

# COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

## RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2020

10 December 2020



# HIGHLIGHTS

Andy Thomis, Chief Executive



# IMPACT & MITIGATION OF COVID-19

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## Employees

- Employee safety and wellbeing remains paramount
- We have adopted new ways of working to enable continued customer support

## Operations

- Limited impact to date
- Challenges in service delivery, customer acceptance and business development

## Outlook

- Welcome arrival of the vaccines
- Gradual return to near normal work as restrictions lift

## Liquidity

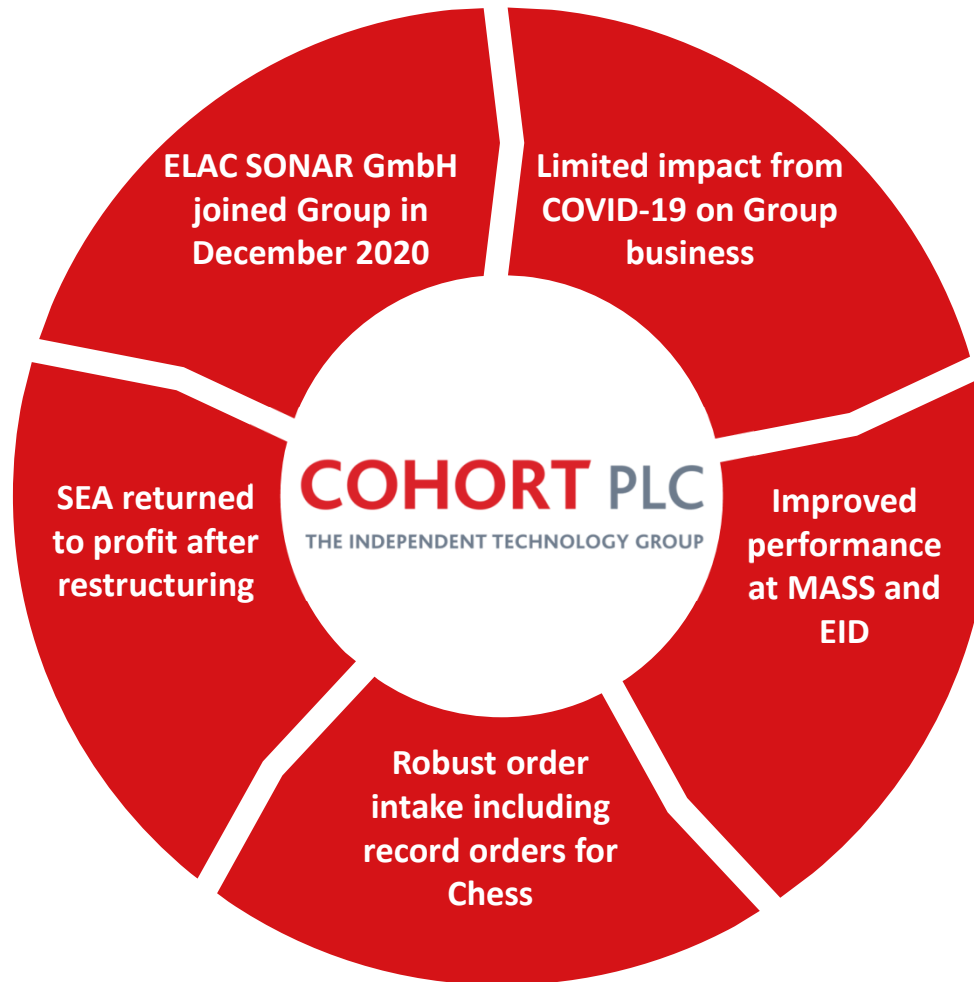
- Modest net debt of £6.1m at 31 October
- Group has access to over £30m of available funds post ELAC transaction

# FINANCIAL HIGHLIGHTS

<p><b>Improved operating profit despite lower revenue</b></p>	<p><b>Revenue</b></p> <p><b>£54.4m</b></p> <p><b>-10%</b></p> <p>(H1 19: £60.2m)</p>	<p><b>Adjusted Operating Profit</b></p> <p><b>£4.3m</b></p> <p><b>+8%</b></p> <p>(H1 19: £4.0m)</p>	<p><b>Adjusted EPS</b></p> <p><b>7.74p</b></p> <p><b>+12%</b></p> <p>(H1 19: 6.94p)</p>
<p><b>Strong order intake and improved revenue cover</b></p>	<p><b>Order intake</b></p> <p><b>£89.2m</b></p> <p><b>+16%</b></p> <p>(H1 19: £77.2m)</p>	<p><b>Order book</b></p> <p><b>£218.5m</b></p> <p><b>+6%</b></p> <p>(H1 19: £206.7m)</p>	<p><b>Revenue cover</b></p> <p><b>92%</b></p> <p>(2019/20: 83%)</p>
<p><b>Net debt in line with expectations</b></p>	<p><b>Operating Cash flow</b></p> <p><b>+£4.9m</b></p> <p>(H1 19 : £5.0m)</p>	<p><b>Net debt</b></p> <p><b>£6.1m</b></p> <p>(30/4/20 : £4.7m)</p>	<p><b>Interim Dividend</b></p> <p><b>3.50p</b></p> <p><b>+9%</b></p>

# OPERATIONAL HIGHLIGHTS

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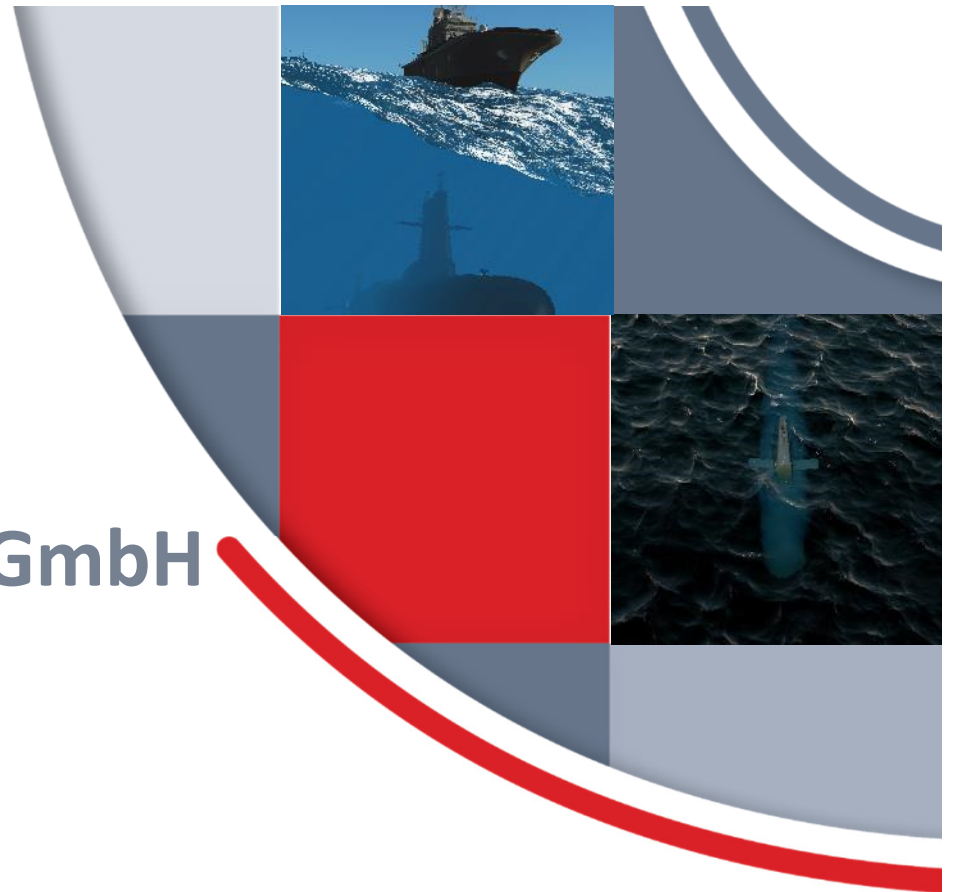


