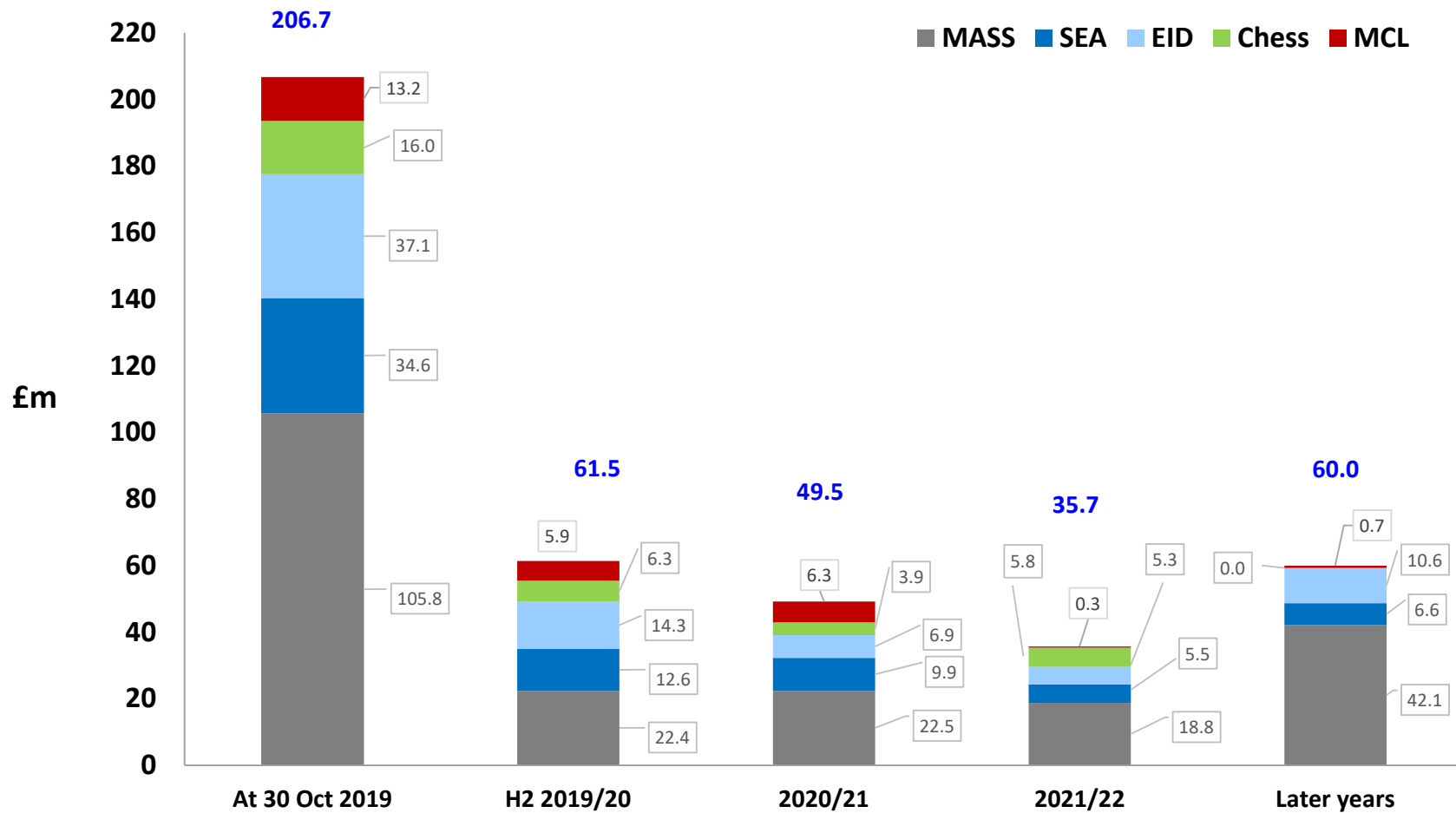


Investing for organic growth

- Well-established private venture and customer-funded R&D activities
- Group priorities include:
 - Anti-Submarine Warfare (ASW)
 - Next generation vehicle intercom system
 - Upgrades to naval communications system
 - Counter-UAV for airports
 - High-definition surveillance
 - Machine learning for target discrimination
 - Roadflow development
- ELAC will bring a new product range with a well-established development roadmap



