COHORT PLC
THE INDEPENDENT TECHNOLOGY GROUP

Applying advanced technology to protect and secure

Interim Report
for the six months ended 31 October 2020

Supporting entrepreneurial businesses to grow and innovate in defence technology, products & services

Overview

Financial statements

COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

CHESS

EID

ELAC SONAR

MASS

MCL

SEA

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Sign up on our website to receive email alerts from across the Cohort Group.

Financial and operational highlights

How we have performed

Operational highlights

- Adjusted* operating profit up 8% to £4.3m (2019: £4.0m).
- Adjusted* earnings per share up 12% to 7.74 pence (2019: 6.94 pence).
- Revenue down 10% to £54.4m (2019: £60.2m).
- Order intake up 15% to £89.2m (2019: £77.2m).
- Closing order book of £218.5m (30 April 2020: £183.3m).
- Net debt of £6.1m (31 October 2019: net debt £6.8m; 30 April 2020: net debt £4.7m).
- Interim dividend increased by 9% to 3.50 pence per share (2019: 3.20 pence per share).
- Acquisition of Wärtsilä ELAC Nautik GmbH (to be renamed ELAC SONAR GmbH) completed on 2 December 2020.
- Continuing social and travel restrictions in response to the COVID-19 pandemic had only a limited impact on the Group.

* Adjusted figures exclude the effects of marking forward exchange contracts to market value, amortisation of other intangible assets (£3.3m; 2019: £3.7m) and exceptional items (£1.1m charge; 2019: £nil).

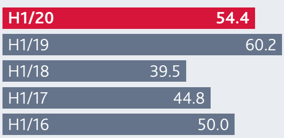
Looking forward

- Full year performance expected to be in line with market expectations, with a second half weighting.
- Improved revenue visibility; half year order book of £218.5m underpins over £70m of revenue deliverable in the second half, which, taking into account revenue delivered to date, underpins 92% (2019: 83%) of consensus forecast revenue for the full year.
- Prospects for more orders in the second half to further underpin this year and next year are good.
- The acquisition of ELAC SONAR represents a significant strategic step, furthering our expansion in defence products and export markets, particularly the naval sector.

Financial highlights

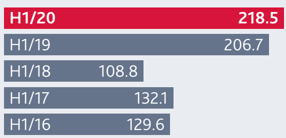
REVENUE (£m)

£54.4m
-10%



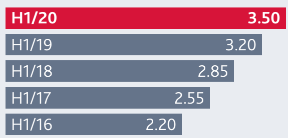
ORDER BOOK (£m)

£218.5m
+6%



INTERIM DIVIDEND (p)

3.50p
+9%



Chairman's statement

"Solid order cover for the second half and beyond"

Nick Prest CBE
Chairman

Cohort delivered an improved adjusted operating profit in the six months to 31 October 2020 compared to the same period last year, despite lower revenue. This was due to improved performance at MASS and a return to profit at SEA, partially offset by weaker performances at Chess and MCL.

To date, the continuing social and travel restrictions in response to the COVID-19 pandemic have had only a limited impact upon the Group. By adapting our operations, we have been able to ensure our employees and other partners remain able to work in a safe environment, enabling us to continue to provide our products and services to our customers. Through September and October we saw a gradual return of our staff to operating sites. By the end of October, 57% of our employees were regularly attending our own or customer facilities. Following the introduction of new restrictions in England from 5 November that process has paused, and as at 30 November approximately 53% of colleagues were mainly working from home.

The Group's 2020/21 first half adjusted operating profit was £4.3m (2019: £4.0m) on revenue of £54.4m (2019: £60.2m). Order intake exceeded the strong performance in the same period last year at £89.2m (2019: £77.2m) including wins by Chess of £51.0m.

MASS was again the largest contributor to the Group's adjusted operating profit, growing strongly compared to last year. SEA delivered revenue in line with last year with a welcome return to profit, assisted by a restructuring exercise which completed in July 2020. EID was also ahead of last year with an improved mix of work. Chess and MCL both showed a weaker first half performance than last year. At Chess, this was a result of lower volume and weaker margin mix, with a higher element of bought-in cost in the systems it has delivered. MCL's revenue was down due to timing of deliveries on a major naval programme, in which COVID-19 was a factor.

Cohort signed an agreement to acquire 100% of Wärtsilä ELAC Nautik GmbH (ELAC SONAR) on 11 December 2019 for a headline price of €11.25m (£10.0m). After a lengthy process, in part due to delays caused by COVID-19, we reached agreement with the German Federal Government in respect of regulatory undertakings, and the purchase of ELAC SONAR completed on 2 December 2020. The transaction has been funded entirely from the Group's own cash and debt resources. We expect no material benefit to earnings for the year ending 30 April 2021 but anticipate earnings enhancement in 2021/22 and beyond. We welcome the staff and management of ELAC SONAR to the Cohort Group and look forward to working with them.