# ACQUISITION OF WÄRTSILÄ ELAC NAUTIK GmbH



**COHORT** PLC

Cohort plc Interim Results Presentation 10 December 2020



Acquisition update

# ACQUISITION OF WÄRTSILÄ ELAC NAUTIK GmbH

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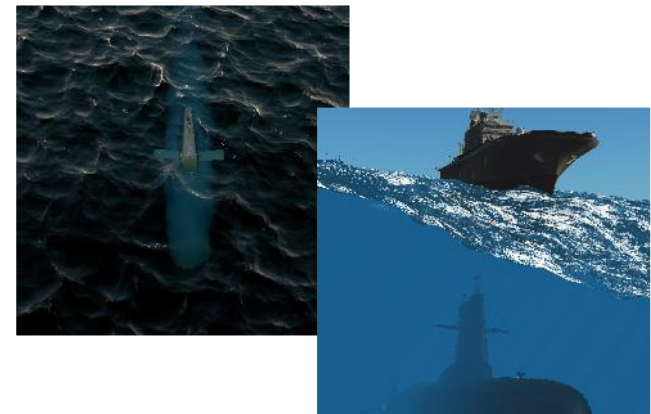
- Cohort's sixth standalone subsidiary, completed 2 December 2020
- Renamed ELAC SONAR GmbH on acquisition
- A leader in sonar systems for naval surface ships and submarines
- Headquartered in Kiel, Germany, employing 130 people – management remaining in place
- Strong focus on exports, with 80-90% revenue from naval markets
- Established presence in SE Asia and Europe, adds Germany as a domestic market
- Naval customers include Indonesia, Italy, Korea, Japan, Netherlands, Singapore, Sweden, Taiwan, Portugal



# REASONS FOR AND BENEFITS OF THE ACQUISITION

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





# FINANCIAL TERMS AND HIGHLIGHTS OF ACQUISITION

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- Headline price is €11.25m for 100% shares, no earnout
- Initial cash payment of €10.5m (£9.5m)
- Funded from existing cash resources and £40m credit facility agreed in 2019
- Order book as at 31 October 2020 €26.0m, of which c.€12m for delivery during calendar year 2021, with some long term orders to 2025
- Revenue of €20.7m, EBIT €1.0m expected for year ending 31 December 2020
- Expected to be earnings enhancing in FY21/22

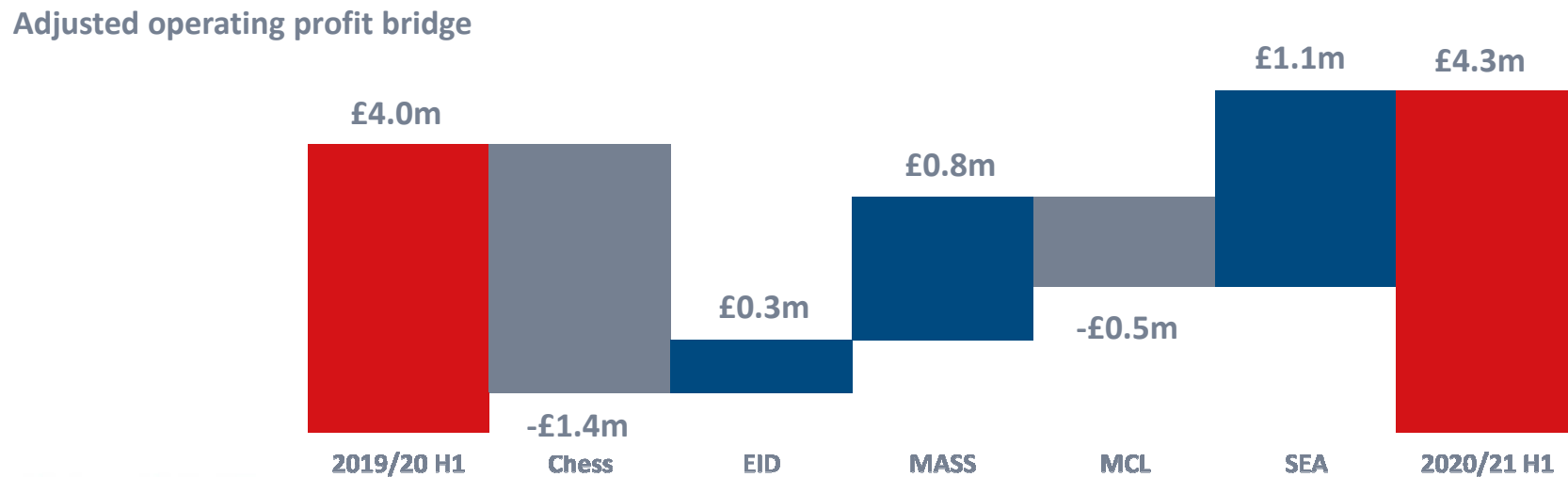
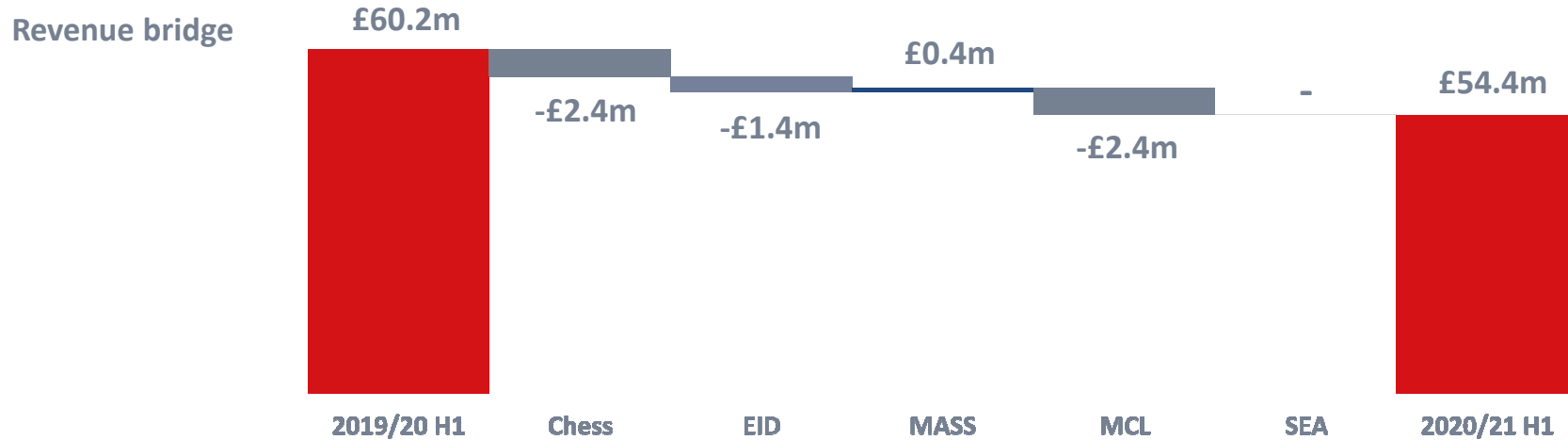


