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Cohort PLC
23 July 2020

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23 July 2020

COHORT PLC
PRELIMINARY RESULTS
FOR THE YEAR ENDED 30 APRIL 2020

Cohort plc today announces its audited results for the year ended 30 April 2020.

Highlights include:	**2020**	2019	%
· Revenue	**£131.1m**	£121.2m	***8***
· Adjusted operating profit[1]	**£18.2m**	£16.2m	***12***
· Adjusted earnings per share[1]	**37.10p**	33.60p	***10***
· Net debt	**(£4.7m)**	(£6.4m)	***27***
· Order intake	**£124.4m**	£189.9m	***(34)***
· Order book (closing)	**£183.3m**	£190.9m	***(4)***
· Proposed final dividend per share	**6.90p**	6.25p	***10***
· Total dividend per share	**10.10p**	9.10p	***11***

Statutory	**2020**	2019	%
· Statutory profit before tax	**£10.0m**	£5.7m	***75***
· Basic earnings per share	**23.47p**	13.37p	***76***

- Results in line with expectations as announced 21 May 2020; increased revenue, adjusted operating profit and EPS.
- Better than expected cash performance.
- Dividend increased by 11%.
- COVID-19 negatively impacted the Group revenue by £3m and adjusted operating profit by £1m. Sites continue to be operational with social distancing and enhanced health and safety protocols.
- Divisional overview:
  - o Record performance from MASS
  - o Chess delivered a good first full year performance
  - o Improvement at EID
  - o Weaker results at MCL and SEA, the latter due to slippage of export orders.
- As expected, lower order intake of £124.4m (2019: £189.9m, included a large multi-year renewal of over £50m).
- Agreed to acquire ELAC for €11.25m (£9.8m) in December 2019; completion due by 30 September 2020.

[1] Excludes exceptional items, amortisation of other intangible assets, research and development expenditure credits and non-trading exchange differences, including marking forward exchange contracts to market.

Looking forward:

- Order book and pipeline of prospects provide a good underpinning for revenue in the coming year.
- The 30 April 2020 order book of £183.3m underpins nearly £84m of revenue, representing 62% (2019: 55%) of consensus forecast revenue for the year. This has risen to 75% in early July 2020 following recently announced contract wins.
- As stated on 21 May 2020, the Group's performance for 2020/21 is expected to be in line with 2019/20.
- A restructuring exercise at SEA will largely complete by end of July 2020 saving £1.3m per annum.
- Financial resources in place for investment and acquisitions; net debt expected to remain flat.

Commenting on the results, Nick Prest CBE, Chairman of Cohort plc said:

"Cohort continued to make good progress in 2020, achieving a record adjusted operating profit despite the impact of COVID-19 restrictions in the last two months of our financial year. A full year contribution from Chess, a record performance at MASS and improvement at EID offset weaker trading at MCL and SEA.

"Our thanks go to all our employees, whose hard work, skill and ability to deliver has allowed us to continue to safely provide critical services and products to our customers since the onset of the COVID-19 pandemic.

"Following order wins since the start of the financial year of over £50m, some of which we announced recently, our order book cover now stands at 75% of current financial year consensus revenue. At this early stage of the year, we continue to expect our trading performance for 2020/21 to be in line with that achieved in the year ended 30 April 2020 and for our closing net debt to remain flat for the year, both before any impact from the acquisition of ELAC.

In the longer term, the Group expects to return to growth, as it recovers the orders and revenue delayed due to COVID-19."

A presentation for analysts is being hosted today 23 July 2020 at 9.15am for 9.30am online as follows:

Please join the event 5-10 minutes prior to scheduled start time. When prompted, provide the confirmation code or event title.

WEBCAST: https://webcasting.brrmedia.co.uk/broadcast/5f0c2d5a4c167c1215795823

TELECONFERENCE CALL LINE: +44 (0)330 336 9125

Confirmation Code:	8588162
Event Conference Title:	Cohort PLC - Preliminary Results 2020
Time Zone:	Dublin, Edinburgh, Lisbon, London
Start Time/Date:	09:30 Thursday, July 23, 2020

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NOTES TO EDITORS

Cohort plc (www.cohortplc.com) is the parent company of five innovative, agile and responsive businesses based in the UK and Portugal, providing a wide range of services and products for domestic and export customers in defence and related markets.

Chess Technologies, through its operating businesses Chess Dynamics and Vision4ce, offers electro-optical and electro-mechanical systems to the defence and security markets. It was acquired by Cohort plc in December 2018. www.chess-dynamics.com & www.vision4ce.com

EID designs and manufactures advanced communications systems for the defence and security markets. Cohort acquired a majority stake in June 2016. www.eid.pt

MASS is a specialist data technology company serving the defence and security markets, focused on electronic warfare, digital services and training support. Acquired by Cohort in August 2006. www.mass.co.uk

MCL designs, sources and supports advanced electronic and surveillance technology for UK end users including the MOD and other government agencies. MCL has been part of the Group since July 2014. www.marlboroughcomms.com

SEA delivers products and services into the defence, transport and offshore energy markets alongside performing specialist research, training and product support. Acquired by Cohort in October 2007. www.sea.co.uk

Cohort (AIM: CHRT) was admitted to London's Alternative Investment Market in March 2006. It has headquarters in Reading, Berkshire and employs in total around 900 core staff there and at its other operating company sites across the UK and in Portugal.

Chairman's statement

Performance

Cohort continued to make good progress in 2020, achieving a record adjusted operating profit of £18.2m (2019: £16.2m) on revenue of £131.1m (2019: £121.2m). MASS and EID both posted an increase in profit and we benefited from a full year contribution (2019: five months) of Chess.

These positive movements were partly offset by weaker performances at MCL and SEA. MCL saw a drop off in hearing protection activity and lower order intake than expected. SEA's result was disappointing and was a result of delayed orders, particularly from export customers for its naval defence products.

The COVID-19 pandemic and subsequent lockdowns across the world came in the last quarter of our financial year, typically our busiest period. This resulted in some restriction of our activities, particularly access to customer sites to complete various integration and test milestones, and the inability of certain customers to accept completed goods. We have estimated the impact of COVID-19 on our reported results as a fall in revenue of around £3m and adjusted operating profit of £1m. Our interaction with customers has also been restricted and this has, in some instances, led to a delay in the receipt of new orders. This is discussed further in the Outlook section below.

Our order intake for the year was £124.4m (2019: £189.9m). As expected, this was lower than last year which included a large multi-year renewal of over £50m. The Group has significant new domestic and export opportunities, and extensions to existing contracts, across all our operating businesses.

The Group's operating profit of £10.7m (2019: £5.9m) is stated after recognising amortisation of intangible assets of £7.3m (2019: £9.5m), exceptional items of £0.8m (2019: £1.5m) and research and development expenditure credits of £0.8m (2019: £0.7m). Profit before tax was £10.0m (2019: £5.7m) and profit after tax was £9.7m (2019: £5.1m).

The closing net debt of £4.7m (2019: net debt of £6.4m) was better than our expectation. This was due to an improved operating cash flow, mainly a result of accelerated receipts from our single largest customer, the UK Ministry of Defence (MOD) in response to the COVID-19 pandemic in March and April.

Strategic initiatives

We signed a share purchase agreement to acquire 100% of Wärtsilä ELAC Nautik GmbH (ELAC) on 12 December 2019 for a consideration of €11.25m (£9.8m) on a cash free, debt free basis. ELAC, a leader in sonar systems technology for naval surface ships and submarines, will join the Group as Cohort's sixth standalone subsidiary. Completion of the transaction is subject to German Federal Government approval, so timing is dependent on the progress of discussions, but we currently expect this on or before 30 September 2020.

The ELAC transaction accords with our strategy of acquiring businesses, primarily in the defence and security sector, with a strong niche capability and market position. ELAC increases the Group's reach and potential in new international markets and provides Germany as a new home market.

When we acquired Chess in December 2018, we agreed to pay further consideration depending on the performance of the business over the three years ending 30 April 2021. Our current view is that the further consideration payable, including earn out, to take control of the whole of Chess in 2021 will now be £4.0m (2019: £5.5m).

Shareholder returns

Adjusted earnings per share (EPS) were 37.10 pence (2019: 33.60 pence). The adjusted EPS figure was based upon profit after tax, excluding amortisation of other intangible assets, net foreign exchange movements and exceptional items. Basic EPS were 23.47 pence (2019: 13.37 pence). The adjusted EPS benefited from a lower tax charge on adjusted earnings of 11% (2019: 15%). In the five years to 2020, the Group has had a cumulative average growth rate of 12.7% in adjusted operating profit and 12.5% in adjusted EPS.

The Board is recommending a final dividend of 6.90 pence per ordinary share (2019: 6.25 pence), making a total dividend of 10.10 pence per ordinary share (2019: 9.10 pence) for the year, an 11% increase. The dividend has been increased every year since the Group's IPO in 2006. It will be payable on 18 September 2020 to shareholders on the register at 14 August 2020, subject to approval at the Annual General Meeting on 15 September 2020.

Our people

As always, my thanks go to all employees within the Cohort businesses. Their hard work, skill and ability to deliver what the customer needs are what continues to drive the performance of our Group.

I think this is particularly so this year when the Group showed its agility and flexibility in response to COVID-19. Within a day of the commencement of the UK lockdown more than 70% of the Group's employees were able to work from home. Over 20% of our people were able to safely remain on site, mainly our production and support staff, observing necessary social distancing and introducing more flexible shift patterns. This enabled us to continue to deliver essential products and services to the UK and Portuguese militaries and our international customers. A team from MASS supported the UK's Joint Forces Command as part of the UK Government's response to COVID-19.

We are now in the phased process of returning colleagues to work and currently have nearly 50% of employees back on site on a part time or regular basis.

Andy Thomis, Simon Walther and their senor executive colleagues have continued their dedicated and skilful work which has helped the Group to progress in the face of very challenging conditions.