ELAC SONAR adds a range of sophisticated active and passive sonar systems to the Group's portfolio of naval systems and products, complementary to the existing capabilities at SEA, Chess, EID and MCL. ELAC SONAR also brings a presence in the German domestic market and is active in export markets, including some that are new to the Group.

Sir Robert Walmsley will be retiring from the Board on 31 December, having been a Director since our flotation in 2006. Sir Robert has made a major contribution to the success of Cohort and I would like to thank him personally and on behalf of all Cohort colleagues for his exceptional service. Sir Robert has agreed a consultancy agreement with Cohort plc, to continue to support us in an advisory capacity in certain key technical areas, especially in the naval domain.

The Board regularly evaluates and reviews the Group's Environmental, Social and Governance (ESG) activity and is committed to maintaining appropriate standards. The Group's employee values, customer engagement principles and governance policies are all outlined on Cohort's website and in the Annual Report and Accounts.

Key financials

For the six months ended 31 October 2020 the Group's revenue was £54.4m (2019: £60.2m), including £20.2m from MASS, £11.5m from Chess, £13.3m from SEA, £4.7m from EID and £4.7m from MCL.

The Group's adjusted operating profit in the period was £4.3m (2019: £4.0m). This included contributions from MASS of £4.6m (2019: £3.7m), Chess of £0.3m (2019: £1.8m), EID of £0.3m (2019: £0.1m), £0.8m at SEA (2019: £0.3m loss) and breakeven at MCL (2019: £0.5m profit). Central costs were £1.7m (2019: £1.7m).

Cohort made an operating loss, after recognising amortisation of intangible assets (£3.3m) and exceptional items (£1.1m), of less than £0.1m (2019: £0.3m operating profit after amortisation of intangible assets of £3.7m).

Adjusted earnings per share for the six months ended 31 October 2020 increased to 7.74 pence (2019: 6.94 pence). The tax rate in respect of the adjusted operating profit was 16.0% (2019: 16.0%). Basic earnings per share were 0.25 pence (2019: 1.00 pence).

The net funds outflow in the first half was lower than we expected due to the timing of payments and receipts. As we stated in September, we expect the Group's net debt at this coming year end, after funding the acquisition of ELAC SONAR, to remain broadly in line with 30 April 2020.

The cash inflow from operations of £4.9m (2019: inflow of £5.0m) has been used in paying dividends (£2.8m), capital expenditure (£0.5m), tax payment (£2.0m) and net investment in the Employee Benefit Trust (£0.1m).

Our order intake for the first half was £89.2m (2019: £77.2m), excluding foreign exchange movements, resulting in a closing order book of £218.5m (30 April 2020: £183.3m).

Chess

Chess's contribution to the Group's first half performance was down compared to last year's equivalent period, delivering an adjusted operating profit of £0.3m (2019: £1.8m) on revenue of £11.5m (2019: £13.9m). The first half last year included a high level of counter-drone deliveries to export customers, which were not repeated this year and this first half saw higher levels of deliveries on systems where the bought-in content is much higher and the gross margin correspondingly lower. The Group owned 81.84% of Chess throughout the first half of the year (2019: 81.84% owned).

Chess had a very strong first half for contract wins, securing £51.0m (2019: £9.2m) of new orders. Its record closing order book of £52.8m (2019: £16.0m) along with delivered revenue covers over 90% of its full year revenue. This, together with good short-term order prospects, gives us confidence that Chess will have a much stronger second half.

Chess's long-term prospects for naval, land and counter-drone systems remain strong.

EID

EID's operating profit for the six months ended 31 October 2020 of £0.3m (2019: £0.1m) was on revenue of £4.7m (2019: £6.0m).

EID's improved operating performance was a result of the mix of work, with higher naval systems activity. We expect a much stronger second half.

The Group owned 80% of EID throughout the first half of the year (2019: 80% owned).

EID's order book of £36.1m at 31 October 2020 (2019: £37.1m) underpins a high percentage of its expected second half revenue and gives us confidence that EID will deliver a stronger performance in the second half, ahead of last year.

EID has good prospects of securing further significant orders in the second half, providing a good base for 2021/22 and beyond.

I would like to take this opportunity to express my and the Board's thanks to António Marcos Lopes, who retired as Managing Director of EID on 30 November 2020 after having served almost forty years with the company. We wish him the very best in the future. We welcome Frederico Lemos who joined EID as Managing Director on 30 November 2020.

MASS

MASS's adjusted operating profit of £4.6m (2019: £3.7m) showed significant growth on slightly improved revenue of £20.2m (2019: £19.9m). Its first half net margin was very strong at just under 22% (2019: 19%). We expect the net margin to fall back to a level we have seen in the recent past for the full year.

The stronger performance was a result of improved mix with higher levels of long-term managed service activity, including some support to the UK Government in its response to the COVID-19 pandemic.