# FINANCIAL AND DIVISIONAL REVIEW

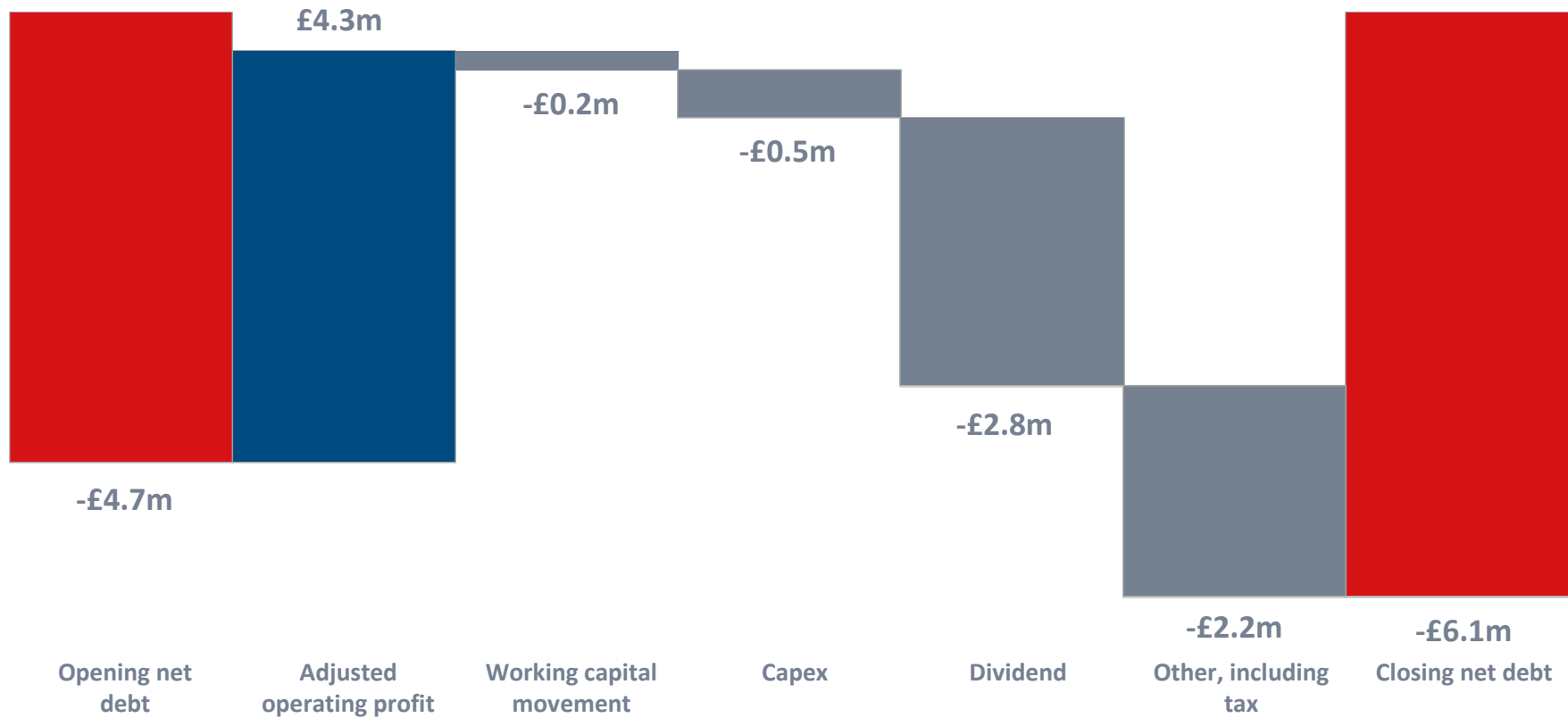
Simon Walther, Finance Director



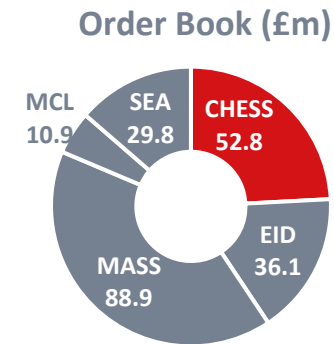
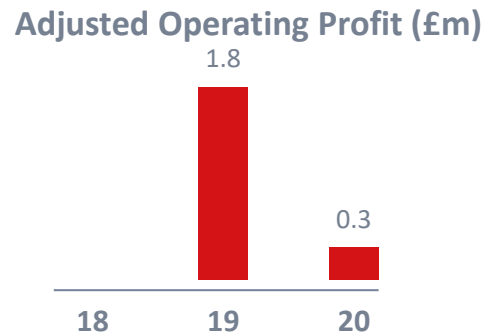
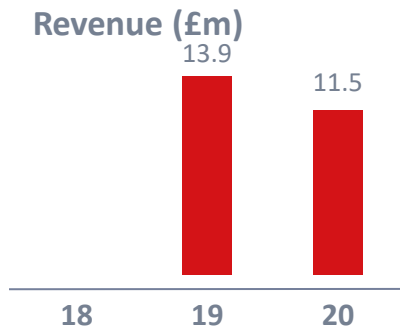
# REVENUE & ADJUSTED OPERATING PROFIT BRIDGE



# CASH BRIDGE



# CHESS HIGHLIGHTS



## Financial

- Reduced revenue due to higher export counter-drone systems last year
- Lower profit due to higher bought in content for systems delivered in H1 2020/21

## Operational

- Record order intake of £51m
- Secured position on key European naval programmes

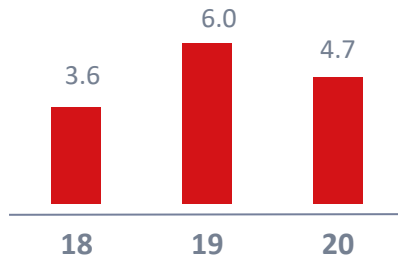
## Outlook

- Record order book covers over 90% of full year forecast revenue
- Long term prospects for naval, land and counter-drone systems remain strong