Governance and Board

After serving on the Cohort Board for over 14 years, Sir Robert Walmsley will retire from our Board on 31 December 2020. Rob joined the Cohort Board at our inception in early 2006, and has served in various capacities, including Chair of the Remuneration and Appointments Committee and Audit Committee. I would like to thank Rob on my and the Board's behalf for the major contribution he has made to Cohort's progress and wish him all the best for the future. When Ed Lowe joined the Board in 2019, it was partly in anticipation of Rob Walmsley's retirement. There is therefore no need to recruit a direct successor, though we will keep the composition of the Board under review.

Outlook

The political and economic context within which Cohort operates has, as a result of the COVID-19 pandemic, changed markedly since last year. The international and domestic security environment still calls for greater resources to be devoted to defence and counterterrorism in the UK and many other countries. On the other hand, the pressures on public expenditure are likely to be significant as a result of the economic effect of government responses to the pandemic. These are likely to have an impact on government expenditure in many of our markets, including the UK, but the extent to which this feeds through to defence and security spending is hard to predict.

Although the UK defence market remains tight, the Cohort businesses have strong and relevant capabilities for both the current and evolving needs of our principal customer, established positions on some key long-term UK MOD programmes and a good pipeline of new opportunities. This was demonstrated by MASS's recent contract extension in support of the UK Joint Forces Command. Export prospects for the Group continue to develop and, since the year end, have been demonstrated by some encouraging wins at Chess. Our non-UK MOD business is now over 50% of revenue, the first time in Cohort's history.

Our business from the UK into EU countries remains small (£3.0m in 2020; £1.4m in 2019), and consequently we do not expect any direct effects upon Cohort from the Brexit process. In the longer term there could be indirect effects, resulting from the broad economic and political consequences of Brexit, and the future defence and security relationship that develops between the UK and the EU. Whether these will be favourable or unfavourable is not yet possible to say.

The responsibility of the Cohort Board is to manage our affairs so that our businesses prosper whatever the political and economic backdrop. Our collective experience of the defence business, our size and our decentralised management structure, which together enables us to make quick decisions, and our focus on niche product and service offerings, for which demand is increasing both domestically and internationally, are the keys to this.

We continue to look for opportunities to augment organic growth through targeted acquisitions, of which ELAC is the most recent example.

The Group has entered the new financial year with a substantial long-term order book. The 30 April 2020 order book of £183.3m underpins over £84m (2019: £80m) of current financial year revenue, representing 62% of expected consensus revenue for the year. Following order wins since the start of the financial year of over £50m, including recent announcements, that cover now stands at 75%.

As we indicated in our statement of 21 May 2020, the potential impact of COVID-19 continues to make it more difficult than usual to provide guidance. At this stage, the Board expects that restrictions on international travel may result in short term constraints on export activity, which represented over 30% of Cohort's revenues in the year just ended.

Overall, we continue to expect that our trading performance for 2020/21 will be in line with that achieved in the year ended 30 April 2020 and for our closing net debt to remain flat for the year, both before any impact from the acquisition of ELAC.

In the longer term, the Group expects to return to growth, as it recovers the orders and revenue delayed due to COVID-19.

Nick Prest CBE

Chairman

Business Review

Operating review

2020 has been another year of good progress for Cohort, with a record level of adjusted operating profit, despite the impact of COVID-19 related restrictions in the last two months of the financial year.

2020 highlights

The Group's adjusted operating profit of £18.2m (2019: £16.2m) on revenue of £131.1m (2019: £121.2m) represented a net return of 13.9% (2019: 13.3%).

- MASS remains the strongest contributor to the Group's adjusted operating profit and saw continued growth
- Chess, which was acquired in December 2018, made a full year contribution to this year's results
- EID had a stronger year
- MCL and SEA both had weaker performances

On 12 December 2019 the Group agreed to acquire Wärtsilä ELAC Nautik GmbH (ELAC), subject to the German Federal Government and other conditions.

Operating review

2019/20 has been another year of progress for Cohort, with a record level of revenue and adjusted operating profit. Revenue grew by 8% and adjusted operating profit by 12%. Both revenue and adjusted operating profit benefited from a full year contribution from Chess, which was part of the Group for only five months last year.

MASS achieved a record adjusted operating profit and EID returned to a better level of performance as a result of higher export sales. These improvements were offset by weaker performances at MCL and SEA. MCL's revenue was affected by changes in customer plans, orders slipping into 2020/21 and the timing of deliveries on other projects, which peaked in 2018/19. SEA also saw projects slip, especially export orders, in part due to the impact of COVID-19. The impact of these delays has required the cost base of SEA to be adjusted to align with expected orders. An exercise to reduce the annual cost by £1.3m will be completed by the end of July 2020 and is expected to cost £0.7m. This will be recognised as an exceptional cost in the first half of 2020/21.

The COVID-19 pandemic and resultant lockdowns impacted many of our markets, with some business restrictions remaining in place today. The impact arose in the final and busiest quarter of our financial year and resulted in delays to orders and deliveries, particularly at EID and SEA. Restrictions in movement affected our ability to access customer sites to complete integration and testing milestones, and prevented customers from accepting deliveries of completed goods. We estimate the effects on our reported results for the year ended 30 April 2020 as a reduction in revenue of around £3m and a reduction in adjusted operating profit of £1m. The impact of COVID-19 is not expected to affect the Group's ability to continue as a going concern, as is discussed in more detail below.

The Group's adjusted operating profit grew by 12% to £18.2m (2019: £16.2m) on revenue of £131.1m (2019: £121.2m), a net operating return of nearly 13.9% (2019: 13.3%). The Group's statutory operating profit of £10.7m (2019: £5.9m) is significantly impacted by the amortisation of other intangible assets, a £7.4m charge in 2020 (2019: £9.5m charge). In this review, therefore, the focus is on the adjusted operating profit of each business, which we consider to be a more appropriate measure of performance year on year. The adjusted operating profit is reconciled to the operating profit in the Consolidated Income Statement and by business in Note 2.

Adjusted operating profit by subsidiary

	Adjusted operating profit			Adjusted operating margin	
	2020 £m	2019 £m	Change %	**2020 %**	2019 %
Chess	**3.9**	1.7	**229**	**15.6**	15.8
EID	**3.1**	1.3	**238**	**17.2**	11.8
MASS	**8.9**	8.2	**9**	**21.7**	21.0
MCL	**1.7**	2.3	**(26)**	**11.0**	10.5
SEA	**3.5**	5.5	**(36)**	**11.1**	14.3
Central costs	**(2.9)**	(2.8)	**(4)**	-	-
	18.2	16.2	**12**	**13.9**	13.3

Chess's first full year contribution was stronger than we expected, delivering a performance, on a straight line basis, equivalent to what was a very good five months in 2018/19. The business saw strong growth in its naval system deliveries to export customers.

MASS achieved a record performance, with the growth in revenue mainly deriving from long-term support contracts to the UK MOD. Its Electronic Warfare Operational Support (EWOS) business, which is mostly export, was flat year on year, large multi-year orders having been secured in 2018/19.

EID had a welcome return to growth and net return more in line with expectations. This came from delivering part of an export order secured in late 2018/19 and the initial batch of a large Portuguese Army order which will continue until 2027.

MCL retreated from what was a good result last year. The timing of deliveries on its hearing protection work accounted for most of the revenue and margin drop, although the lower bought-in content improved its net margin.

SEA had a disappointing result, with contract timing and delays in expected export orders for torpedo launcher systems resulting in a decrease in revenue. Some of this slippage was a result of the impact of COVID-19 and we have continued to see some delay in the early part of 2020/21. As a result, SEA has undertaken a programme to align its cost base more closely with its anticipated revenue sources and levels.

Our people

All the Group's capabilities and customer relationships ultimately derive from our people, and the success we have enjoyed is a result of their efforts. We would like to take this opportunity to express our thanks to all employees of Cohort and its businesses.

In the recent COVID-19 pandemic and resultant lock down, our people, across the Group, demonstrated their agility and flexibility with over 70% moving to home-based working in less than 24 hours. Thanks to our ability to implement socially distanced working practices, some 20% of our colleagues remained on site to continue production and support to our customers, many performing critical national defence and security roles. We would particularly thank our IT teams for supporting this sudden marked change in the working environment, enabling our staff to continue to perform their roles efficiently and securely. Since the end of June, following the successful implementation of infection prevention measures, we have seen a gradual return to site working. We currently have nearly 50% of our employees back on site and expect that proportion to rise over the coming months.

Operating strategy:

ORGANIC GROWTH

Cohort currently operates as a group of five medium-sized businesses, operating primarily in defence and security markets, and with a strong emphasis on technology, innovation and specialist expertise.

Within our markets we have sought to use our agility and innovation to identify niches where prospects are attractive and where we have some sustainable competitive advantage. These can be for products, services or high value one-off projects to design bespoke equipment or software. Examples include MASS's EWOS offerings, SEA's External Communication System (ECS) for submarines, MCL's range of hearing protection systems and Chess's counter-sUAV systems for military and civilian customers. We have also been active in finding new customers for the capabilities we have developed, both in export markets and for non-defence purposes. During the recent year we have continued to widen the customer base for our THURBON™ EW database, our torpedo launcher system and our small diameter sonar array (Krait).

Being part of the Cohort Group brings advantages to our businesses compared with operating independently. The Group's strong balance sheet gives customers the confidence to award large or long-term contracts that we are well able to execute technically but which might otherwise be perceived as risky. One example is a £50m plus in-service support contract awarded to MASS last year, a renewal of a contract we have been performing for over 15 years. Others include approximately £85m of contracts awarded to SEA for ECS across the UK's submarine platforms, over £30m of orders won by MCL for supply and support of hearing protection systems across a range of UK military users, and a recent win by Chess of a £20m order to supply observation and targeting systems for a Northern European customer, its largest ever contract.

The Group's Directors have long experience of operating in the defence sector and have contacts and working relationships with senior customers in the UK and internationally, which would be hard for independent smaller businesses to establish. Our current four UK operating businesses, while remaining operationally independent, have formed close working relationships and benefit from technical capabilities, customer relationships and market knowledge. We have made further progress in the year on ensuring that EID participates in this collaborative approach. We will continue to work to promote the Group's services and products in wider markets, including through business development visits. In the past year, Andy Thomis led a combined UK and Portuguese team visit to Australia, and this bore fruit with SEA, working with EID, securing the contract to provide a communication system for Australia's new submarine platform.