Order Book



2019/20 Outlook & Summary

- Second half weighting expected again this year
- Order book stands at £206.7m, underpinning over £60m revenue in H2
- Cover of 83% of consensus forecast revenue for the full year
- Prospects for more orders in second half to further underpin this year and next year are good
- Acquisition of ELAC represents significant strategic step particularly in the naval sector

“Performance expected to be in line with market expectations”



Appendix



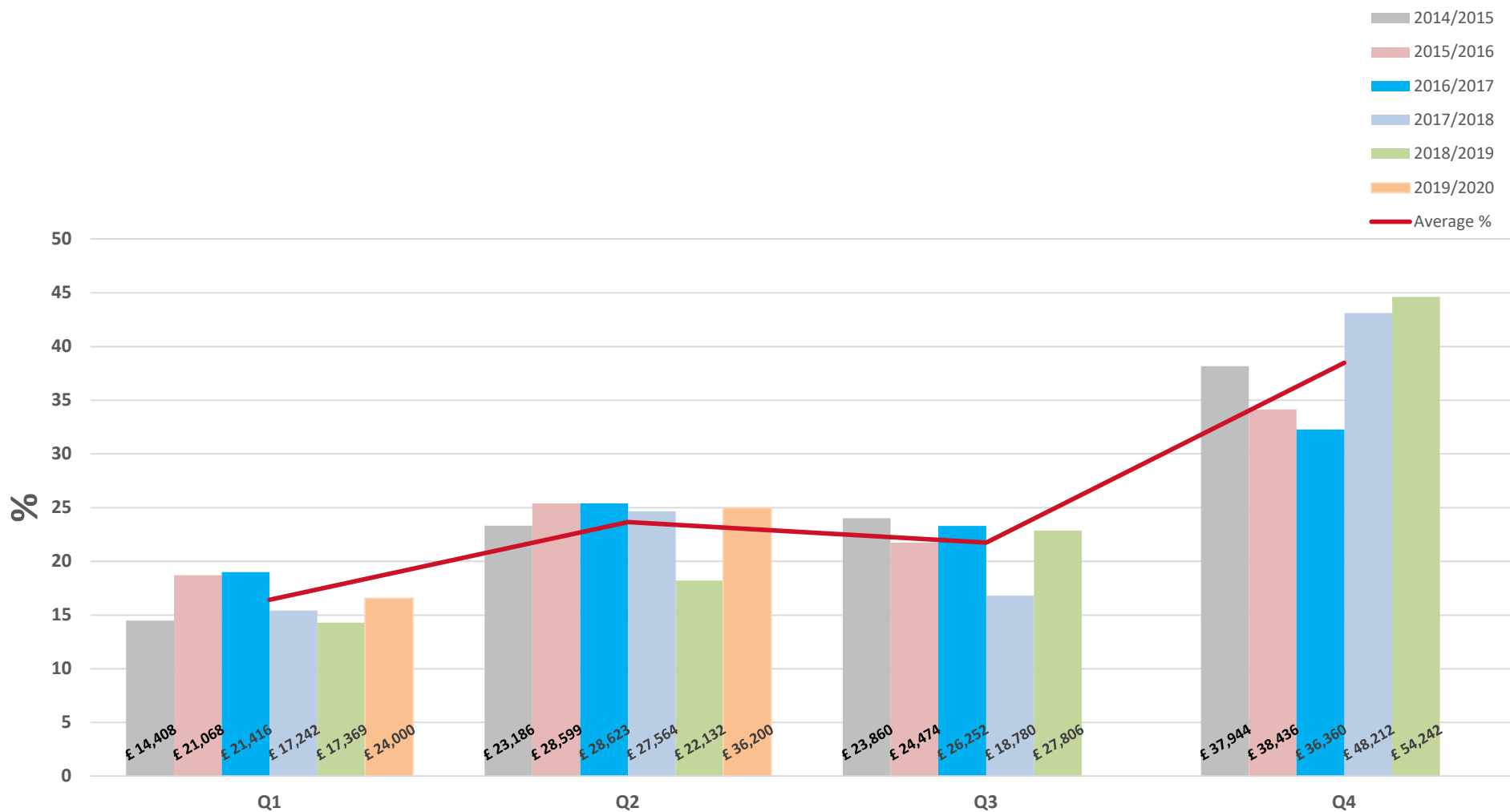
Cohort plc

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

Quarterly profile of Group revenue



Income statement

Half year ended 31 October 2019

	2019 to 31 October £m		2018 to 31 October £m	
Revenue	60.2		39.5	
Gross profit	21.0	34.9%	13.1	33.2%
Overhead	(17.0)		(12.1)	
Adjusted¹ operating profit	4.0		1.0	
Exceptional items	-		(0.5)	
Adjusted¹ profit before interest and tax	4.0		0.5	
Net finance cost	(0.4)		-	
Adjusted ¹ profit before tax	3.6		0.5	
Adjusted ¹ earnings per share (pence)	6.94		1.99	

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

Earnings per share

- 350% increase in adjusted earnings per share from 300% growth in adjusted operating profit