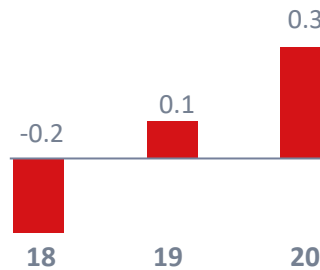
Divisional Highlights

# EID HIGHLIGHTS

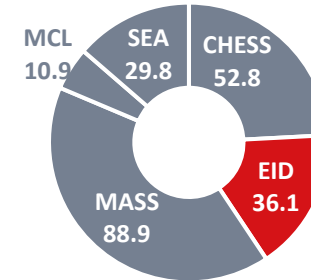
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



**Financial**

- Operating profit improved due to mix of work

**Operational**

- Improved performance including higher naval systems activity
- New MD appointed

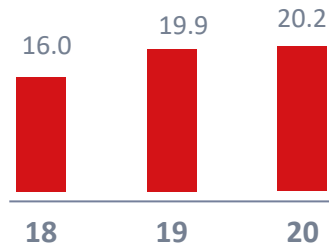
**Outlook**

- Expecting stronger second half
- Good order book underpins over 90% of full year forecast revenue

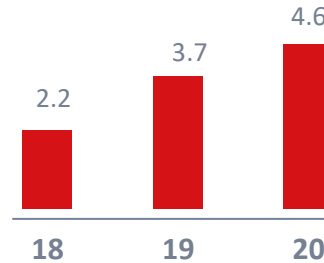
Divisional Highlights

# MASS HIGHLIGHTS

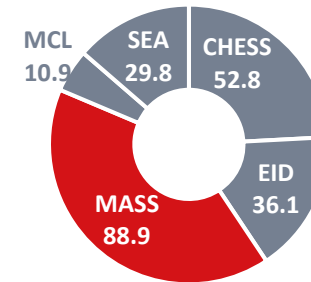
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



## Financial

- Operating profit better than 2019, with 22% net margin
- Benefitted from product mix

## Operational

- Improved mix with higher level of long-term managed service activity
- Renewed important contract for UK Joint Forces Command

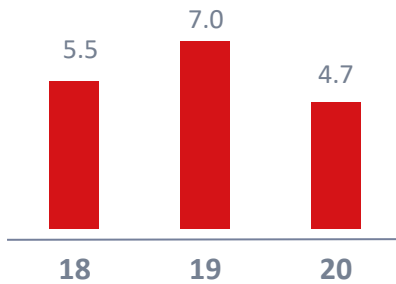
## Outlook

- Operating profit for full year expected to be similar to last year
- Good order book underpins over 90% of full year revenue expectations

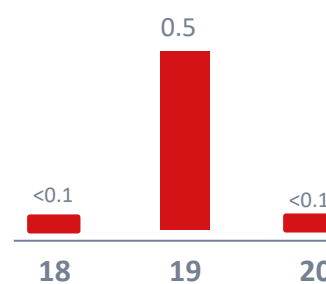
Divisional Highlights

# MCL HIGHLIGHTS

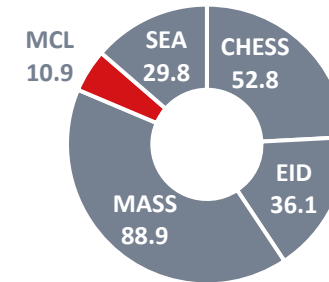
Revenue (£m)



Adjusted Operating Profit (£m)



Order Book (£m)



## Financial

- Breakeven performance on slightly lower revenue
- Lower activity in supplying to UK MOD, particularly Royal Navy

## Operational

- UK MOD deployment of resources to support COVID-19 response delaying orders

## Outlook

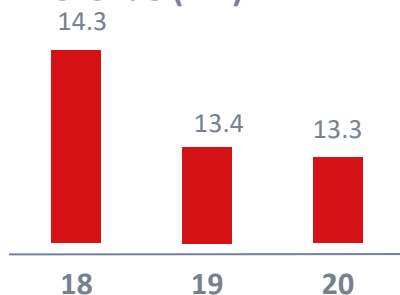
- Expect full year to be in line with 2019/20
- Reasonably well underpinned for H2



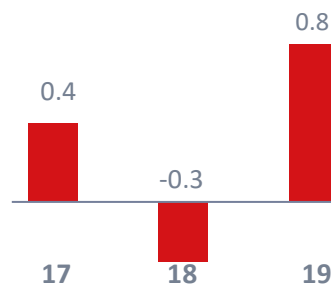
## Divisional Highlights

# SEA HIGHLIGHTS

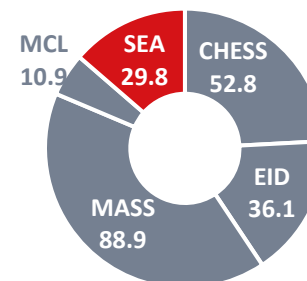
### Revenue (£m)



### Adjusted Operating Profit (£m)



### Order Book (£m)



### Financial

- Adjusted operating profit of £0.8m on slightly lower revenue of £13.3m
- Return to profitability result of lower overhead, partly due to restructuring

### Operational

- Disposed of Subsea business
- New MD appointed

### Outlook

- Several key orders expected from new customers and service extensions, giving better visibility for future years
- Reasonably well-underpinned for H2 expecting performance ahead of FY19/20

## OTHER FINANCIAL ITEMS

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### Income Statement

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

### Balance Sheet

- No goodwill impairment

### Payables

- €11.25m (£10.0m) paid for Wärtsilä ELAC Nautik GmbH out of cash & debt resources
- Estimated £4.0m payable on or before 31 October 2021 to acquire minority (including earn out) of Chess

### Banking Facilities

- £19.4m cash at 31 October 2020
- £40m facility of which £25m is drawn
- Post ELAC, Group cash ~£32m and debt drawn £37m

# 2020/21 MODELLING GUIDANCE

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## Income Statement

- Anticipate amortisation of £6.5m in 2020/21, £3.5m in 2021/22 and around £1.5m in each of the two years thereafter (stated pre-ELAC)
- Underlying tax rate of 16% (excluding RDEC) but still hold tax provisions