Cooperation between the Group businesses has extended to the sharing of technology. For example, SEA and Chess are also working together on a possible future decoy launcher solution for the Royal Navy. Last Summer, SEA and EID collaborated on an important trial with the Portuguese Navy, demonstrating a new anti-submarine warfare system, based on the Krait array. Further trials of the system are expected in the coming year, including with the Royal Navy.

These strategies have generated long-term customer relationships and good opportunities that give us confidence that we can continue to prosper, despite the current difficult and unpredictable market conditions. Overall, the organic performance of the business in the year (i.e. excluding the effect of Chess's full year contribution) was slightly behind that achieved in 2018/19 with improved results at MASS and EID being offset by weaker performance at MCL and SEA.

ACQUISITIONS

Alongside our organic growth strategy, we continue to see opportunities to accelerate our growth by making further targeted, value enhancing acquisitions. We believe that there are good businesses in the UK and overseas that would thrive under Cohort ownership, whether as standalone members of the Group or as "bolt-in" acquisitions to our existing subsidiaries.

The most likely candidates for bolt-in acquisitions are businesses with capabilities and/or customer relationships that are closely linked to one of our existing subsidiaries. We would expect to integrate an acquired business of this nature fully within the relevant subsidiary. This could lead to both cost savings and benefits from shared access to markets and technologies.

For standalone acquisitions we are looking for agile, innovative businesses that have reached a stage of development where there will be mutual benefit in joining Cohort. It is likely that candidates will be operating in the defence and security markets either in the UK or internationally, as that is where the Group can add most value. Growth prospects, sustainable competitive advantage and the ability to operate as part of a publicly quoted UK group will all be important.

On 12 December 2019, we announced that we had signed an agreement to acquire 100% of Wärtsilä ELAC Nautik GmbH (ELAC) for a consideration of €11.25m on a debt free cash free basis. ELAC, a leader in sonar systems technology for naval surface ships and submarines will join the Group as Cohort's sixth standalone subsidiary. The completion of the acquisition is subject to German Federal Government approval and, though the timing of this is hard to predict, we currently expect completion to be on or before 30 September 2020.

The acquisition of ELAC fits well with our acquisition strategy. Importantly, it increases the Group's exposure to scalable product and systems and export customers, particularly in the naval market. ELAC shares highly complementary expertise, capabilities and technologies with SEA, providing a significant cross-selling opportunity. It will increase the Group's reach and potential in new international markets and provides Germany as a new home market.

We acquired 81.84% of Chess in December 2018 for an initial consideration of just over £20.0m. The acquisition includes an earn-out clause and an option for acquiring the minority interest (18.16%), both based on Chess's performance for the three years ending 30 April 2021. These additional payments are capped at £12.7m and £9.1m respectively. We currently expect to pay £4.0m (2019: £5.5m) in total on or before 31 October 2021.

The acquisition model for Chess is very similar to that successfully used for the acquisition of MCL, where we initially acquired 50% in 2014 and the remainder in 2017.

MAINTAIN CONFIDENCE

Cohort's management approach is to allow its subsidiary businesses a significant degree of operational autonomy in order to develop their potential fully, while providing light-touch but rigorous financial and strategic controls at Group level. Our experience is that our customers prefer to work with businesses where decision making is streamlined and focused on solving their immediate problems. This model provides us with a degree of competitive advantage over some larger rivals where the decision-making process can be more extended. It is also cost effective as it avoids the need for additional layers of management involved in coordination activities and for a large headquarters team. High calibre employees find our business model attractive and more rewarding as it allows them to be involved in decisions affecting the business, even at a relatively junior level, rather than being constrained to a narrow or purely technical role. This positions us well with customers where such attributes are highly valued.

Although the degree of autonomy our subsidiary businesses enjoy is high, and we believe that this is an effective operational strategy, we take a practical view of the best way forward when circumstances change. When the operational situation is such that a merger, restructuring or even sale is necessitated, we will act and have acted in the best interests of the wider Group and its shareholders.

SUBSIDIARY Review

Chess

Chess Technologies (Chess) operates through two distinct businesses, Chess Dynamics and Vision4ce.

Chess Dynamics is an innovative, well-respected surveillance, tracking and gunfire control specialist for military and commercial customers. Chess's military customers include defence forces and prime contractors in the UK and overseas for the naval and land sectors.

Based in Horsham and Plymouth, Chess Dynamics designs, develops and manufactures precision stabilised and non-stabilised multi-axis platforms, fire control directors and positioners for electro-optic, radar, communication, security, surveillance and targeting systems, and a wide range of high-performance cameras and special sensors.

The more complex tracking and targeting systems are integrated into naval fire-control solutions and sophisticated vehicle-based surveillance, targeting, tracking and force protection systems.

The company is a major developer and world-wide supplier of counter-sUAV (drone) protection systems including rapid deployment systems for military and security use. It provides a complete service including survey, installation, training, and maintenance across its entire product range, including bespoke engineering solutions.

Vision4ce is a leading technology software house based in Wokingham. It designs, develops, and supplies high performance digital video trackers and operator interface control software for Chess Dynamics and other customers.

Founded in 1993 by its Group Managing Director Graham Beall, Chess Technologies, which is c.82% owned by Cohort, joined the Cohort group in 2018.

	2020 **£m**	2019 (5 months) £m
Revenue	**25.2**	10.7
Adjusted operating profit	**3.9**	1.7
Operating cash flow	**(2.8)**	1.3

Chess has continued its good run of performance since its acquisition by Cohort. The result for this year was better than we expected, the five months for 2018/19 having been unusually strong as a result of deployment of counter-sUAV systems at two major UK airports in late 2018.

On a like for like basis, Chess showed growth on the full year ended 30 April 2019 with higher sales of naval systems, both to the UK and export customers. The contribution to profit from this sales growth was partly offset by investment in more staff, both direct and overhead, the latter to ensure Chess is well invested to manage its current and future growth potential.

Chess's revenue is dominated by export customers. This year they have included the US DoD and a first sale into Eastern Europe. It has also begun funded study work with a European prime contractor for a new fire control system.

Chess has continued to demonstrate what a good strategic fit it is for the Group. It is a leading supplier within its market and has a strong ethos of innovation and responsiveness.

Chess was only marginally impacted by the COVID-19 pandemic and lockdown with a few in-country activities being postponed. It continued to carry out production and support from its main site in Horsham with little disruption, whilst observing all the necessary safety requirements of its employees, customers and suppliers.

Chess's rapid growth over the last few years has caused it some growing pains, especially in project control and delivery. This along with growing working capital is reflected in its weaker cash performance this year. Cohort has begun work with Chess's management to strengthen its processes to ensure it can successfully grow whilst still maintaining its agility and innovative approach. This work will focus on improving the cash performance of the business and ensuring it is fully able to deliver on its recent order successes.

Chess's order book, recent wins and prospects, especially on some significant overseas naval programmes, give us optimism for Chess's future. For the coming year, our expectation is that Chess will perform in line with 2018/19 as a result of the timing of deliveries, but it has given itself better visibility for the years beyond 2020/21.

SUBSIDIARY REVIEW

EID

EID is a Portuguese based high-tech company with 35 years' experience and deep know-how in the increasingly critical fields of electronics, tactical and naval C3 (command, control and communications). The Company´s focus is the design, manufacture, delivery and support of advanced high-performance C3 equipment for the global defence and security markets.

EID operates through two market-facing divisions:

Naval Communications: integrated C3 systems for warships and submarines; and

Tactical Communications: tactical radio, vehicle intercoms, field communications and networking software and equipment.

These divisions are supported by an internal production and logistics unit.

The UK Royal Navy is amongst the customers for its naval communications systems and its products equip over 145 vessels worldwide including the navies of Portugal, the Netherlands, Spain and Belgium and many non-NATO export customers. Its tactical communications products are used extensively in a variety of personal and vehicular applications for armies worldwide.

EID operates from an engineering and production facility near Lisbon and is led by its Managing Director, António Marcos Lopes. EID is 80% owned by Cohort, with the remaining 20% of its shares held by the Portuguese government. It joined the Group in 2016.

	2020 **£m**	2019 £m
Revenue	**18.0**	11.5
Adjusted operating profit	**3.1**	1.3
Operating cash flow	**3.6**	(1.7)

After a disappointing 2018/19, EID has returned to much stronger performance with a net return in line with our long-term expectations for the business.

The increase in revenue of over 50% improved the gross margin whilst the overhead for the business remained flat. As a result, the net margin of EID rose from 11.8% to 17.2%.

This improvement derived from a near doubling of revenue from the Portuguese Ministry of National Defence, and deliveries of intercom systems to an overseas customer. Both revenue streams were delivered from EID's Tactical division. Its Naval division saw a decline in revenue following completion of a number of programmes in 2018/19, in particular work on Portuguese offshore patrol vessels and Belgian frigates.

EID saw a relatively notable impact from COVID-19 with several in-country milestones being postponed by the customer and a delivery delayed into early 2020/21 due to local lockdown constraints. The overall impact was around £1.5m of revenue slipping into the new financial year. Portugal has seen a quicker return to pre-COVID conditions and EID has over 90% of its employees now back on site, again with the safety of staff and visitors of paramount importance.

As expected, EID had a better cash performance this year, unwinding some of the working capital arising from delivery delays at the end of last year.

The mix of work at EID is expected to continue to change in the coming few years with lower levels of naval support activity and increased deliveries of intercom and radio products. Overall, we expect the operating margin to remain at around the current level. We are expecting longer term naval orders to progress this year although the timing of contract award is unpredictable.

SUBSIDIARY REVIEW

MASS

MASS is a data technology company with over 35 years' heritage serving the defence and security markets in the UK and around the world. They provide electronic warfare operational support, digital services and training support to military operations.

The company delivers tailored, integrated solutions that are increasingly critical to customers' operational advantage. MASS's expertise in data management, system engineering and project management enables delivery of through-life capability in the form of high technology solutions, training and trusted managed services. These are underpinned by MASS's strong research and development capability.