MASS renewed an important order for the UK Joint Forces Command in the first half, with contractual cover out to March 2022 and an option to extend this to March 2024. MASS's closing order book of £88.9m (2019: £105.8m) underpins a high percentage of MASS's second half revenue expectations.

Chairman's statement continued

MCL
MCL's first half showed breakeven performance (2019: adjusted operating profit of £0.5m) on slightly lower revenue of £4.7m (2019: £7.0m). The decline in performance was a result of lower activity in supplying equipment to the UK MOD, particularly the Royal Navy.

MCL's order book of £10.9m (2019: £13.2m) and a good pipeline of opportunities give us confidence that it will have a much stronger second half.

MCL is experiencing some delay in orders from its main customer, the UK MOD, in part due to deployment of MOD resources to assist with COVID-19. We expect MCL's overall annual performance to be in line with last year.

SEA
SEA's adjusted operating profit of £0.8m (2019: loss of £0.3m) was on slightly lower revenue of £13.3m (2019: £13.4m).

SEA's revenue mix was similar to 2019 and the return to profitability was a result of lower overhead, in part due to the restructuring exercise in the first quarter of this year.

SEA's order intake in the first half was over £10m. We expect a stronger second half, including several key orders for new customers and extensions to existing services and support, which will together begin to give SEA better revenue visibility for future periods.

SEA is reasonably well underpinned for the second half, with a closing order book of £29.8m (2019: £34.6m) including £11.9m of revenue to be delivered this financial year. We expect a stronger second half from SEA, delivering a performance ahead of last year.

SEA disposed of its Subsea business to its management on 1 September 2020. The Subsea business was part of the J+S business that SEA acquired in 2014 and was identified as non-core. Its disposal has minimal impact on the operating performance of the Group, representing some 2% of the Group's revenue in the year ended 30 April 2020.

The Board would like to thank SEA's Managing Director Steve Hill who left the business in August after ten years as Managing Director, and Martin Kelly who took over from Steve on an interim basis. Richard Flitton will take over as Managing Director of SEA in January 2021.

Dividend
The Board is declaring an interim dividend increased by 9% to 3.50 pence per share (2019: 3.20 pence per share). This increase reflects the Board's confidence in the outlook for Cohort and its commitment to a progressive dividend policy. The dividend is payable on 4 February 2021 to shareholders on the register as of 18 December 2020.

Outlook
After a solid year in 2019/20, despite the impact of COVID-19 in the final quarter, the first half of 2020/21 has started in line with our expectations. Order intake was good at over £89m and we also anticipate a strong performance in the second half. We expect these orders to include important first steps into some key markets and programmes which will provide good revenue streams for many years to come, particularly at SEA and EID.

At 31 October 2020, our order book was £218.5m (30 April 2020: £183.3m), providing solid underpinning for the second half and beyond. In line with our experience over the last few years we expect a much stronger performance in the second half, though we still need to win and deliver some important orders to achieve our targets for the year.

We expect the impact of COVID-19 related restrictions on travel and other business activities, including exhibitions, to continue through the majority of the remainder of our financial year. Our order book and prospects combined with our ability to work safely on site or from home gives us confidence that we will continue to deliver products and services to our customers. The restrictions have had some impact on our ability to engage with customers, especially in certain overseas markets, and this may affect our order intake and revenue in the medium to long term. Likewise, possible downward pressure on defence budgets as a result of COVID-19 related spending programmes may impact some of our markets. However, we welcome the recent announcement by the UK Government of its increased investment in defence for the next four years, with a particular focus on areas in which our businesses have strong offerings.

As previously stated, we do not expect any material direct effects upon Cohort from the Brexit process.

The acquisition of ELAC SONAR represents a significant expansion, adding a profitable and growing sixth stand-alone business to Cohort's portfolio. It furthers our strategy of expanding in defence products and export markets, particularly in the naval sector. There are no changes to our expectations for the year ending 30 April 2021 due to the delay to the completion of the acquisition. We expect ELAC SONAR to be earnings enhancing for the Group's financial year commencing 1 May 2021, reinforced by ELAC SONAR's order backlog out to 2025 and its encouraging order pipeline.

Overall, the Board expects that Cohort's performance in 2020/21 will be in line with market expectations.