- Reconciled as follows:

	<i>Adjusted operating profit £m</i>	<i>Adjusted earnings per share pence</i>
2019	1.0	1.99
Weighted share capital movement	-	0.11
Tax (lower R&D in Portugal)	-	(0.49)
Chess (<i>81.84% owned</i>)	1.8	3.02
EID (<i>80% owned</i>)	0.3	0.45
100% owned businesses	0.9	1.86
	4.0	6.94

Net Cash Flow

<i>Six months ended 31 October 2019</i>	2019	2018
	£m	£m
Adjusted operating profit	4.0	1.0
Working capital	(0.4)	(4.7)
Depreciation and share based payments	0.7	0.6
Net funds inflow / (outflow) from operations	4.3	(3.1)
Capital expenditure	(1.8)	(0.4)
Net purchase of own shares	(0.7)	-
Dividends	(2.5)	(2.3)
Other (including tax, interest and FX)	(0.3)	(0.8)
Net funds (out)/in flow	(0.4)	(6.6)
Opening net funds	(6.4)	11.3
Closing net (debt)/funds	(6.8)	4.7

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%)
- **2019/20:** **ELAC Nautik** acquisition agreed for €11.25m (subject to conditions)



**Platforms
(39%)**

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

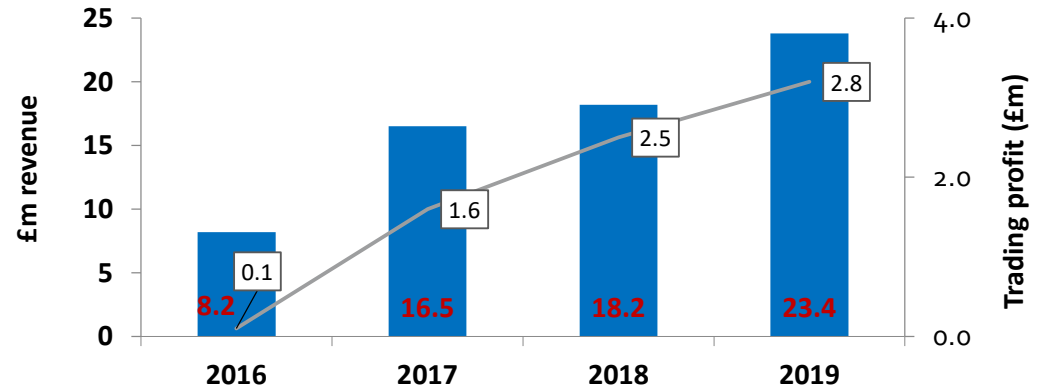
**Counter UAV
(52%)**

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)