MASS's core skill is enabling its customers to convert their own data, often of vast quantities, into information for operational and strategic application.

MASS operates through four divisions.

The EWOS division includes the THURBON™ Electronic Warfare (EW) database, SHEPHERD (the provision of a system embodying THURBON™ to the UK MOD) and MASS's EW managed service offerings in the UK and elsewhere.

The Digital Services division offers solutions and training to government security customers, including the Metropolitan Police. This division also delivers secure network design, delivery and support and information assurance services to commercial, defence and educational customers.

The Strategic Systems division provides certain managed service and niche technical offerings to the UK MOD.

The Training Support division provides training simulation and support to the UK's Joint Warfare Centre as well as similar high-level command training to other UK and overseas customers.

Established in 1983, MASS joined the Cohort Group in 2006. The company headquarters is based in Cambridgeshire and it also operates an Electronic Warfare Training Academy in Lincolnshire. MASS is led by Managing Director Chris Stanley.

	2020 **£m**	2019 £m
Revenue	**41.1**	39.0
Adjusted operating profit	**8.9**	8.2
Operating cash flow	**11.6**	7.4

MASS had another year of good growth with adjusted operating profit rising 9% on revenue that grew 5% compared to 2018/19.

The main drivers of growth in revenue were from two long-term support contracts to the UK MOD. One of these was renewed last year for eight years. The second, its support to the UK Joint Forces Command, was recently extended for another two years with three further one-year extension options. The renewal of these contracts speaks to the continued quality of service provided by the team at MASS to customers.

The EWOS business, which is mostly export, was flat in revenue terms but had a slight improvement in margin as a result of the mix of work.

MASS's net margin increased to 21.7% (2019: 21.0%). Higher revenue and the improved mix in EWOS increased its gross margins and more than offset the growth in overheads.

MASS's operating cash flow this year was very strong and was boosted by its primary customer, the UK MOD, accelerating payments in the final month of our financial year in response to COVID-19. We do not expect this timing advantage to be repeated in 2020/21. Other than this positive cash flow effect, MASS saw minimal impact on its operations from COVID-19 and now has over 50% of its employees back on its own or customer sites.

MASS continues to demonstrate its strength in its core markets of EWOS and niche technical support to key Government capabilities. Its order book of £90m gives good visibility beyond 2023.

SUBSIDIARY REVIEW

MCL

Marlborough Communications Limited (MCL) is a leading supplier of advanced electronic communications, information systems and signals intelligence technology to the defence and security sectors.

MCL utilises an unparalleled and ever-expanding international network of specialist technology providers, combined with its own bespoke design, engineering and integration skills, to deliver and support a diverse portfolio of C4IS and ISTAR capabilities that transform its customers' ability to deliver effective operations.

The Company's specialist C4IS portfolio includes hearing protection, communication headsets and radios, while its ISTAR capabilities include signals intelligence, electronic warfare and UAV and UGV technologies. With 35 employees, the company supplies customers including the UK MOD, other UK government departments, and defence prime contractors. MCL is adept at identifying the latest technologies and capabilities to suit the unique demands of each customer it works with.

Founded in 1980 and based in Surrey, this year sees MCL celebrate 40 years' experience in supporting the UK's ISTAR programmes. MCL is led by Managing Director Shane Knight and has been part of the Cohort group since 2014.

	2020 **£m**	2019 £m
Revenue	**15.1**	21.7
Adjusted operating profit	**1.7**	2.3
Operating cash flow	**(2.3)**	4.4

After several years of growth, MCL had a disappointing year following completion of some larger deliveries of hearing protection systems in 2018/19. These fell back to more normal levels in 2019/20 and MCL has not yet secured replacement programmes. The result was a fall in sales by 30% and adjusted operating profit by 26%.

MCL saw little impact from COVID-19. The small team is flexible and at present around half are on site with the remainder working from home.

When we acquired MCL, back in July 2014, one of the primary objectives was to support it in building an order book and business with greater longevity and visibility. This year saw the order book fall back from £14.6m (April 2019) to £8.6m (April 2020) and the visibility of MCL's revenue remains, on average, in the three to six-month range.

However, MCL now sees some substantial opportunities in long-term UK naval support programmes. Success in these would enable MCL to improve its revenue visibility significantly. More immediately, MCL starts 2020/21 with improved visibility and some good prospects for the coming year.

The cash outflow this year was as expected, with a large supplier payment having slipped from 2018/19 into 2019/20.

SUBSIDIARY REVIEW

SEA

SEA delivers products and services into the defence, transport and offshore energy markets alongside performing specialist research and providing services, including training and product support.

In the maritime domain, SEA's engineering capabilities cover a wide range of maritime mission systems requirements, including communications, torpedo and decoy launching systems, sonar systems, infrastructure and training. Using its systems engineering skills, combined with in-depth knowledge and understanding of dismounted soldier operations, SEA provides independent advice and research into future dismounted soldier systems and applications.

With award-winning expertise in signal processing and software engineering, SEA delivers complex data management solutions alongside automated traffic enforcement systems to UK government and export customers in the transport domain.

SEA manages its business through three divisions:

Complex Systems, based at Beckington;

Integrated Electronic Systems, based at Barnstaple; and

Subsea, based at Aberdeen.

The activities of the organisation are underpinned by strong project management and enabled through dedicated production and support teams.

SEA was founded in 1987 and joined the Cohort group in 2007. SEA is located in the UK in Somerset, Bristol, Devon and Aberdeen, and is led by Managing Director Steve Hill.

	2020 **£m**	2019 £m
Revenue	**31.7**	38.3
Adjusted operating profit	**3.5**	5.5
Operating cash flow	**3.6**	0.8

SEA had a disappointing year with revenue falling by 17% and its adjusted operating profit by 36%, the drop mostly driven by the slippage of export orders.

The change in SEA's revenue over the last four years is analysed by activity as follows:

	2017 £m	2018 £m	2019 £m	**2020** **£m**
Submarine systems	16.9	7.3	4.7	**2.7**
Research	2.1	2.3	4.5	**5.2**
Export defence	6.0	7.1	8.2	**1.6**
Other defence products and support	11.9	13.2	9.6	**11.7**
Transport	5.9	5.3	9.2	**7.6**
Subsea	1.9	2.1	2.1	**2.9**
SEA total revenue	44.7	37.3	38.3	**31.7**

The submarine systems and research activities have historically been for the UK MOD.

The above table shows that UK submarine systems activity at SEA has continued to decline since its peak in 2016. Recent order wins in this area, both for the UK and Australia should see this grow in the coming year.

SEA's research activity has also continued to show growth and we expect the proportion of naval research within this to continue to progress.

Export revenue at SEA fell significantly. In 2018/19, SEA completed deliveries of Torpedo Launcher Systems (TLS) to several overseas customers. Expected order wins from new and existing customers slipped, and one customer requested a delay on a current programme, on which work will recommence in 2021/22. We expect some of the delayed orders to be secured in the coming year although timing remains unpredictable.

SEA's transport business saw a 17% fall in revenue following delivery of a large initial batch of Red-Light ROAD*flow* systems to Network Rail in 2018/19. Underlying UK and export ROADflow sales increased slightly with the revenue from annual support and maintenance for the existing installed base of systems now worth over £1.5m of revenue per annum.

The decline in submarine systems work has resulted in a higher proportion of revenue being derived from less predictable orders. For instance, SEA's transport contracts are typically on short timeframes from win to delivery, usually a few weeks to months. SEA's opening order book as at 1 May 2020 does provide higher cover for 2020/21 with over £18m of revenue on order compared with last year's cover of just over £12m. However, revenue visibility for SEA is shorter-term than we have seen historically, and we expect this situation to continue until longer-term naval programmes (UK and export) are secured for submarine communications and TLS products.

A recent submarine communications order from Australia, and new UK orders including more substantial work on the Dreadnought class, underpin our expectation that this revenue stream will begin to grow again. For TLS, a number of overseas navies are regenerating their fleets, and this provides good opportunities for long-term significant work for SEA. Nevertheless, the timing of export orders remains unpredictable and slippage of specific opportunities for TLS negatively impacted SEA's revenue in 2019/20.

During the year SEA trialled its new Anti-Submarine Warfare (ASW) system based upon its 16mm diameter towed sonar array (Krait) with the Portuguese Navy. This activity was supported by EID in country. The system successfully detected and tracked a submarine in a live environment. Further trials are now required, and we are working with the Royal Navy to test the system on a Type 23 Frigate in the coming year.

SEA's Subsea division saw revenue grow by nearly 40% with increased support activity offshore. As a result of the recent sharp fall in the oil price, the current market for this division is challenging and strategic options for the Subsea division are under review.

A restructuring exercise was completed in late 2018 to integrate back-office services at SEA at its Barnstaple site and make a small reduction in direct costs. The weak performance during 2019/20, including a disproportionate fall in adjusted operating profit when compared to revenue, and the current shorter-term nature of SEA's order book indicate that a further cost reduction is required. This exercise has begun and will be largely complete by the end of July 2020, realising an annual saving of £1.3m at a cost of £0.7m. These changes are intended to shape SEA's cost base to its current level of activity, while ensuring it is ready to deliver when longer term orders are secured.

During 2019/20, SEA completed the integration of J+S, the latter now being dormant. A new management and reporting system, the same as that used by MASS, went live in February 2020.