Nick Prest CBE
Chairman
10 December 2020

Consolidated income statement
for the six months ended 31 October 2020

	Notes	**Six months ended 31 October 2020 Unaudited £'000**	Six months ended 31 October 2019 Unaudited £'000	Year ended 30 April 2020 Audited £'000
Revenue	2	**54,438**	60,151	131,059
Cost of sales		**(34,812)**	(39,161)	(80,016)
Gross profit		**19,626**	20,990	51,043
Administrative expenses		**(19,668)**	(20,626)	(40,312)
Operating (loss)/profit	2	**(42)**	364	10,731
Operating (loss)/profit comprises:				
Adjusted operating profit	2	**4,329**	4,034	18,223
Credit/(charge) on marking forward exchange contracts to market value at the period end (included in cost of sales)		**2**	7	(132)
Amortisation of other intangible assets (included in administrative expenses)		**(3,278)**	(3,677)	(7,354)
Research and development expenditure credits (RDEC) (included in cost of sales)		**—**	—	784
Exceptional items (included in administrative expenses):				
Restructuring at SEA		**(573)**	—	—
Loss on disposal of SEA's Subsea business	7	**(522)**	—	—
Cost of acquisition of ELAC SONAR		**—**	—	(950)
Cost of relocation of MASS's Lincoln facility		**—**	—	(590)
Adjustment to earn-out on acquisition of Chess		**—**	—	750
Operating (loss)/profit		**(42)**	364	10,731
Finance income		**8**	12	27
Finance costs		**(336)**	(379)	(779)
(Loss)/profit before tax		**(370)**	(3)	9,979
Income tax credit/(expense)	3	**59**	125	(295)
(Loss)/profit for the period		**(311)**	122	9,684
Attributable to:				
Equity shareholders of the parent		**104**	407	9,559
Non-controlling interests		**(415)**	(285)	125
		(311)	122	9,684

Earnings per share		**Pence**	Pence	Pence
Basic	4	**0.25**	1.00	23.47
Diluted	4	**0.25**	1.00	23.24

All profit for the period is derived from continuing operations.

Consolidated statement of comprehensive income
for the six months ended 31 October 2020

	Six months ended 31 October 2020 Unaudited £'000	Six months ended 31 October 2019 Unaudited £'000	Year ended 30 April 2020 Audited £'000
(Loss)/profit for the period	**(311)**	122	9,684
Foreign currency translation differences on net assets of EID	**104**	(19)	32
Other comprehensive income/(expense) for the period, net of tax	**104**	(19)	32
Total comprehensive (expense)/income for the period	**(207)**	103	9,716
Attributable to:			
Equity shareholders of the parent	**22**	382	9,586
Non-controlling interests	**(229)**	(279)	130
	(207)	103	9,716

Consolidated statement of changes in equity
for the six months ended 31 October 2020

	Attributable to the equity shareholders of the parent								
	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 2019	4,096	29,657	(348)	603	(4,350)	40,886	70,544	6,279	76,823
Profit/(loss) for the period	—	—	—	—	—	407	407	(285)	122
Other comprehensive income/(expense) for the period	—	—	—	—	—	(25)	(25)	6	(19)
Total comprehensive income/(expense) for the period	—	—	—	—	—	382	382	(279)	103
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Equity dividend	—	—	—	—	—	(2,544)	(2,544)	—	(2,544)
Vesting of Restricted Shares	—	—	—	—	—	210	210	—	210
Own shares purchased	—	—	(1,830)	—	—	—	(1,830)	—	(1,830)
Own shares sold	—	—	1,104	—	—	—	1,104	—	1,104
Net loss on selling own shares	—	—	577	—	—	(577)	—	—	—
Share-based payments (including deferred tax)	—	—	—	150	—	—	150	—	150
At 31 October 2019 (as restated)	4,096	29,657	(497)	753	(4,350)	38,357	68,016	6,000	74,016
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 the 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 (including deferred tax)	—	—	—	511	—	—	511	—	511
Transfer of share option reserve on vesting of options	—	—	—	(268)	—	268	—	—	—
Change in fair value of Chess's net assets acquired	—	—	—	—	—	—	—	(163)	(163)
Change in option for acquiring non-controlling interest in Chess	—	—	—	—	750	—	750	—	750
At 30 April 2020	4,096	29,657	(1,564)	846	(3,600)	46,108	75,543	6,246	81,789
At 1 May 2020	4,096	29,657	(1,564)	846	(3,600)	46,108	75,543	6,246	81,789
(Loss)/profit for the period	—	—	—	—	—	104	104	(415)	(311)
Other comprehensive income/(expense) for the period	—	—	—	—	—	(82)	(82)	186	104
Total comprehensive income/(expense) for the period	—	—	—	—	—	22	22	(229)	(207)
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Issue of new shares	1	43	—	—	—	—	44	—	44
Equity dividend	—	—	—	—	—	(2,815)	(2,815)	—	(2,815)
Vesting of Restricted Shares	—	—	—	—	—	273	273	—	273
Own shares purchased	—	—	(788)	—	—	—	(788)	—	(788)
Own shares sold	—	—	821	—	—	—	821	—	821
Net loss on selling own shares	—	—	1,078	—	—	(1,078)	—	—	—
Share-based payments (including deferred tax and foreign exchange)	—	—	—	184	—	—	184	—	184
At 31 October 2020	**4,097**	**29,700**	**(453)**	**1,030**	**(3,600)**	**42,510**	**73,284**	**6,017**	**79,301**