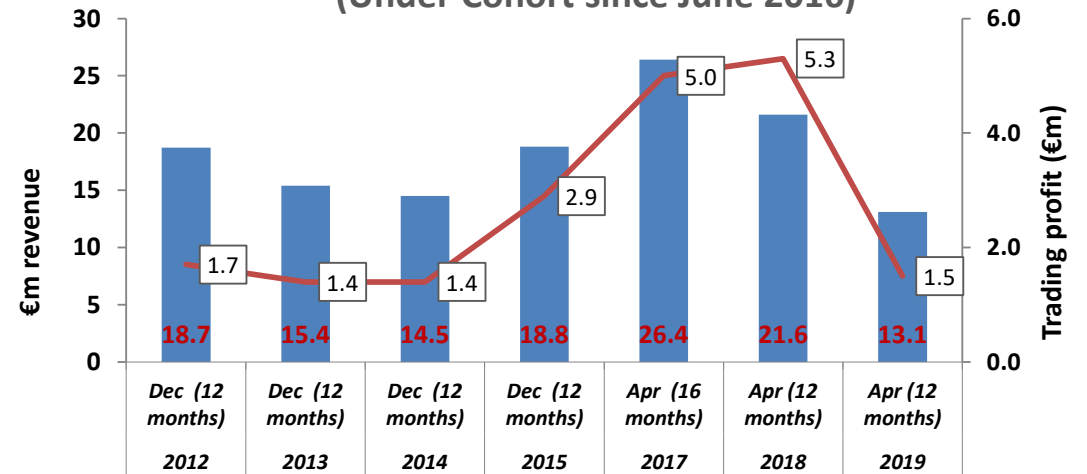
**Tactical Communications
(43%)**

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.