Revenue by sector and business

	Chess		EID		MASS		MCL		SEA		Group			
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	**%**	2019 £m	%
Defence and security	**25.2**	10.7	**18.0**	11.4	**38.7**	35.8	**15.1**	21.7	**21.1**	26.9	**118.1**	**90**	106.5	88
Transport	**-**	-	-	-	-	-	-	-	**7.6**	9.2	**7.6**	**6**	9.2	7
Offshore energy	**-**	-	-	-	-	-	-	-	**2.9**	2.1	**2.9**	**2**	2.1	2
Other commercial	**-**	-	-	0.1	**2.4**	3.2	-	-	**0.1**	0.1	**2.5**	**2**	3.4	3
	25.2	10.7	**18.0**	11.5	**41.1**	39.0	**15.1**	21.7	**31.7**	38.3	**131.1**	**100**	121.2	100

The defence and security revenues are further broken down as follows:

	Chess		EID		MASS		MCL		SEA		Group			
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	**%**	2019 £m	%
Direct to UK MOD	**-**	**-**	-	-	**19.8**	18.1	**12.9**	20.2	**8.5**	7.8	**41.2**	**32**	46.1	38
Indirect to UK MOD where the Group acts as a sub-contractor or partner	**2.2**	1.2	**0.1**	0.2	**4.3**	3.6	**1.1**	0.3	**11.0**	10.9	**18.7**	**14**	16.2	13
Total to UK MOD	**2.2**	1.2	**0.1**	0.2	**24.1**	21.7	**14.0**	20.5	**19.5**	18.7	**59.9**	**46**	62.3	51
Portuguese MOD	**-**	**-**	**8.3**	4.4	-	-	-	-	-	-	**8.3**	**6**	4.4	4
Security	**4.8**	4.8	-	-	**4.2**	3.2	**1.1**	1.0	-	-	**10.1**	**8**	9.0	7
Export defence	**18.2**	4.7	**9.6**	6.8	**10.4**	10.9	-	0.2	**1.6**	8.2	**39.8**	**30**	30.8	26
	23.0	9.5	**17.9**	11.2	**14.6**	14.1	**1.1**	1.2	**1.6**	8.2	**58.2**	**44**	44.2	37
	25.2	10.7	**18.0**	11.4	**38.7**	35.8	**15.1**	21.7	**21.1**	26.9	**118.1**	**90**	106.5	88

Note: The percentages applied to the defence and security revenue are based on the total revenue for the Group in each year.

Defence and security revenues are categorised into market segments as follows:

	Year ended 30 April 2020		Year ended 30 April 2019	
	£m	**%**	£m	%
By market segment				
Combat systems	**18.0**	**14**	22.9	19
C4ISTAR	**63.1**	**48**	51.1	42
Cyber security and secure networks	**15.0**	**11**		

Simulation and training	**9.4**	**7**	15.5 6.5	13 5
Research, advice and support	**12.0**	**9**	9.3	8
Other	**0.6**	**1**	1.2	1
Total defence and security revenue	**118.1**	**90**	106.5	88

Note: The percentages applied to the defence and security revenue are based on the total revenue for the Group in each year.

The Group's total revenue, broken down by type of deliverable is as follows:

	Year ended 30 April 2020		Year ended 30 April 2019	
	£m	**%**	£m	%
Product	**74.8**	**57**	65.2	54
Services	**56.3**	**43**	56.0	46
Total revenue	**131.1**	**100**	121.2	100

Revenue analysis

The segmental breakdown of sales in 2019/20 continued the trend we have seen in recent years with rising C4ISTAR revenue, driven by a full year of sales from Chess and increased intercoms and radio deliveries from EID. Our research work, which is mostly at SEA has also continued to recover from what was low point back in 2017/18 (£4.9m). The increase in simulation and training was a result of higher exercise activity by the Joint Forces Command. The most marked reduction was in combat systems where the SEA export activity for TLS fell following completion of deliveries in 2018/19 and slippage of expected orders.

The Group saw a fall in revenue from the UK MOD, both in absolute terms and as a proportion of the total. The absolute reduction was primarily a result of lower sales of hearing protection and other equipment at MCL. Revenue from MOD has fallen below 50% of the total for the first time, reflecting both the reduced sales at MCL and also the increase at EID and Chess, where a much greater proportion of sales are to export markets.

As expected, sales to the Portuguese MOD increased, a result of deliveries on land system orders secured last year. We expect sales to this customer to fall back again in the coming year with EID increasing its export activity.

Both security and export sales saw growth again. This was mostly due to a full year contribution of Chess (2019: 5 months) and increased sales by EID, outweighing lower export sales of TLS at SEA.

The Group's defence and security business is, and is expected to remain, the largest part of our business, supplying 90% of revenue this year (2019: 88%). The Group's non-defence revenue was down by 12% compared to last year, with SEA's transport business seeing reduced revenue following a large delivery of ROADflow systems to Network Rail in 2019/20. Underlying ROADflow sales continued to rise, including export sales. SEA's offshore energy business saw some growth, but the market has since weakened following the sharp fall in the oil price in March.

Operational outlook

Order intake and order book

	Order intake		Order book	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Chess	**17.8**	11.3	**13.4**	20.8
EID	**29.3**	18.9	**36.5**	25.6
MASS	**33.5**	97.0	**91.2**	98.8
MCL	**9.1**	26.0	**8.6**	14.6
SEA	**34.7**	36.7	**33.6**	31.1
	124.4	189.9	**183.3**	190.9

The 2019 order book includes £20.1m of order book acquired with Chess in December 2018.

The decrease in the Group's order book reflects the unwind of some our longer-term orders, especially at MASS. These are typically renewed on a multi-year cycle, and with MASS having secured a number of these renewals in 2018/19, we expect a negative effect on our order book as deliveries take place.

The 2019/20 order intake was 95% (2019: 157%) of the Group's revenue for the year ended 30 April 2020. This was, as expected, lower than last year which included an eight-year renewal at MASS of over £50m.

The revenue on order (order cover) for the coming year was 62% (2019: 55%) as at 30 April 2020, based on external revenue forecasts. This had risen to 75% in early July.

Delivery of the Group's order book into revenue (all figures are £m)

The above table shows the expected delivery of future revenue from the current order book. The Group's order intake and order book are the contracted values with customers and do not include any value attributable to frameworks or other arrangements where no enforceable contract exists. The order intake and order book include contractual changes to existing orders including extensions, variations and cancellations.

Chess's order intake of £17.8m included follow-on orders for its C-UAV systems for the US DoD and other customers. Chess also secured a further order for its naval systems from an overseas customer. Chess's closing order book was £13.4m to which has been added recent orders secured and announced of over £26m. The closing order book included £10.8m for delivery in 2020/21. Chess is also well positioned for further naval and land programmes which we hope will convert to orders in the coming year. Chess performed better than we expected in 2019/20 and we expect a similar performance for the coming year as it lays down a longer-term order book.

EID's order intake for this year was much stronger at £29.3m (2019: £18.9m). The main items of order intake for EID in 2019/20 were in its Tactical division, securing an order of nearly £15m to deliver radios to the Portuguese Army out to 2027 and an important follow on export order for vehicle intercoms. EID's order book of £36.5m gives very good underpinning for the year ahead, especially in its Tactical division. It will be important in 2020/21 for EID to secure certain domestic naval programmes and extend, again, its current export order for vehicle intercoms. Due to the timing of deliveries on its key export orders, we expect EID to deliver a slightly weaker performance compared to 2019/20.

MASS's order intake of £33.5m was, as expected, markedly lower than last year's £97.0m, which included contract renewals of over £50m as well as long-awaited export EWOS orders. This year saw around £15m of further export EWOS orders secured. MASS's closing order book of over £91m includes nearly £28m of revenue to be delivered in 2020/21. Its provision of support to the UK's Joint Forces Command, a service the Group has provided for over 15 years, was recently renewed for a further two years with an option to extend to five years under the UK MOD's Single Source regime. We expect MASS to fall back slightly in the coming year from what was a record performance in 2019/20.

At MCL, order intake of £9.1m was lower than last year's £26.0m which included a large multi-year submarine system order. MCL's closing order book of £8.6m includes £7.5m to be delivered in 2020/21. Our long-term strategy remains to try and strengthen MCL's order book and prospects to give it more visibility of future workflows. With some key prospects in UK naval programmes, MCL should return to modest growth in the coming year.

SEA's order intake at £34.7m was slightly below last year's £36.7m and included nearly £9m of research and technical support activity for the UK MOD and just over £5m of extension and change orders for submarine communication systems. Various support orders for existing SEA equipment on UK naval platforms totalled £4m, lower than last year (2019: £12m) where some multi-year orders were secured. SEA's transport division order intake was just over £8m. SEA also secured a small initial order for its communication systems for Australia's new submarine programme. SEA's order book of £33.6m includes £18.4m (2019: £12.3m) for delivery in 2020/21, a higher level than last year. This time last year we indicated that SEA had an important year ahead to secure longer-term positions on domestic and overseas naval programmes. It made some progress, including in Australia but some of its export opportunities, especially for TLS and the low-profile sonar array (Krait) were delayed. We are expecting some of these to be secured in 2020/21, but timing is always unpredictable. SEA should perform better in the coming year, in part as a result of cost reduction measures taken in early 2020/21.

A significant proportion of Cohort's business will continue to be derived from the UK MOD, either directly or indirectly. The Government is due to present another Strategic Defence Review in the coming year, the last version having been published in November 2015. That Review gave high priority to a number of current and future capabilities where the Group's offerings are strong, including submarines, special forces, cyber and secure communications, and from which we derived revenue of £37.5m this year (2019: £34.4m). We cannot at this stage predict what the new review will say, but we do not expect the UK to step back from its position of strong international influence underpinned by capable armed forces. The recent UK MOD environment has seen some tightening of expenditure but during the COVID-19 lockdown we have seen a continued flow of orders for important services and capability, and in some cases an acceleration.

The coming year is not dependent upon a few significant orders to deliver the in-year performance. However, order infill is required, as always, across the Group, notably at MCL and SEA. 2020/21 will be important for longer term orders at Chess and SEA.

Funding resource and policy

At the time of approval of this statement (22 July 2020), the outbreak of COVID-19 and resultant lockdown measures have given rise to additional risk and uncertainty. The Cohort Board has considered these risks and taken appropriate steps and actions to manage them. These steps have included cost mitigations across the Group and regular monitoring and forecasting of the Group's liquid assets and banking covenants. At 30 April 2020, the Group's cash and readily available credit was £25.5m and the extension of the facility in May has increased this available credit to £35.5m. A very high proportion of our ultimate customers are Governments or Government agencies, with a clear need to invest in defence and security. The international and domestic security environment still calls for greater resources to be devoted to defence and counterterrorism in the UK and many other countries. The Group's cash flows are therefore robust. Over 62% of our revenue for 2020/21 is on contract at 30 April 2020 providing further assurance. The Board considers the Group to be a going concern.