Consolidated statement of financial position
as at 31 October 2020

	31 October 2020 Unaudited £'000	31 October 2019 Unaudited (as restated) £'000	30 April 2020 Audited £'000
Assets			
Non-current assets			
Goodwill	**42,091**	42,254	42,091
Other intangible assets	**9,956**	16,911	13,234
Right of use asset	**6,374**	5,791	6,900
Property, plant, and equipment	**11,587**	12,111	12,121
Deferred tax asset	**597**	361	598
	70,605	77,428	74,944
Current assets			
Inventories	**13,769**	12,889	11,478
Trade and other receivables	**47,566**	41,673	47,423
Derivative financial instruments	**—**	—	—
Cash and cash equivalents	**19,397**	18,371	20,567
	80,732	72,933	79,468
Total assets	**151,337**	150,361	154,412
Liabilities			
Current liabilities			
Trade and other payables	**(30,903)**	(32,909)	(30,985)
Current tax liabilities	**—**	(1,234)	—
Derivative financial instruments	**(236)**	(118)	(231)
Lease liability	**(1,180)**	(1,060)	(1,257)
Bank borrowings	**(72)**	(51)	(85)
Provisions	**(1,753)**	(1,730)	(1,546)
Other payables	**(4,000)**	—	—
	(38,144)	(37,102)	(34,104)
Non-current liabilities			
Deferred tax liability	**(2,195)**	(3,134)	(2,820)
Lease liability	**(5,743)**	(4,887)	(6,240)
Bank borrowings	**(25,444)**	(25,114)	(25,189)
Provisions	**(510)**	(608)	(270)
Other payables	**—**	(5,500)	(4,000)
	(33,892)	(39,243)	(38,519)
Total liabilities	**(72,036)**	(76,345)	(72,623)
Net assets	**79,301**	74,016	81,789
Equity			
Share capital	**4,097**	4,096	4,096
Share premium account	**29,700**	29,657	29,657
Own shares	**(453)**	(497)	(1,564)
Share option reserve	**1,030**	753	846
Other reserves	**(3,600)**	(4,350)	(3,600)
Retained earnings	**42,510**	38,357	46,108
Total equity attributable to the equity shareholders of the parent	**73,284**	68,016	75,543
Non-controlling interests	**6,017**	6,000	6,246
Total equity	**79,301**	74,016	81,789

Consolidated cash flow statement

for the six months ended 31 October 2020

	Notes	**Six months ended 31 October 2020 Unaudited £'000**	Six months ended 31 October 2019 Unaudited (as restated) £'000	Year ended 30 April 2020 Audited £'000
Net cash generated from operating activities	6	**2,578**	5,445	11,597
Cash flow from investing activities				
Interest received		**8**	12	27
Purchases of property, plant, and equipment		**(482)**	(1,823)	(2,662)
Sale of SEA's Subsea business		**10**	—	—
Net cash used in investing activities		**(464)**	(1,811)	(2,635)
Cash flow from financing activities				
Dividends paid		**(2,815)**	(2,544)	(3,853)
Issue of new shares		**44**	—	—
Purchase of own shares		**(788)**	(1,830)	(3,677)
Sale of own shares		**821**	1,104	1,472
Drawdown of borrowings		**54**	—	98
Repayment of borrowings		**(52)**	(23)	(78)
Repayment of lease liabilities		**(784)**	(601)	(1,114)
Net cash used in financing activities		**(3,520)**	(3,894)	(7,152)
Net (decrease)/increase in cash and cash equivalents		**(1,406)**	(260)	1,810
Represented by:				
Cash and cash equivalents brought forward		**20,567**	18,763	18,763
Cash flow		**(1,406)**	(260)	1,810
Exchange		**236**	(132)	(6)
Cash and cash equivalents carried forward		**19,397**	18,371	20,567

Net debt reconciliation

	At 1 May 2020 £'000	Effect of foreign exchange rate changes £'000	Cash flow £'000	**At 31 October 2020 £'000**
Cash and cash equivalents	20,567	236	(1,406)	**19,397**
Loan	(25,095)	(240)	—	**(25,335)**
Finance leases	(179)	—	(2)	**(181)**
Bank borrowings	(25,274)	(240)	(2)	**(25,516)**
Net debt	(4,707)	(4)	(1,408)	**(6,119)**

Notes to the interim report
for the six months ended 31 October 2020

1. Basis of preparation
The financial information contained within this Interim Report has been prepared applying the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU and expected to apply at 30 April 2021. As permitted, this Interim Report has been prepared in accordance with the AIM Rules for Companies and is not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS. This Interim Report is presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

For management and reporting purposes, the Group, for the period just ended, operated through its five trading subsidiaries: Chess, EID, MASS, MCL and SEA. These subsidiaries are the basis on which the Company, Cohort plc, reports its primary segmental information.

The Group's first half trading is in line with historical trends for the Group where typically we see around a quarter or less of our earnings for the full year.

Going concern
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 for defence, create uncertainty, particularly over the level of demand for the Group's products and services. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing this Interim Report.

