

# COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

## RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2021

**Andrew Thomis & Simon Walther**

December 2021



# HIGHLIGHTS

Andy Thomis, Chief Executive



# FINANCIAL HIGHLIGHTS

Strong order intake giving a record closing order book

Order intake

**£105.3m**

**+18%**

(H1 21: £89.2m)

Order book

**£285.8m**

**+31%**

(H1 21: £218.5m)

Revenue cover

**89%**

(2020/21: 92%)

Better than expected net funds; dividend increase reflects long term confidence

Operating cash flow

**£9.1m**

(H1 21 : £4.9m)

Net funds

**£6.1m**

(30/4/21 : £2.5m)

Interim dividend

**3.85p**

**+10%**

Revenue increased but profitability disappointing

Revenue

**£60.0m**

**+10%**

(H1 21: £54.4m)

Adjusted operating profit

**£1.7m**

**-60%**

(H1 21: £4.3m)

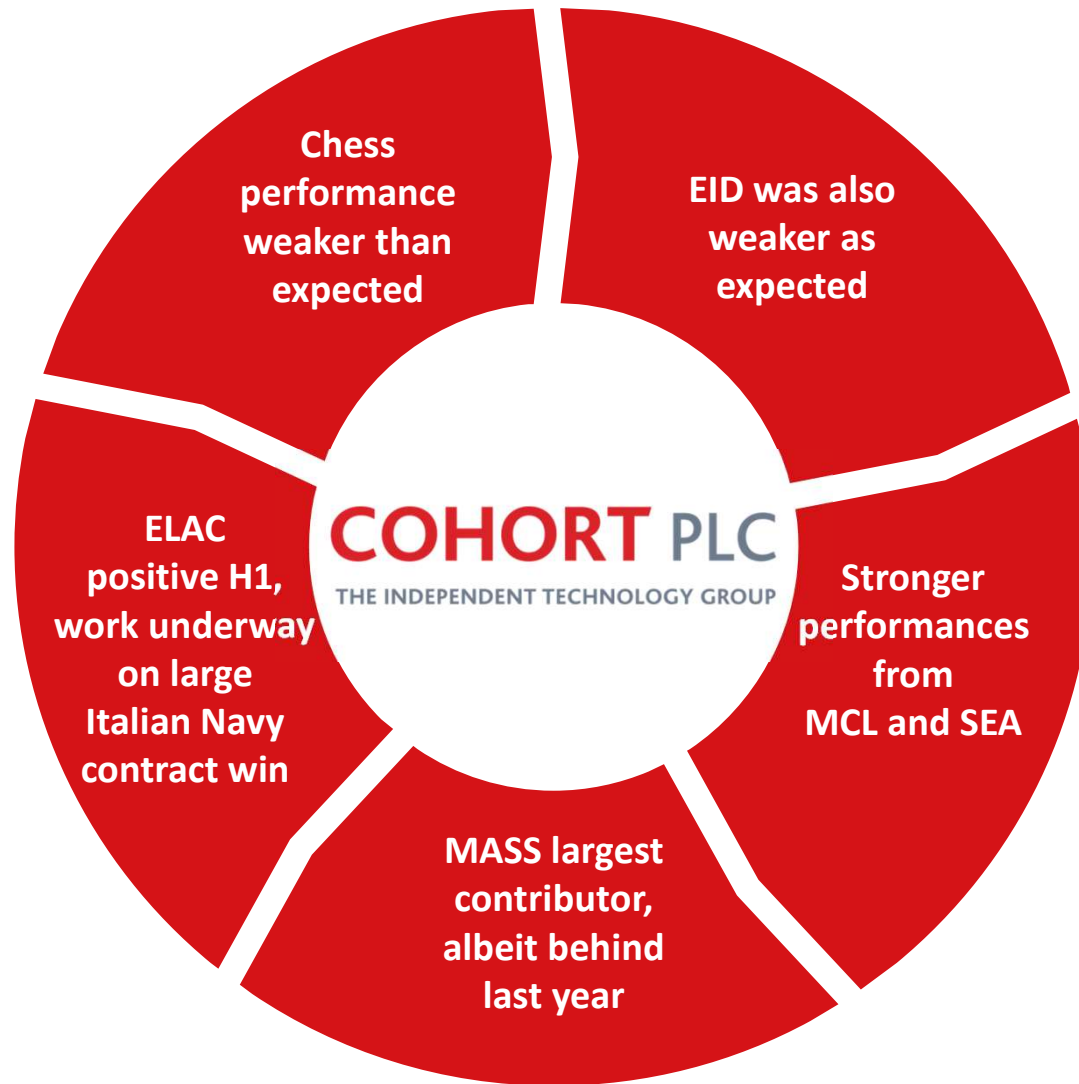