The Group retains a robust financial position and continues to be cash generative enabling it to continue to invest in internal R&D and other value-adding projects on a carefully considered basis as well as maintaining its progressive dividend policy. The Group's cash position and its banking facility provide it with the resources to conduct its acquisition strategy.

NatWest is the Group's primary bank, especially for clearing purposes and day-to-day transactions.

The Group currently benefits from a four-year revolving credit facility (expiring November 2022) with an option to extend for one year (to November 2023). The facility is provided by NatWest and Lloyds. The maximum value of the facility at 30 April 2020 was £30m with an option to extend by a further £10m to £40m. This option was exercised on 20 May 2020, the additional facility being intended for the acquisition of ELAC.

The facility itself provides the Group with a flexible arrangement to draw down for acquisitions and overdraft. As at 30 April 2020, £25.1m of the facility was drawn leaving £4.9m available to be drawn down. With the exercise of the extension option this had increased to £14.9m as at 22 July 2020.

This facility is available to the UK members of the Group and is fully secured over the Group's assets, including those of Chess but excluding EID's.

The UK Group has separate bilateral facilities with each of NatWest and Lloyds for instruments such as forward exchange rates, bank guarantees and letters of credit. In addition, the Group is free to arrange such facilities with other banks where pricing and operational efficiency warrant it. MCL, for example, has a forward exchange facility with Investec Bank.

The Group takes a prudent approach to treasury policy with its overriding objective being protection of capital. In implementing this policy, deposits are usually held with institutions with credit ratings of at least Baa3. Deposits are generally held on short (less than three months) duration to maturity on commencement. This matches the Group's cash resources with its internal monthly 13-week cash forecasts, retaining flexibility whilst trying to ensure an acceptable return on its cash. Most of the Group's UK cash (that is not on short-term deposit) is managed through a set-off arrangement, enabling the most efficient use of the Group's cash from day to day, under the supervision of the Group's finance function.

EID's bank facilities are managed locally with banks in Portugal. The cash is spread across a number of institutions to mitigate risk to the capital.

EID provides no security over its assets and its wide range of banks enable it to be well supported in executing export business.

During the year, EID agreed a local overdraft facility of €2.5m with Santander which is available to EID only. This was undrawn at 30 April 2020.

The Group regularly reviews the ratings of the institutions with which it holds cash and always considers this when placing a new deposit.

The Group's return on net funds during the period was 0.00% to 0.15% (2019: 0.00% to 0.15%).

The Group's net debt as 30 April 2020 was £4.7m. Looking forward, we expect the Group's net debt at 30 April 2021 to be at a similar level with the Group moving back into net funds by 30 April 2022, if there is no further corporate activity. However, we currently expect the acquisition of ELAC to complete by 30 September 2020 and based on our estimates this would add around £2m to the Group's net funds.

In addition to its cash resources, the Group has in issue 41.0m ordinary shares of 10 pence each. Of these shares 0.2m (2019: 0.1m) are owned by the Cohort plc Employee Benefit Trust (EBT), which waives its rights to dividends. In addition, the Group has issued options over ordinary shares through Key Employee Share Option and SAYE schemes to the level of 1.5m at 30 April 2020 (2019: 1.6m).

The Group's exposure to foreign exchange risk arises from two sources:

1. the reporting of overseas subsidiaries' earnings (currently only EID) and net assets in sterling; and
2. transactions in currencies other than our Group reporting currency (£) or subsidiary reporting currency where different (currently € at EID).

The first risk is a reporting rather than cash risk and we do not hedge the reporting of earnings.

In terms of reporting asset values, we have in place a natural hedge of borrowing in euros to acquire a euro asset (EID) but over time as the asset grows and the loan diminishes, this hedge will wane.

We take a prudent approach to transactional foreign exchange risk requiring all significant sales and purchases to be hedged at the point in time when we consider the likelihood of the transaction to be certain, usually on contract award. We do not hedge account and mark these forward contracts to market at each reporting date, recognising any gain or loss in the income statement.

The Group, as in the past, has maintained its progressive dividend policy, increasing its dividend this year by 11% to a total dividend paid and payable of 10.10 pence per share (2019: 9.10 pence).

The last five years' annual dividends, growth rate, earnings and cash cover are as follows:

Year ended 30 April	Dividend Pence	Growth over previous year %	Earnings cover (based upon adjusted earnings per share)	Cash cover (based upon net cash inflow from operations)
2020	**10.1**	**11**	**3.7**	**2.8**
2019	9.1	11	3.8	2.3
2018	8.2	15	3.5	4.0
2017	7.1	18	3.9	0.2
2016	6.0	20	4.5	2.8
2015	5.0	19	4.1	9.2

The growth over recent years has moved the dividend from a relatively low base to a more normal level for an established cash-generative business. Looking forward the Group plans to maintain a policy of growing its dividend each year and we expect the rate of growth to align more closely with the earnings growth of the Group.

The Group's cash generation in 2020 was stronger than the expected flat performance for the year. In summary, the Group's cash performance was as follows:

	2020 £m	2019 £m
Adjusted operating profit	**18.2**	16.2
Depreciation and other non-cash operating movements	**1.8**	1.4
Working capital movement	**(7.4)**	(5.0)
	12.6	12.6
Acquisition of 81.84% of Chess	**-**	(22.0)
Costs paid in respect of acquiring ELAC	**(0.5)**	-
Costs paid in respect of MASS relocation	**(0.3)**	-
Restructuring of SEA	**-**	(0.5)
Reorganisation of SCS	**-**	(0.5)
Tax, dividends, capital expenditure, interest, loans and other investments	**(10.1)**	(7.3)
Increase/(decrease) in funds	**1.7**	(17.7)

The slightly higher cash outflow in tax, dividends, etc. was mostly due to a net investment in own shares (EBT) of £2.2m (2019: net receipt of £0.1m). Looking forward, we retain the flexibility to use newly issued shares as well as EBT shares to satisfy employee share options.

The Group's customer base of governments, major prime contractors and international agencies make its debtor risk low. The year-end debtor days in sales were 37 days (2019: 22 days). This calculation is based upon dividing the revenue by month, working backwards from April, into the trade debtors balance (excluding revenue recognised not invoiced) at the year end. This is a more appropriate measure than calculating based upon the annual revenue as it takes into account the heavy weighting of the Group's revenue in the last quarter of each year. The increase in debtor days reflects delays to invoicing and receipts in the final quarter, especially with export customers, much of this due to the COVID-19 lockdown. This was partly mitigated by accelerated payments by our largest customer, the UK MOD in response to the pandemic.

Tax

The Group's tax charge for the year ended 30 April 2020 of £295,000 (2019: charge of £584,000) was at a rate of 3.0% (2019: rate of 10.3%) of profit before tax. This includes a current year corporation tax charge of £2,325,000 (2019: £2,350,000), a prior year corporation tax credit of £770,000 (2019: credit of £9,000) and a deferred tax credit of £1,260,000 (2019: £1,757,000).

The Group's overall tax rate was below the standard corporation tax rate of 19.00% (2019: 19.00%). The reduction is due to an R&D tax credit in Portugal of £0.6m in respect of expenditure incurred in this and prior years in developing an enhanced vehicle intercoms system by EID and prior year tax credits in our UK businesses where previously prudent positions in respect of R&D tax credits and other estimates were unwound as the actual liabilities were confirmed.

The Group has reported research and development expenditure credits (RDEC) for the UK in accordance with IAS 20 and shown the credit £784,000 (2019: £744,000) in cost of sales and adjusted the tax charge accordingly. The RDEC has been reversed in reporting the adjusted operating profit for the Group to ensure comparability of operating performance year on year.

Looking forward, the Group's effective current tax rate (excluding the impact of RDEC reporting) for both 2020/21 is estimated at 16%. This assumes that the R&D tax credit regime remains unchanged from its current level and scope offset by an increased proportion of profit before tax from EID at higher Portuguese tax rates. The Group maintains a cautious approach to previous R&D tax credit claims for tax periods that are still open, currently 2018/19 and 2019/20.

Exceptional items

The exceptional items this year are just under £0.8m in respect of acquisition costs of ELAC, which is yet to complete and £0.6m for relocating MASS's Lincoln office during the year, much of the cost being impairment of a right of use asset, where the business no longer occupies that facility. This would have previously been an onerous lease provision under IAS 17. These two costs were partly offset by an exceptional gain on reducing the estimated earn out payable to the shareholders of Chess on or before 31 October 2021 by just over £0.7m.

Adjusted earnings per share

The adjusted earnings per share (EPS) of 37.10 pence (2019: 33.60 pence) is reported in addition to the basic earnings per share and excludes the effect of exceptional items, amortisation of intangible assets and exchange movement on marking forward exchange contracts to market, all net of tax.

The adjusted earnings per share exclude the non-controlling interest of EID (20%) and Chess (18.16%).

The reconciliation is as follows:

	Adjusted operating profit £m	Adjusted earnings per share Pence
Year ended 30 April 2019	16.2	33.60
Contribution from Chess for a full year (at 81.84% for adjusted earnings per share), 5 months in 2019	2.2	4.36
100% owned businesses throughout the year ended 30 April 2020	(2.0)	(4.87)
EID (80% owned)	1.8	3.44
Impact of higher interest cost	-	(1.19)

Change in tax rate 11.1% (2019: 15.3%)

Dilution from higher weighted average number of shares (due to option exercises)	-	0.02
Year ended 30 April 2020	**18.2**	37.10
Increase from 2019 to 2020	12%	10%

The adjustments to the basic EPS in respect of exceptional items, exchange movements and other intangible asset amortisation of EID and Chess only reflect that proportion of the adjustment that is applicable to the equity holders of the parent.