The Group's UK bank facility was renewed in November 2018 for four years until November 2022. The facility of £40m is with NatWest and Lloyds.

The facility is for debt (including overdraft) and is in addition to separate bilateral facilities with each bank for trade finance items such as guarantees and foreign exchange instruments.

(A) Statutory accounts
The financial information set out above does not constitute the Group's statutory accounts for the year ended 30 April 2020. RSM UK Audit LLP has reported on these accounts; its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and (iii) did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006. In accordance with Section 434 of the Companies Act 2006, the unaudited results do not constitute statutory financial statements of the Company. The six month results for both years are unaudited.

(B) Statement of compliance
The accounting policies applied by the Group in this Interim Report is consistent with its consolidated financial statements for the year ended 30 April 2020 and are in accordance with IFRS as adopted by the European Union. The accounting policies have been applied consistently to all periods presented in the consolidated financial statements of this Interim Report.

Critical accounting estimates and judgements
In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities. The Directors have identified the following critical judgements and estimates in applying the Group's accounting policies that have the most significant impact on the amounts recognised in this Interim Report.

Goodwill
The carrying value of goodwill is not subject to amortisation but is tested for impairment at each reporting date. This is a judgement based upon the future cash flows of its cash generating units (trading subsidiaries), growth rates and the weighted average cost of capital applied to those future cash flows. This impairment test as at 31 October 2020 showed no impairment of the Group's goodwill.

Other payables
On the acquisition of 81.16% of Chess (12 December 2018), the sale and purchase agreement provided for additional consideration to be paid to the shareholders of Chess in respect of an earn-out and also to acquire the non-controlling interest. This figure is estimated at £4.0m as at 31 October 2020 (30 April 2020: £4.0m; 31 October 2019: £5.5m) based upon the actual and forecast performance of Chess for the three years ending 30 April 2021. This amount is payable on or before 31 October 2021 and is now reported as due in less than one year (30 April 2020 and 31 October 2019: due in greater than one year).

Other estimates and adjustments including revenue recognition, recoverability of trade and other receivables, provisions and taxation have not materially changed since the year end.

The Interim Report was approved by the Board and authorised for issue on 10 December 2020.

Notes to the interim report continued
for the six months ended 31 October 2020

2. Segmental analysis of revenue and adjusted operating profit/(loss)

	Six months ended 31 October 2020 Unaudited £'000	Six months ended 31 October 2019 Unaudited £'000	Year ended 30 April 2020 Audited £'000
Revenue			
Chess	**11,528**	13,917	25,158
EID	**4,660**	6,050	18,021
MASS	**20,248**	19,856	41,212
MCL	**4,658**	7,024	15,064
SEA	**13,350**	13,775	32,160
Inter-segment revenue	**(6)**	(471)	(556)
	54,438	60,151	131,059
Operating profit comprises:			
Trading profit/(loss) of:			
Chess	**308**	1,787	3,923
EID	**329**	56	3,108
MASS	**4,610**	3,754	8,914
MCL	**(2)**	468	1,660
SEA	**774**	(302)	3,532
Central costs	**(1,690)**	(1,729)	(2,914)
Adjusted operating profit	**4,329**	4,034	18,223
Credit/(charge) on marking forward exchange contracts to market value at the period end	**2**	7	(132)
Amortisation of intangible assets	**(3,278)**	(3,677)	(7,354)
Exceptional items	**(1,095)**	—	(790)
Research and development expenditure credits (RDEC)	**—**	—	784
Operating (loss)/profit	**(42)**	364	10,731

All revenue and adjusted operating profit is 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 marking forward exchange contracts to market value at the period end, other exchange gains and losses, exceptional items and the amortisation of other intangible assets.

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 comparable basis from period to period.

The Group's adjusted operating profit includes the cost of share options of £180,000 for the six months ended 31 October 2020 (six months ended 31 October 2019: £150,000; year ended 30 April 2020: £318,000).

The chief operating decision maker as defined by IFRS 8 has been identified as the Board.

Notes to the interim report continued
for the six months ended 31 October 2020

2. Segmental analysis of revenue and adjusted operating profit/(loss) continued
Revenue analysis by sector and type of deliverable

	Six months ended 31 October 2020 Unaudited		Six months ended 31 October 2019 Unaudited		Year ended 30 April 2020 Audited	
	£m	**%**	£m	%	£m	%
By sector						
UK defence	**24.2**	**45**	28.1	47	59.9	46
Portugal defence	**1.3**	**2**	1.5	2	8.3	6
Export defence customers	**19.6**	**36**	21.5	36	39.8	30
Security	**4.0**	**7**	4.0	7	10.1	8
Defence and security revenue	**49.1**	**90**	55.1	92	118.1	90
Transport	**3.0**		2.8		7.6	
Offshore energy	**1.0**		0.9		2.9	
Other commercial	**1.3**		1.4		2.5	
Non-defence revenue	**5.3**	**10**	5.1	8	13.0	10
Total revenue	**54.4**	**100**	60.2	100	131.1	100