## Cash flow

- Operating cash inflow of <£5m
- Tax/capex/dividends £5.3m

## Balance Sheet

- Closing net debt at 30 April 2021 expected to be unchanged at £5m, post ELAC

**H2 strongly weighted as in previous years**

# OUTLOOK & PROSPECTS

Andy Thomis, Chief Executive



# OUTLOOK FOR GROWTH

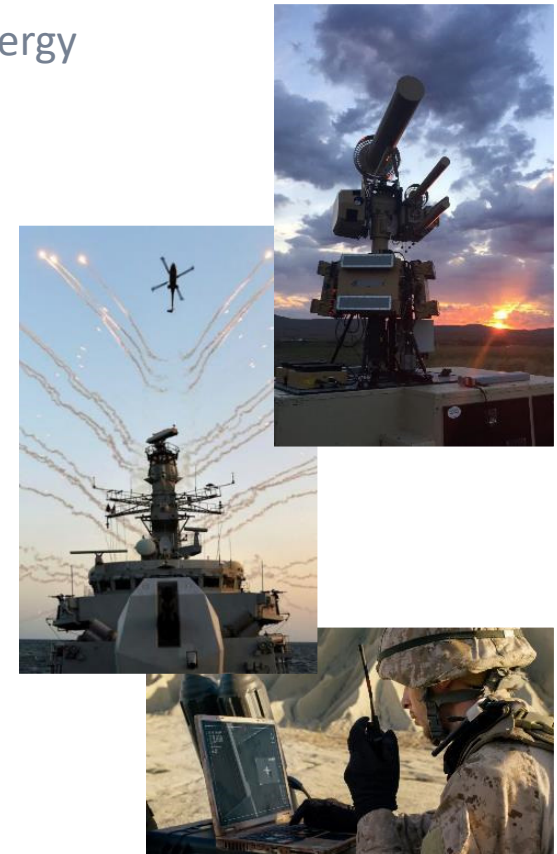
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## Home markets

- Low impact of COVID-19 on home market
- UK defence spending boost expected in relevant areas for Group, including naval programmes, cyber, AI and directed energy
- Cohort's major programmes are stable, long term and operationally important

## Export markets

- Export revenues remain strong in H1 2020/21 (£19.6m)
- Export orders of just over £50m represented 56% of total H1 order intake
- Developing new markets through introduction of ELAC SONAR naval systems



## Outlook

# INVESTING FOR ORGANIC GROWTH

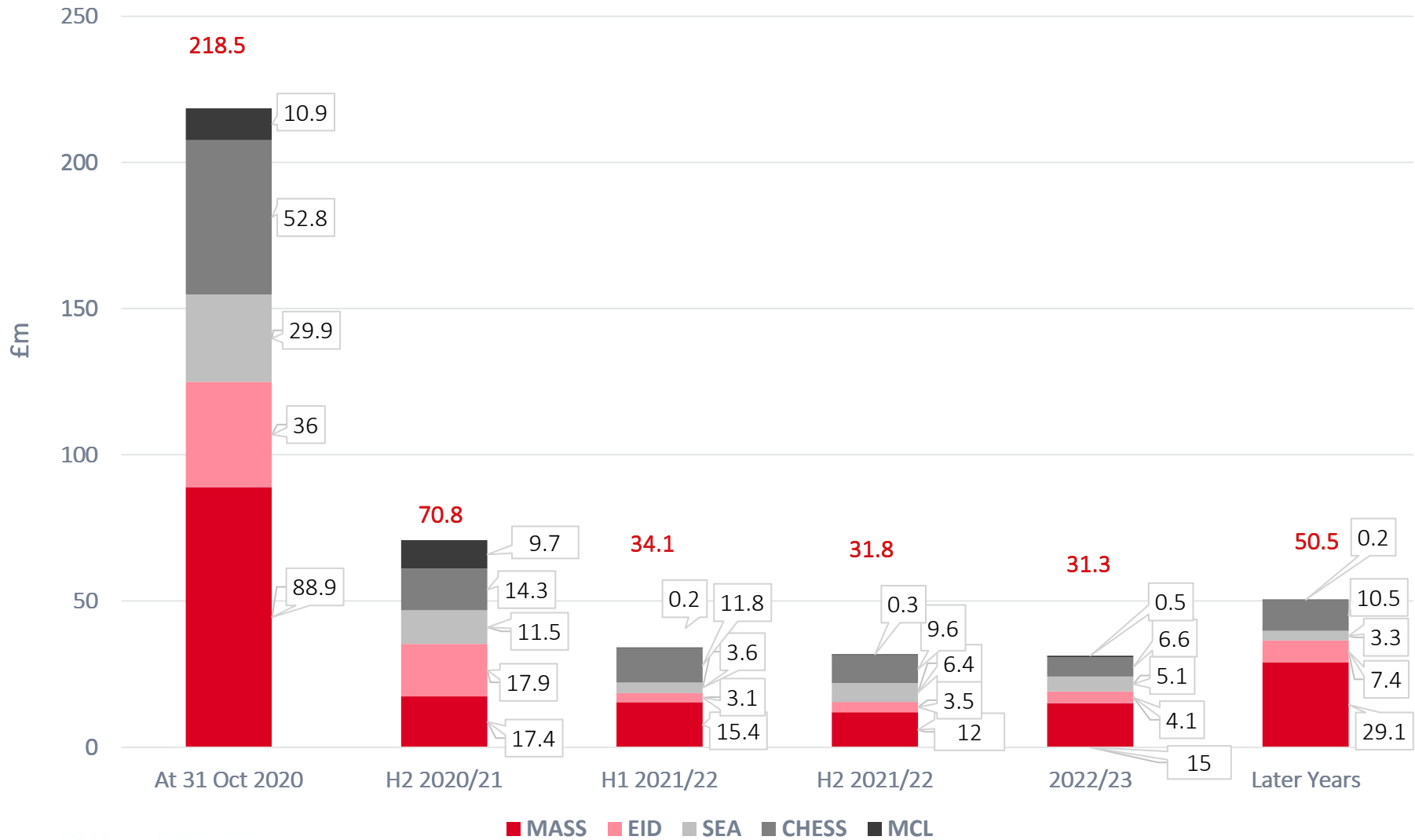
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- Well-established private venture and customer-funded R&D activities
- Group priorities include:
  - Anti-Submarine Warfare (ASW)
  - Next generation vehicle intercom system
  - Upgrades to naval communications system
  - High-definition surveillance
  - Machine learning for target discrimination
  - Key components for directed energy weapons
  - RoadFlow development



Outlook

# ORDER BOOK – UNDERPINNING 2020/21 AND BEYOND



**COHORT PLC**

## 2020/21 OUTLOOK & SUMMARY

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- Continuing COVID-19 restrictions having limited impact on Group
- Order book stands at £218.5m, underpinning over £70m revenue in H2
- Cover of 92% (2019: 83%) of consensus forecast revenue for the full year
- Second half weighting expected again this year
- Good prospects for further orders in second half
- Acquisition of ELAC SONAR represents significant strategic step