Accounting policies

The 2020 figures include the impact of adopting IFRS 16 'Leases' from 1 May 2020. The Group has, as permitted by the standard, not adjusted the reported results for the year ended 30 April 2019. The impact of adopting IFRS 16 is explained in note 9, but in summary, it has added £0.2m to the adjusted operating profit for 2020 when compared with 2019 and at the profit before tax level, a slight reduction (less than £0.1m). The addition to the Group's assets of £6.9m, reported as right of use assets and Group liabilities of £7.5m (lease liability) is more marked at 30 April 2020. This lease liability is not included in the Group's net debt as shown in the Consolidated statement of cash flows (page 25) or the debt for the purposes of bank covenant tests.

Andrew Thomis and Simon Walther

CONSOLIDATED INCOME STATEMENT

For the year ended 30 April 2020

	Notes	**2020 £'000**	2019 £'000
Revenue	2	**131,059**	121,182
Cost of sales		**(80,016)**	(78,143)
Gross profit		**51,043**	43,039
Administrative expenses		**(40,312)**	(37,095)
Operating profit	2	**10,731**	5,944
Comprising:			
Adjusted operating profit	2	**18,223**	16,164
Amortisation of other intangible assets (included in administrative expenses)		**(7,354)**	(9,514)
Research and development expenditure credits (RDEC) (included in cost of sales)		**784**	744
(Charge)/credit on marking forward exchange contracts to market value at the yearend (included in cost of sales)		**(132)**	33
Exceptional items (included in administrative expenses)			
Cost of acquisition of ELAC - transaction yet to complete	8	**(950)**	-
Cost of relocation of MASS's Lincoln facility		**(590)**	-
Adjustment to earn-out on acquisition of Chess	7	**750**	-
Cost of acquisition of EID		-	17
Cost of acquisition of Chess		-	(1,000)
Cost of restructuring at SEA		-	(500)
		10,731	5,944
Finance income		**27**	27
Finance costs		**(779)**	(296)
Profit before tax		**9,979**	5,675
Income tax charge	3	**(295)**	(584)
Profit for the year		**9,684**	5,091
Attributable to:			
Equity shareholders of the parent		**9,559**	5,447
Non-controlling interests		**125**	(356)
		9,684	5,091

All profit for the year is derived from continuing operations.

	Notes	**Pence**	Pence
Earnings per share	4		
Basic		**23.47**	13.37
Diluted		**23.24**	13.29
Adjusted earnings per share	4		
Basic		**37.10**	33.60
Diluted		**36.73**	33.42
Dividends per share paid and proposed in respect of the year	5		
Interim		**3.20**	2.85
Final		**6.90**	6.25
		10.10	9.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2020

	2020 £'000	2019 £'000
Profit for the year	**9,684**	5,091
Items which may be subsequently reclassified to profit or loss		
Foreign currency translation differences on net assets of EID, net of loan used to acquire EID	**32**	(21)
Other comprehensive income for the period, net of tax	**32**	(21)
Total comprehensive income for the year	**9,716**	5,070
Attributable to:		
Equity shareholders of the parent	**9,586**	5,559
Non-controlling interests	**130**	(489)
	9,716	5,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 April 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Goodwill		**42,091**	41,354
Other intangible assets		**13,234**	20,588
Right of use asset	9	**6,900**	-
Property, plant and equipment		**12,121**	10,956
Deferred tax asset		**598**	365
		74,944	73,263
Current assets			
Inventories		**11,478**	13,452
Trade and other receivables		**47,423**	42,971
Cash and cash equivalents		**20,567**	18,763
		79,468	75,186
Total assets		**154,412**	148,449
Liabilities			
Current liabilities			
Trade and other payables		**(30,985)**	(35,225)
Derivative financial instruments		**(231)**	(99)
Lease liability	9	**(1,257)**	-
Bank borrowings		**(85)**	(61)
Provisions		**(1,546)**	(818)
		(34,104)	(36,203)
Non-current liabilities			
Deferred tax liability		**(2,820)**	(4,041)
Lease liability	9	**(6,240)**	-
Bank borrowings		**(25,189)**	(25,126)
Provisions		**(270)**	(608)
Other payable	7	**(4,000)**	(5,500)
		(38,519)	(35,275)
Total liabilities		**(72,623)**	(71,478)
Net assets		**81,789**	76,971
Equity			
Share capital		**4,096**	4,096
Share premium account		**29,657**	29,657
Own shares		**(1,564)**	(348)
Share option reserve		**846**	603
Other reserves	7	**(3,600)**	(4,350)
Retained earnings		**46,108**	41,034
Total equity attributable to the equity shareholders of the parent		**75,543**	70,692
Non-controlling interests		**6,246**	6,279
Total equity		**81,789**	76,971

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 April 2020

	Attributable to the equity shareholders of the parent								
Group	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 May 2018	4,096	29,657	(1,190)	626	-	39,253	72,442	2,554	74,996
Profit for the year	-	-	-	-	-	5,447	5,447	(356)	5,091

Other comprehensive income for the year	-	-	-	-	-	112	112	(133)	(21)
Total comprehensive income for the year	-	-	-	-	-	5,559	5,559	(489)	5,070
Transactions with owners of Group and non-controlling interests, recognised directly in equity									
Equity dividends	-	-	-	-	-	(3,464)	(3,464)	-	(3,464)
Vesting of Restricted Shares	-	-	-	-	-	178	178	-	178
Own shares purchased	-	-	(631)	-	-	-	(631)	-	(631)
Own shares sold	-	-	743	-	-	-	743	-	743
Net loss on selling own shares	-	-	730	-	-	(730)	-	-	-
Share-based payments	-	-	-	291	-	-	291	-	291
Deferred tax adjustment in respect of share-based payments	-	-	-	(76)	-	-	(76)	-	(76)
Transfer of share option reserve on vesting of options	-	-	-	(238)	-	238	-	-	-
Acquisition of 81.84% of Chess	-	-	-	-	(4,350)	-	(4,350)	4,214	(136)
At 30 April 2019	4,096	29,657	(348)	603	(4,350)	41,034	70,692	6,279	76,971
Impact of IFRS 16 'leases' as at 1 May 2019	**-**	**-**	**-**	**-**	**-**	**(148)**	**(148)**	**-**	**(148)**
Restated as at 1 May 2019	**4,096**	**29,657**	**(348)**	**603**	**(4,350)**	**40,886**	**70,544**	**6,279**	**76,823**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**9,559**	**9,559**	**125**	**9,684**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**27**	**27**	**5**	**32**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**9,586**	**9,586**	**130**	**9,716**
Transactions with owners of Group and non-controlling interests, recognised directly in equity									
Equity dividends	**-**	**-**	**-**	**-**	**-**	**(3,853)**	**(3,853)**	**-**	**(3,853)**
Vesting of Restricted Shares	**-**	**-**	**-**	**-**	**-**	**210**	**210**	**-**	**210**
Own shares purchased	**-**	**-**	**(3,677)**	**-**	**-**	**-**	**(3,677)**	**-**	**(3,677)**
Own shares sold	**-**	**-**	**1,472**	**-**	**-**	**-**	**1,472**	**-**	**1,472**
Net loss on selling own shares	**-**	**-**	**989**	**-**	**-**	**(989)**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**318**	**-**	**-**	**318**	**-**	**318**
Deferred tax adjustment in respect of share-based payments	**-**	**-**	**-**	**193**	**-**	**-**	**193**	**-**	**193**
Transfer of share option reserve on vesting of options	**-**	**-**	**-**	**(268)**	**-**	**268**	**-**	**-**	**-**
Change in fair value of Chess's net assets acquired (note 7)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(163)**	**(163)**
Change in option for acquiring non-controlling interest in Chess (note 7)	**-**	**-**	**-**	**-**	**750**	**-**	**750**	**-**	**750**
At 30 April 2020	**4,096**	**29,657**	**(1,564)**	**846**	**(3,600)**	**46,108**	**75,543**	**6,246**	**81,789**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 April 2020

	Notes	**2020 £'000**	2019 £'000
Net cash generated from operating activities	6	**11,597**	8,635
Cash flow from investing activities			
Interest received		**27**	27
Purchases of property, plant and equipment		**(2,662)**	(2,058)
Acquisition of Chess (including net debt acquired)		-	(20,885)
Net cash used in investing activities		**(2,635)**	(22,916)
Cash flow from financing activities			
Dividends paid		**(3,853)**	(3,464)
Purchase of own shares		**(3,677)**	(631)
Sale of own shares		**1,472**	743
Drawdown of borrowings		**98**	18,017
Repayment of borrowings		**(78)**	(2,027)
Repayment of lease liabilities		**(1,114)**	-
Net cash (used in)/generated from financing activities		**(7,152)**	12,638
Net increase/(decrease) in cash and cash equivalents		**1,810**	(1,643)
Represented by:			
Cash and cash equivalents and short-term borrowings brought forward		**18,763**	20,511
Cash flow		**1,810**	(1,643)
Exchange		**(6)**	(105)
Cash and cash equivalents and short-term borrowings carried forward		**20,567**	18,763

	At 1 May 2019 £'000	Effect of foreign exchange rate changes £'000	Cash flow £'000	**At 30 April 2020 £'000**
Net debt reconciliation				
Group				
Cash and bank	18,763	(6)	1,810	**20,567**
Short-term deposits	-	-	-	-
Cash and cash equivalents	18,763	(6)	1,810	**20,567**
Loan	(25,028)	(67)	-	**(25,095)**

Finance lease	(159)	-	(20)	**(179)**
Debt	(25,187)	(67)	(20)	**(25,274)**
Net debt	(6,424)	(73)	1,790	**(4,707)**

NOTES TO THE PRELIMINARY RESULTS ANNOUNCEMENT

1. BASIS OF PREPARATION

The financial information contained within this preliminary report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union and applying at 30 April 2020. The information in this preliminary statement has been extracted from the financial statements for the year ended 30 April 2020 and as such, does not contain all the information required to be disclosed in the financial statements prepared in accordance with IFRS.

Throughout the period, the Group owned 80% of EID and 81.84% of Chess and in both cases had effective control. Therefore, 100% of EID's and Chess's results and balances has been consolidated with the non-controlling interest identified.

The Group's Annual Report for the year ended 30 April 2020 has yet to be delivered to the Registrar of Companies.