The defence and security revenue is further analysed into the following:

	Six months ended 31 October 2020 Unaudited		Six months ended 31 October 2019 Unaudited		Year ended 30 April 2020 Audited	
	£m	**%**	£m	%	£m	%
By market segment						
Combat systems	**9.5**	**17**	8.9	15	18.0	14
C4ISTAR	**23.2**	**43**	29.2	49	63.1	48
Cyber security and secure networks	**7.0**	**13**	7.6	13	15.0	11
Simulation and training	**5.3**	**10**	4.1	7	9.4	7
Research, advice, and support	**3.6**	**6**	5.1	8	12.0	9
Other	**0.5**	**1**	0.2	—	0.6	1
Total defence and security revenue	**49.1**	**90**	55.1	92	118.1	90

The Group's total revenue in terms of type of deliverable is analysed as follows:

	Six months ended 31 October 2020 Unaudited		Six months ended 31 October 2019 Unaudited		Year ended 30 April 2020 Audited	
	£m	**%**	£m	%	£m	%
Product	**28.3**	**52**	34.3	57	74.8	57
Services	**26.1**	**48**	25.9	43	56.3	43
Total revenue	**54.4**	**100**	60.2	100	131.1	100

Notes to the interim report continued
for the six months ended 31 October 2020

3. Income tax (credit)/expense

The income tax (credit)/expense comprises:

	Six months ended 31 October 2020 Unaudited £'000	Six months ended 31 October 2019 Unaudited £'000	Year ended 30 April 2020 Audited £'000
UK corporation tax: in respect of this period	**575**	531	2,227
UK corporation tax: in respect of prior periods	**—**	—	(785)
Portugal corporation tax: in respect of this period	**(7)**	57	130
Portugal corporation tax: in respect of prior periods	**—**	—	15
Other foreign corporation tax: in respect of this period	**—**	—	(31)
	568	588	1,556
Deferred taxation: in respect of this period	**(627)**	(713)	(1,297)
Deferred taxation: in respect of prior periods	**—**	—	36
	(627)	(713)	(1,261)
	(59)	(125)	295

The income tax credit for the six months ended 31 October 2020 is based upon the anticipated charge for the full year ending 30 April 2021. As it is an estimate, the impact of research and development credits (RDEC) is not shown separately.

4. Earnings per share

The earnings per share are calculated as follows:

	Six months ended 31 October 2020 Unaudited £'000	Six months ended 31 October 2019 Unaudited £'000	Year ended 30 April 2020 Audited £'000
Earnings			
Basic and diluted earnings attributable to owners	**104**	407	9,559
(Credit)/charge on marking forward exchange contracts to market at the period end (net of income tax)	**(2)**	(6)	107
Exceptional items (net of income tax)	**886**	—	602
Group's share of amortisation of intangible assets (net of income tax)	**2,168**	2,420	4,840
Adjusted basic and diluted earnings	**3,156**	2,821	15,108

	Number	Number	Number
Weighted average number of shares			
For the purposes of basic earnings per share	**40,800,176**	40,633,341	40,728,149
Share options	**450,233**	200,712	409,484
For the purposes of diluted earnings per share	**41,250,409**	40,834,053	41,137,633

The weighted average number of ordinary shares for the six months ended 31 October 2020 excludes 74,700 ordinary shares held by the Cohort plc Employee Benefit Trust (which does not receive a dividend) for the purposes of calculating earnings per share (six months ended 31 October 2019: 109,383; year ended 30 April 2020: 231,048).

Notes to the interim report continued
for the six months ended 31 October 2020

4. Earnings per share continued

	Six months ended 31 October 2020 Unaudited Pence	Six months ended 31 October 2019 Unaudited Pence	Year ended 30 April 2020 Audited Pence
Earnings per share			
Basic	**0.25**	1.00	23.47
Diluted	**0.25**	1.00	23.24
Adjusted earnings per share			
Basic	**7.74**	6.94	37.10
Diluted	**7.65**	6.91	36.73

5. Dividends

	Six months ended 31 October 2020 Unaudited Pence	Six months ended 31 October 2019 Unaudited Pence	Year ended 30 April 2020 Audited Pence
Dividends per share proposed in respect of the period			
Interim	**3.50**	3.20	3.20
Final	**—**	—	6.90

The interim dividend for the six months ended 31 October 2020 is 3.50 pence (six months ended 31 October 2019: 3.20 pence) per ordinary share. This dividend will be payable on 4 February 2021 to shareholders on the register at 18 December 2020.

The final dividend for the year ended 30 April 2020 was 9.45 pence per ordinary share, comprising 3.20 pence of interim dividend for the six months ended 31 October 2019 and 6.25 pence of final dividend for the year ended 30 April 2019.