***“Performance for full year in line  
with market expectations”***





# APPENDIX



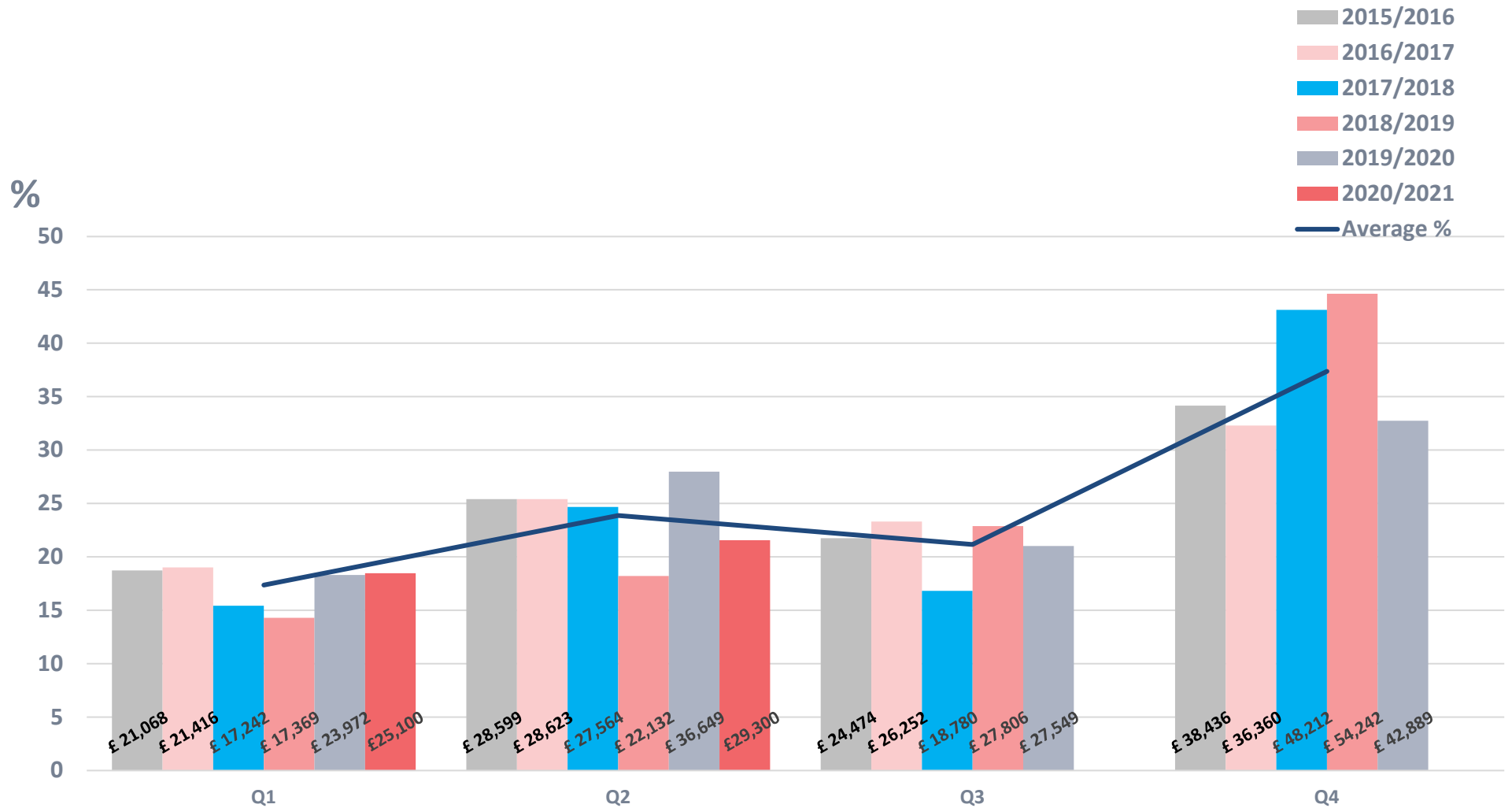
## Cohort Business Model

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

***Being part of Cohort brings significant advantages compared to operating individually***

# QUARTERLY PROFILE OF GROUP REVENUE



# INCOME STATEMENT

Half year ended 31 October 2020

	2020 to 31 October £m		2019 to 31 October £m	
Revenue	<u>54.4</u>		<u>60.2</u>	
Gross profit	<u>19.6</u>	36.0%	<u>21.0</u>	34.9%
Overhead	<u>(15.3)</u>		<u>(17.0)</u>	
<b>Adjusted<sup>1</sup> operating profit</b>	<b>4.3</b>		4.0	
Exceptional items	<u>(1.1)</u>		<u>-</u>	
<b>Adjusted<sup>1</sup> profit before interest and tax</b>	<b>3.2</b>		4.0	
Net finance cost	<u>(0.3)</u>		<u>(0.4)</u>	
Adjusted <sup>1</sup> profit before tax	<u>2.9</u>		<u>3.6</u>	
Adjusted <sup>1</sup> earnings per share (pence)	<b>7.74</b>		6.94	

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

## EARNINGS PER SHARE

- 12% increase in adjusted earnings per share from 8% growth in adjusted operating profit
- Reconciled as follows:

	<i>Adjusted operating profit £m</i>	<i>Adjusted earnings per share pence</i>
	<u>          </u>	<u>          </u>
2020	4.0	6.94
Weighted share capital movement	-	(0.03)
Tax	-	(0.19)
Chess ( <i>81.84% owned</i> )	(1.5)	(2.55)
EID ( <i>80% owned</i> )	0.3	0.41
100% owned businesses	<u>1.5</u>	<u>3.16</u>
	<u><b>4.3</b></u>	<u><b>7.74</b></u>

# FUNDS FLOW

<i>Six months ended 31 October 2020</i>	2020	2019
	£m	£m
Adjusted operating profit	4.3	4.0
Working capital	(1.1)	(0.3)
Depreciation and share based payments	0.9	0.7
<b>Net funds inflow from operations</b>	<b>4.1</b>	<b>4.4</b>
Capital expenditure	(0.5)	(1.8)
Net purchase of own shares	-	(0.7)
Dividends	(2.8)	(2.5)
Other (including tax, interest and FX)	(2.2)	(0.3)
<b>Net funds outflow</b>	<b>(1.4)</b>	<b>(0.4)</b>
Opening net debt	(4.7)	(6.4)
<b>Closing net debt</b>	<b>(6.1)</b>	<b>(6.8)</b>

IFRS 16 is treated as operational funds flow for the above presentation

## Applying advanced technology to protect and secure

We create solutions to keep people safe. Acting with agility to find a better way, make smart decisions and meet customers' needs. Where independent subsidiaries are free to grow and deepen relationships with the support of a steady hand. Bringing the expertise of the Group to the ingenuity of our businesses.

To deliver purposeful innovation that protects us all.

### Our Engagement Principles

We hold **innovation at our core**  
We nurture **agile partnerships**  
We commit to **mission critical effectiveness**

### Our Values

We believe in **playing our part**  
We believe in **being results driven**  
We believe in **independent thinking**

### Environment

We keep the environmental impact of our activities under review in order to improve resource efficiency and reduce waste. As part of our commitment to minimising the impact of its business operations on the environment we work with our suppliers, customers and communities to improve standards of environmental protection.

### Society

We maintain strong relationships across all our stakeholder groups.