The comparative figures for the financial year ended 30 April 2019 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was:

i. unqualified,
ii. did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and
iii. did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Group meets its day-to-day working capital requirements through a facility which is due for renewal in November 2022. Both the current domestic economic conditions (including the COVID-19 pandemic) and continuing UK Government budget pressures, including defence, create uncertainty, particularly over the level of demand for the Group's products.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

The preliminary announcement was approved by the Board and authorised for issue on 22 July 2020.

Copies of the Annual Report and accounts for the year ended 30 April 2020 will be posted to shareholders on 11 August 2020 and will be available on the Company's website (www.cohortplc.com) from that date.

2. SEGMENTAL ANALYSIS OF REVENUE AND OPERATING PROFIT

	Year ended 30 April 2020 £000	Year ended 30 April 2019 £000
Revenue		
Chess	**25,155**	10,674
EID	**18,020**	11,530
MASS	**41,115**	38,936
MCL	**15,064**	21,715
SEA	**31,705**	38,327
	131,059	121,182
Adjusted Operating Profit		
Chess	**3,923**	1,682
EID	**3,108**	1,357
MASS	**8,914**	8,175
MCL	**1,660**	2,282
SEA	**3,532**	5,492
Central costs	**(2,914)**	(2,824)
	18,223	16,164
Amortisation of other intangible assets	**(7,354)**	(9,514)
Research and development expenditure credit (RDEC)	**784**	744
(Charge)/credit on marking forward exchange contracts to market value at the year end	**(132)**	33
Exceptional items:		
Cost of acquisition of ELAC - yet to complete	**(950)**	-
Cost of relocation of MASS's Lincoln facility	**(590)**	-
Adjustment to earn-out on acquisition of Chess	**750**	-
Costs of acquisition of EID	-	17

Costs of acquisition of Chess	-	(1,000)
Restructuring of SEA	-	(500)
Operating Profit	**10,731**	5,944

The above segmental analysis is the primary segmental analysis of the Group.

All revenue and adjusted operating profit are in respect of continuing operations.

The operating profit as reported under IFRS is reconciled to the adjusted operating profit as reported above by the exclusion of amortisation of other intangible assets, RDEC, change on marking forward exchange contracts to market value at the year end and exceptional items.

The adjusted operating profit is presented in addition to the operating profit to provide the trading performance of the Group, as derived from its constituent elements on a consistent basis from year to year.

3. TAX CHARGE

	Year ended 30 April 2020 £000	Year ended 30 April 2019 £000
UK Corporation tax:		
Current year	**2,227**	**2,729**
Prior year	**(785)**	**(10)**
Portugal corporation tax	**145**	**(409)**
Other foreign corporation tax	**(31)**	**31**
	1,556	**2,341**
Deferred taxation:		
Prior year	**36**	**(44)**
Current year	**(1,297)**	**(1,713)**
	(1,261)	**(1,757)**
	295	**584**

The current year corporation tax charge (2019: charge) includes £188,000 credit (2019: £169,000 credit) in respect of exceptional items and the current year deferred tax credit includes a credit of £1,425,000 (2019: credit of £1,688,000) in respect of the amortisation of other intangible assets and a current year credit of £25,000 (2019: £6,000 charge) in respect of marking forward exchange contracts to market value at the year end.

4. EARNINGS PER SHARE

The earnings per share are calculated by dividing the earnings for the year by the weighted average number of ordinary shares in issue as follows:

	Year ended 30 April 2020 £000	Year ended 30 April 2019 £000
Earnings		
Basic and diluted earnings	**9,559**	5,447
Amortisation of other intangible assets (net of tax of £1,425,000; 2019: £1,688,000)	**4,840**	6,956
Charge/(credit) on non-trading foreign exchange movements (net of tax credit of £25,000 (2019: charge of £6,000)	**107**	(27)
Cost of acquisition of ELAC (net of tax of £76,000)	**874**	-
Cost of relocation of MASS's Lincoln facility (net of tax of £112,00)	**478**	-
Adjustment to earn-out on acquisition of Chess (nil tax)	**(750)**	-
Costs of acquisition of EID (nil tax)	-	(17)
Costs of acquisition of Chess (net of tax credit of £74,000)	-	926
Restructuring of SEA (net of tax credit of £95,000)	-	405
Adjusted basic and diluted earnings	**15,108**	13,690

The adjustment for the amortisation of intangible assets in respect of EID and Chess for the year ended 30 April 2020 and 2019 reflects the interests of the equity holders of the parent only and exclude the proportion allocated to the non-controlling interest in each year.

	Year ended 30 April 2020 Number	Year ended 30 April 2019 Number
Weighted average number of shares		
For the purposes of basic earnings per share	**40,728,149**	40,749,551
Share options	**409,484**	224,086

For the purposes of diluted earnings per share	**41,137,633**	40,973,637

	Year ended 30 April 2020 Pence	Year ended 30 April 2019 Pence
Earnings per share		
Basic	**23.47**	13.37
Diluted	**23.24**	13.29
Adjusted earnings per share		
Basic	**37.10**	33.60
Diluted	**36.73**	33.42

5. **DIVIDENDS**

The proposed final dividend for the year ended 30 April 2020 is 6.90 pence (2019: 6.25 pence) per ordinary share. This dividend will be payable on 18 September 2020 to shareholders on the register at 14 August 2020 subject to approval by shareholders at the AGM on 15 September 2020.

The total paid and proposed dividend for the year ended 30 April 2020 is 10.10 pence per ordinary share; a cost of £4,149,000 (2019: 9.10 pence per ordinary share; cost of £3,718,000).

The charge for the year ended 30 April 2020 of £3,853,000 is the final dividend for the year ended 30 April 2019 paid (£2,544,000) and the interim dividend for the year ended 30 April 2020 paid (£1,309,000).

6. **NET CASH GENERATED FROM OPERATING ACTIVITIES**

	Year ended 30 April 2020 £000	Year ended 30 April 2019 £000
Profit for the year	**9,684**	5,091
Adjustments for:		
Tax charge	**295**	584
Depreciation of property, plant and equipment	**1,472**	1,147
Depreciation of right of use assets	**1,168**	-
Amortisation of goodwill and other intangible assets	**7,354**	9,514
Net finance expense	**752**	269
Share-based payment	**318**	291
Derivative financial instruments and other non-trading exchange movements	**132**	(33)
Decrease in provisions	**(511)**	(1,186)
Operating cash inflows before movements in working capital	**20,664**	15,677
Decrease/(increase) in inventories	**1,974**	(2,812)
Increase in receivables	**(4,597)**	(794)
Decrease in payables	**(5,059)**	(451)
	(7,682)	(4,057)
Cash generated by operations	**12,982**	11,620
Tax paid	**(606)**	(2,689)
Interest paid	**(779)**	(296)
Net cash generated from operating activities	**11,597**	8,635

Interest paid includes the interest element of lease liabilities under IFRS 16 of £246,000 (2019: nil).

7. **ACQUISITION OF CHESS TECHNOLOGIES LIMITED (CHESS)**

As announced on 12 December 2018, Cohort plc acquired 81.84% of Chess for an initial cash consideration of just over £20.0m. The Group has recognised 100% of Chess' results and net assets from that date as it has effective control.

The acquisition accounting for Chess was reviewed prior to the first anniversary of its acquisition (12 December 2019) and further provisions were recognised of £900,000 in respect of contract liabilities.

The change to the provisional fair values of net assets acquired at 81.84% was £737,000 and this amount has been added to the goodwill arising from the acquisition. The balance of £163,000 was added to the non-controlling interest.

The goodwill of £2.9m (2019: £2.2m) arising from the acquisition represents customer contacts, supplier relationships and know-how to which no certain value can be ascribed. None of the goodwill is expected to be deductible for tax purposes.

Under the sale and purchase agreement, up to a further £12.7m is payable to the shareholders of Chess as an earn out based upon its trading performance over the three years ended 30 April 2021. Based upon the actual performance to 30 April 2020 and latest forecasts to 30 April 2021, this earn out is estimated at £0.4m as at 30 April 2020 (2019: £1.15m).

The sale and purchase agreement for the acquisition of Chess includes a put and call option for the purchase of the remaining shares (18.16%) in Chess, the non-controlling interest.

This option is exercisable by 31 October 2021 and is capped at £9.1m. The amount payable is dependent upon the performance of the Chess business for the three years ended 30 April 2021.

The non-controlling interest is entitled to participate in any dividends payable by Chess in the period to 30 April 2021.

In accordance with IFRS 3, the Group has ascribed a value to the option to acquire the non-controlling interest of Chess. This value is £3.60m (2019: £4.35m) and the option is shown as a non-current liability and, as the non-controlling interest has a right to dividends, in the other reserves as "option for acquiring non-controlling interest in Chess".

8. **COSTS IN RESPECT OF THE ACQUISTION OF WÄRTSILÄ ELAC NAUTIK GmbH (ELAC)**

The Group has incurred, including estimated costs, £950,000 in respect of acquiring ELAC. These costs have been reported as exceptional costs.

The acquisition of ELAC has not yet completed and is subject to German Federal Government approval. The acquisition is currently expected to complete on or before 30 September 2020.

The acquisition costs include £0.3m in respect of extending the Group's banking facility from £30m to £40m by activating an Accordion, the additional £10m to be used to acquire ELAC.

9. **CHANGES IN ACCOUNTING POLICIES**

The Group has adopted IFRS 16 'Leases' from 1 May 2020 and applied the modified retrospective approach. The 2019 comparative figures have not been adjusted.

The impact of IFRS 16 on the reported results of the Group for the year ended 30 April 2020 are an increase in operating profit of £192,000 (2019: nil) and an increase in interest charge of £246,000 (2019: nil). A net decrease in profit before tax of £54,000 (2019: nil).

The Group's assets and liabilities have also been grossed up on the application of this standard. At 30 April 2020, £6.9m (2019: nil) has been added to the Group's non-current assets, reported as right of use assets. At the same time, the Group's liabilities have also been increased by £7.5m (2019: nil), split £1.3m due less than one year and £6.2m due greater than one year.

These lease liabilities are not included in the Group's net debt as shown in the Consolidated statement of cash flows (page 25) or the debt for banking covenant purposes.

END

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