6. Net cash generated from operating activities

	Six months ended 31 October 2020 Unaudited £'000	Six months ended 31 October 2019 Unaudited £'000	Year ended 30 April 2020 Audited £'000
(Loss)/profit for the period	**(311)**	122	9,684
Adjustments for:			
Tax (credit)/expense	**(59)**	(125)	295
Depreciation of property, plant, and equipment	**938**	654	1,472
Depreciation of right of use assets	**621**	516	1,168
Amortisation of intangible assets	**3,278**	3,677	7,354
Net finance expense	**328**	367	752
Share-based payment	**180**	150	318
Derivative financial instruments and other non-trading exchange movements	**(2)**	(7)	132
Increase/(decrease) in provisions	**147**	11	(511)
Operating cash flow before movements in working capital	**5,120**	5,365	20,664
(Increase)/decrease in inventories	**(2,224)**	563	1,974
Decrease/(increase) in receivables	**1,881**	1,198	(4,597)
Increase/(decrease) in payables	**125**	(2,086)	(5,059)
	(218)	(325)	(7,682)
Cash generated from operations	**4,902**	5,040	12,982
Income taxes (paid)/received	**(1,988)**	784	(606)
Interest paid	**(336)**	(379)	(779)
Net cash generated from operating activities	**2,578**	5,445	11,597

Notes to the interim report continued
for the six months ended 31 October 2020

7. Disposal of SEA's Subsea business

On 1 September 2020, the Group completed the disposal of SEA's Subsea business (assets and contracts) to the management of that business. The loss before tax of this disposal was £522,000.

8. Restatement of 31 October 2019 comparatives

At the time of reporting the 31 October 2019 balance sheet, some of the IFRS 16 adjustment made to the opening balances at 1 May 2019 were estimates. These figures were finalised when the Group reported its annual figures as at 30 April 2020.

As a result, the 31 October 2019 balance sheet has been restated as follows:

	As previously reported at 31 October 2019 £'000	Adjustment £'000	As restated at 31 October 2019 £'000
Right of use assets	5,745	46	5,791
Non-current assets	77,382	46	77,428
Total assets	150,315	46	150,361
Lease liabilities (due greater than one year)	(4,722)	(165)	(4,877)
Non-current liabilities	(39,078)	(165)	(39,243)
Total liabilities	(76,180)	(165)	(76,345)
Net assets	74,135	(119)	74,016
Retained earnings	38,476	(119)	38,357
Total equity	74,135	(119)	74,016
Equity at 1 May 2019	41,034	—	41,034
IFRS 16 adjustment	(29)	(119)	(148)
As restated at 1 May 2019	41,005	(119)	40,886

Independent review report to Cohort plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 31 October 2020 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated cash flow statement and notes to the interim report. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities
The interim financial report, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 October 2020 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

Use of our report
This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

RSM UK Audit LLP
Chartered Accountants
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
MK9 1BP
10 December 2020

Shareholder information, financial calendar and advisers

Advisers

Nominated adviser and broker

Investec
30 Gresham Street
London EC2V 7QP

Auditor

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Buckinghamshire MK9 1BP

Tax advisers

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Legal advisers

Shoosmiths LLP
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Registrars

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The Registry
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Kent BR3 4TU

Public and investor relations

MHP Communications
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60 Great Portland Street
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Bankers

Lloyds Bank
The Atrium
Davidson House
Forbury Square
Reading RG1 3EU

NatWest Bank
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

Shareholders' enquiries

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the registrars), you should contact the Company Secretary by letter to the Company's registered office or by email to info@cohortplc.com.

Share register

Link Asset Services maintains the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact:

Link Asset Services

Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300 (calls are charged at 12 pence per minute plus your phone provider's access charge). (From outside the UK: +44 371 664 0300; calls will be charged at the applicable international rate.) Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Email:
shareholderenquiries@linkgroup.co.uk

If you change your name or address or if details on the envelope enclosed with this report, including your postcode, are incorrect or incomplete, please notify the registrars in writing.

Daily share price listings

- The Financial Times – AIM, Aerospace and Defence
- The Times – Engineering
- The Daily Telegraph – AIM section
- London Evening Standard – AIM section

Financial calendar

Annual General Meeting

20 September 2021

Final dividend payable

27 September 2021

Expected announcements of results for the year ending 30 April 2021

Preliminary full year announcement

July 2021

Half year announcement

December 2021

Registered office

Cohort plc

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Registered company number of Cohort plc

05684823

Cohort plc is a company registered in England and Wales.

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Cohort plc's commitment to environmental issues is reflected in this Interim Report, which has been printed on Symbol Freelife Satin, an FSC® certified material. This document was printed by Park Communications using its environmental print technology, which minimises the impact of printing on the environment. Vegetable-based inks have been used and 99% of dry waste is diverted from landfill. The printer is a CarbonNeutral® company. Both the printer and the paper mill are registered to ISO 14001.

Produced by
designportfolio

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