- Diversity & inclusion
- Leadership Development Programme
- STEM outreach activities
- Community & charitable engagement

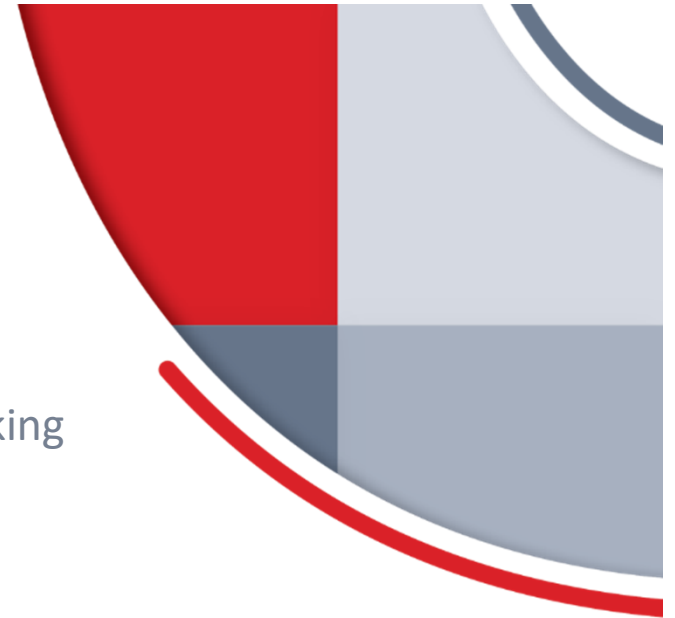
### Governance

We are committed to maintaining appropriate standards of corporate governance and managing the Group in a flexible and effective manner.

- Business Ethics Policy
- Modern Slavery Statement
- Anti-bribery policy

# ACQUISITION STRATEGY

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





## ACQUISITION TRACK RECORD

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- **2006:** SCS acquisition helped create the Group at IPO (SCS now fully integrated within other divisions)
- **2006:** MASS acquired for £13m
- **2007:** SEA acquired for £25m
- **2014:** Disposal of Space Division for £6.5m
- **2014:** J+S acquired for £12m (now fully integrated within SEA)
- **2014:** 50% MCL acquired. 100% acquired 2017. Final price £14m
- **2015/16:** EID acquired for £13.3m (80% ownership, balance retained by Portuguese Government)
- **2018:** Chess acquired for £20.1m (81.84%)
- **2019:** Acquisition of Wärtsilä ELAC Nautik GmbH agreed
- **2020:** ELAC SONAR GmbH joins the Cohort Group



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.

**Platforms: 39%**

Fire control, surveillance & tracking systems

**Counter UAV: 52%**

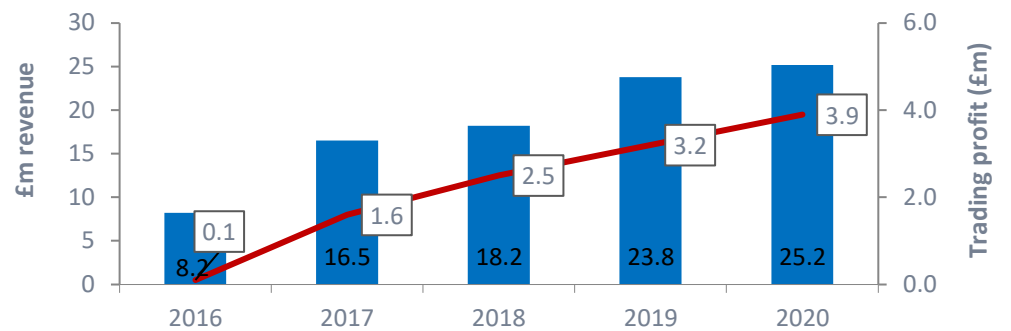
Counter UAV systems for military & civilian applications

**Vision4ce: 9%**

Software for surveillance, tracking & fire control systems hardware



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



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EID is a Portuguese high-tech company with 35 years' experience and know-how in the increasingly critical fields of electronic tactical and naval communications, command and control (3C) equipment.

The company's focus is the design, manufacture, delivery and support of advanced high-performance 3C equipment for the global defence markets.

**Tactical Communications : 43%**

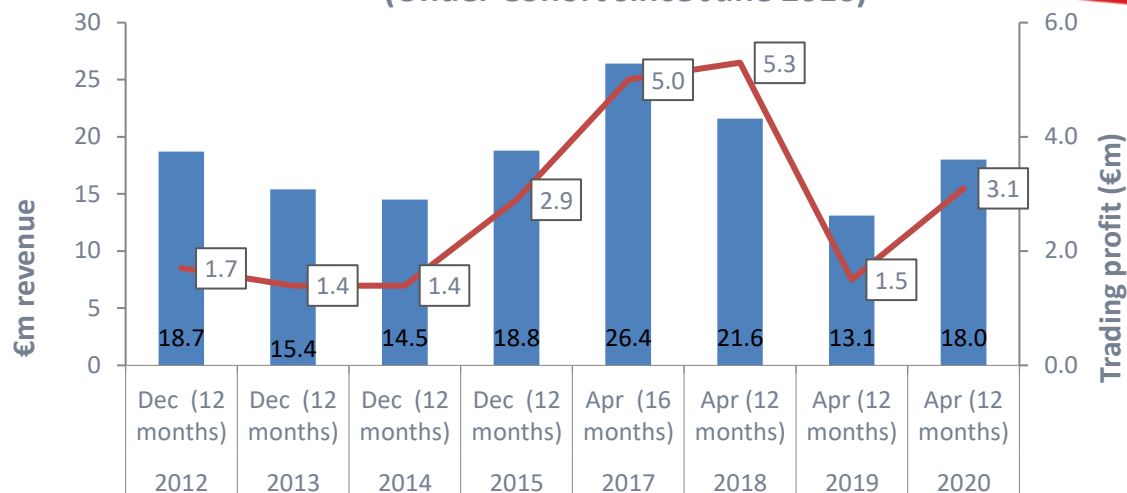
Tactical Communication Products, Systems and Networks including Vehicular Intercoms, Personal Radios and Field Communications for military operations