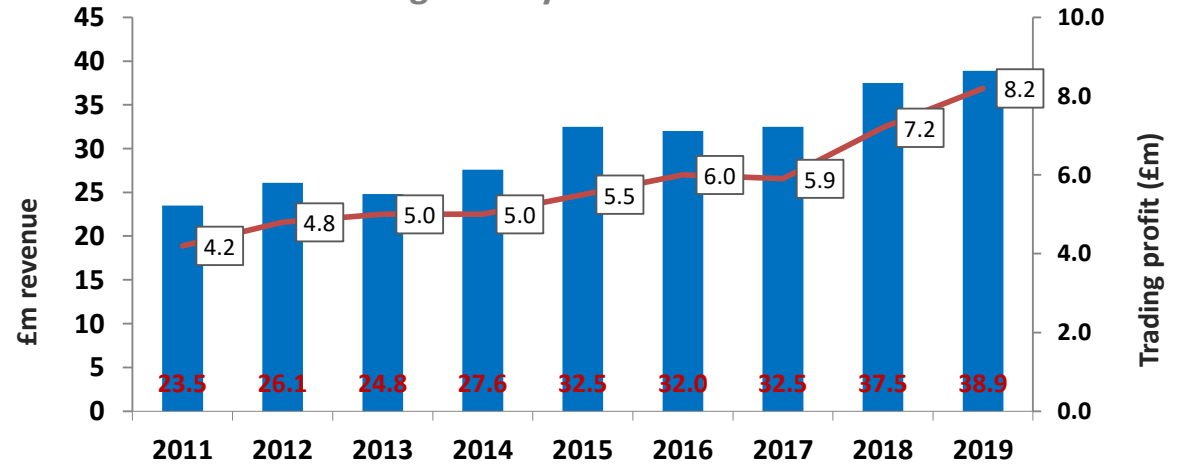
Information Management as a Service 8%

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



Cohort's Subsidiaries - An Overview



Electronic Warfare

34%

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

Communications

60%

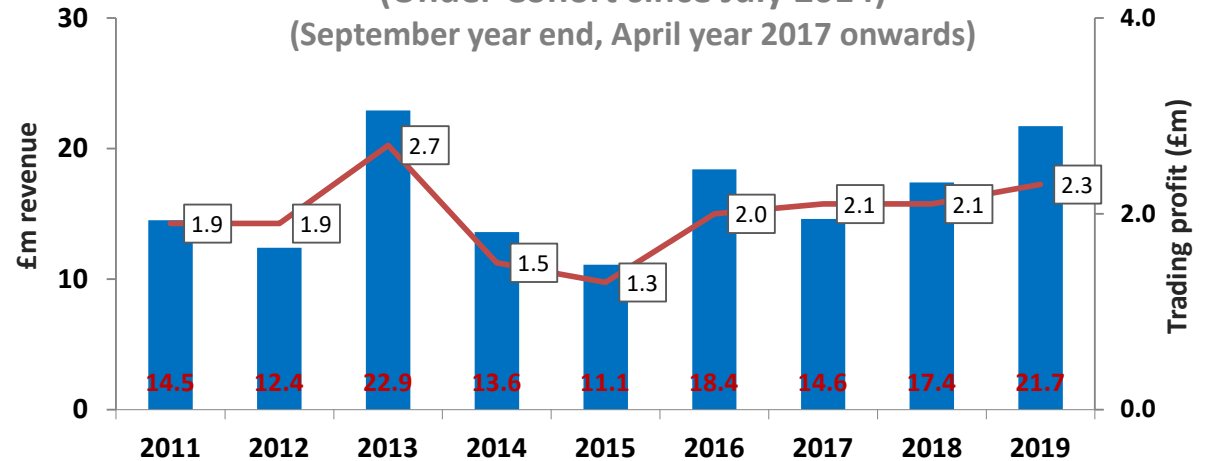
Communications equipment for the UK MOD and other customers, including the provision of advanced hearing protection systems

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.

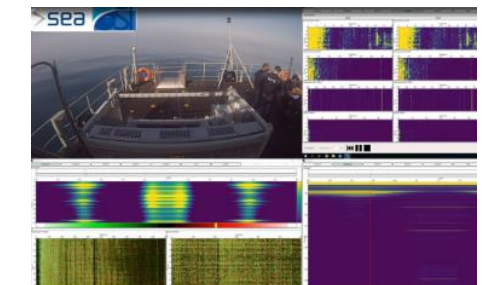
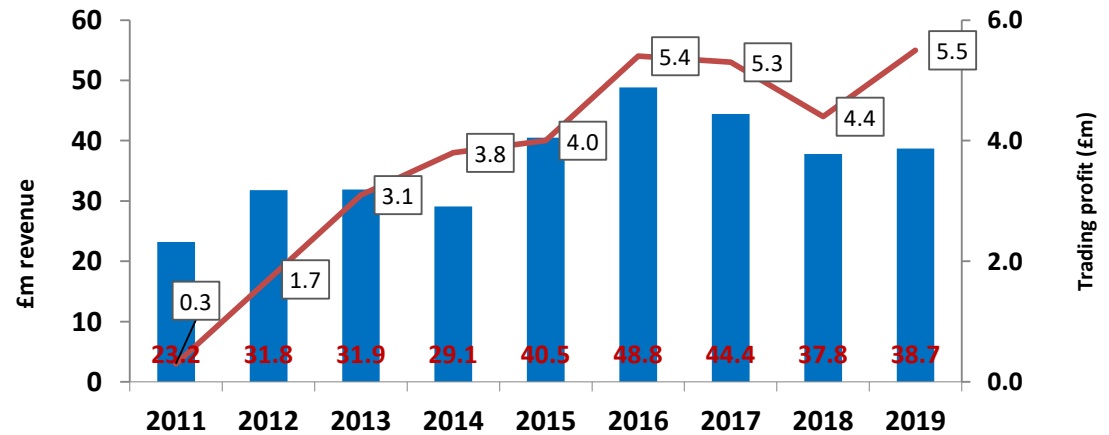
**Transport
(24%)**

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





Cohort plc
One Waterside Drive
Arlington Business Park
Theale
Reading RG7 4SW

www.cohortplc.com

Cohort plc
The Independent technology group