**Naval Communications: 57%**

Fully Integrated Information and Communications Systems for warships



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

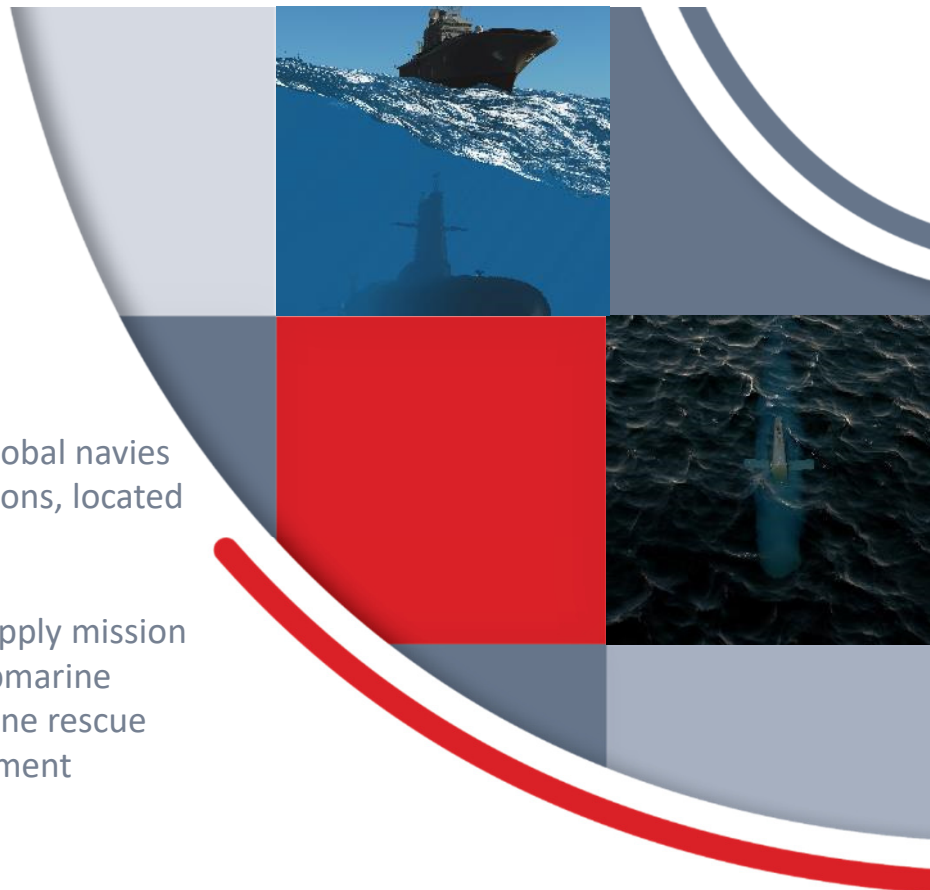


**COHORT PLC**

# ELAC SONAR

ELAC SONAR is an innovative German company supplying global navies with advanced sonar systems and underwater communications, located in Kiel Germany

It works with navies, system integrators and shipyards to supply mission critical hydro-acoustic naval sensors - from fully-fledged submarine combat sonars, anti-submarine warfare sonars and submarine rescue sonars to digital underwater communications and measurement systems, offering flexibility through open architectures.





MASS is a data technology company with over 35 years' heritage serving the defence and security markets.

Providing electronic warfare operational support, digital services and training support to military operations in the UK and to international customers.

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

**Electronic Warfare (EW): 30%**

**Strategic Systems: 26%**

**Cyber: 20%**

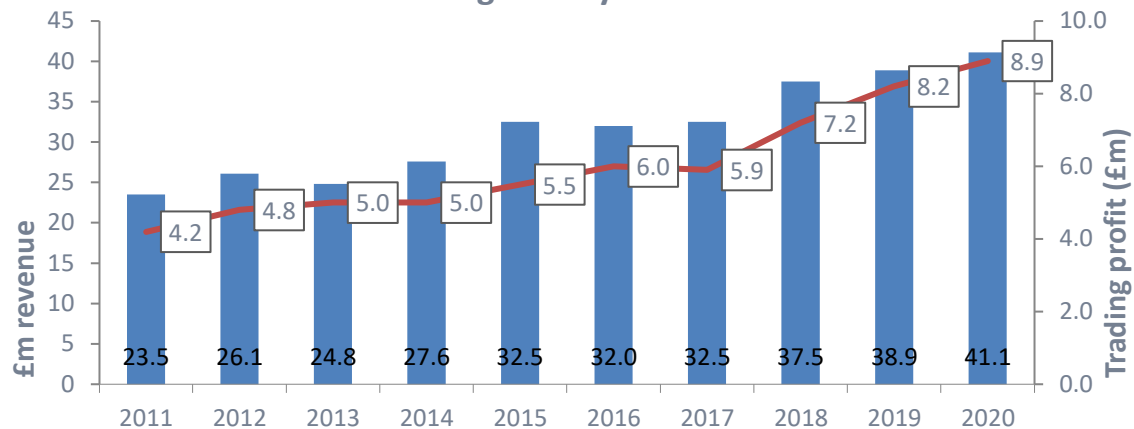
**Information Management as a Service: 8%**

**Training Support 18%**

**COHORT PLC**



**Trading History Under Cohort**





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

The company has over 40 years' experience in supporting the UK's ISTAR programmes including signals intelligence, electronic warfare, UGV and UAV technologies.

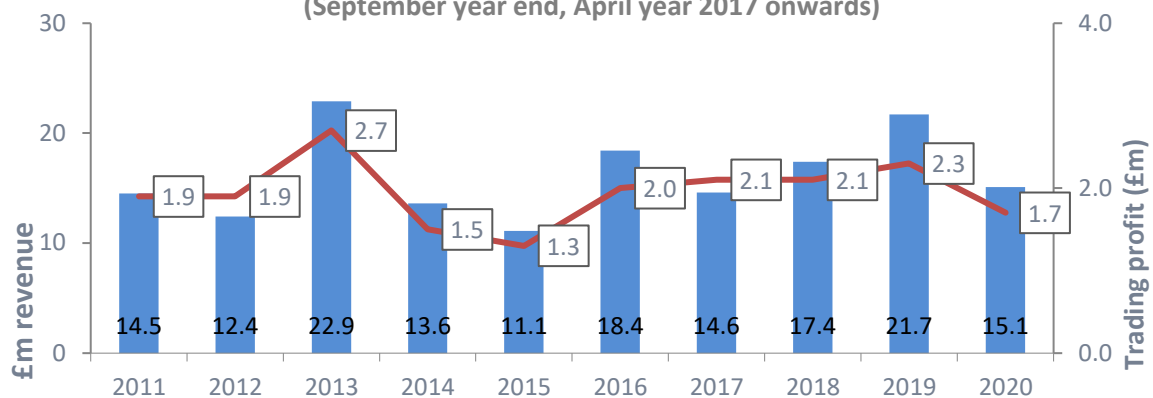
**Electronic Warfare: 34%**

**Communications: 60%**

**Surveillance and UAVs: 6%**



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



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

SEA's engineering capabilities cover a wide range of maritime mission systems requirements including communications, torpedo and decoy launching systems and sonar systems.

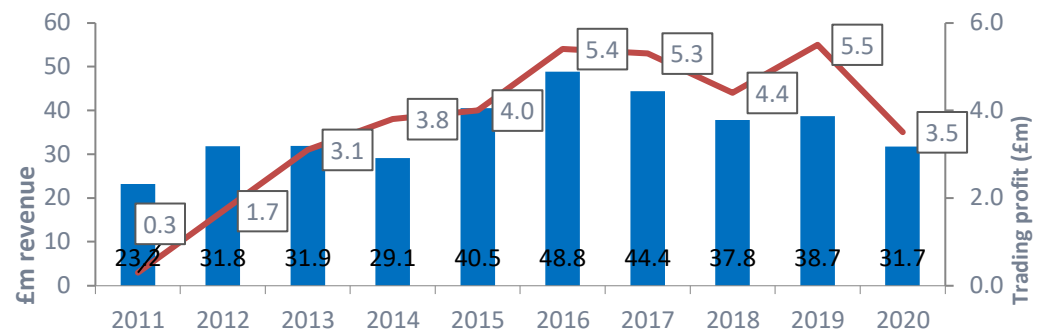
**Defence: 71%**

**Transport: 24%**

**Offshore energy: 5%**  
(divested October 2020)



**Trading History Under Cohort**



# COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

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