Adjusted EPS

**3.04p**

**-60%**

(H1 21: 7.74p)

# OPERATIONAL OVERVIEW



# DISAPPOINTING H1 – BUT POSITIVE MEDIUM TERM OUTLOOK

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## Chess weaker than expected

- Considerably weaker performance due to misses against our expectations
- Chess most impacted by COVID-19 restrictions causing delays

## Reduction in short term expectations

- The issues at Chess have reduced our full year expectations
- Outlook for other businesses broadly unchanged

## Good visibility for H2

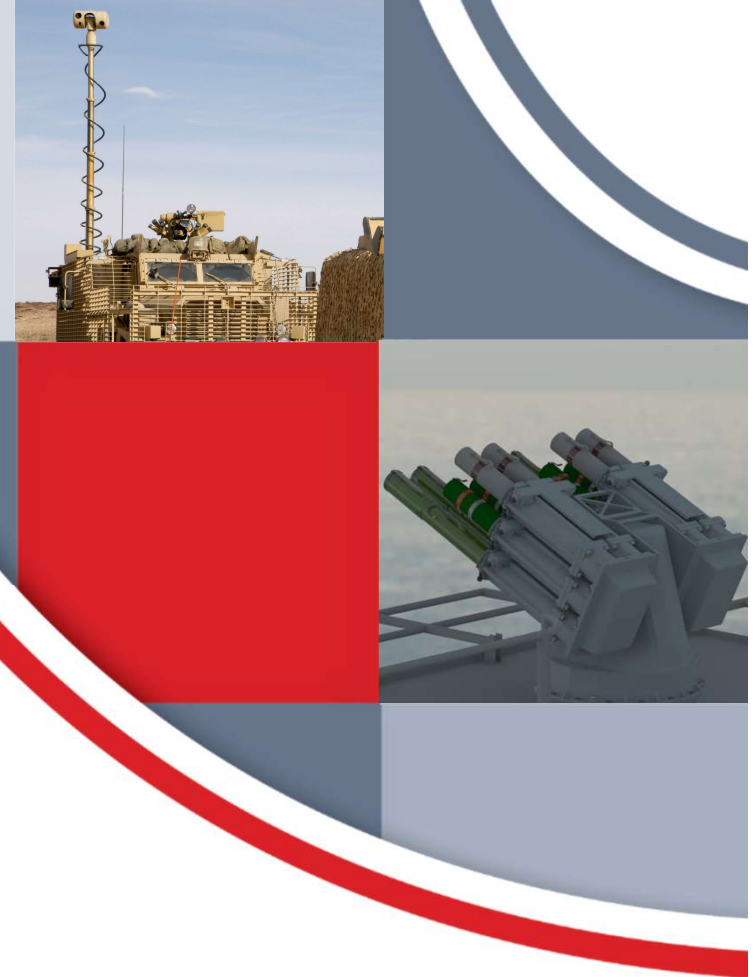
- Over £74m of revenue deliverable in H2
- This covers 89% of full year consensus forecast

## Positive outlook for medium term

- Order book has steadily increased over the last few years to a record high
- Longevity has grown with revenue now deliverable out to the early 2030s

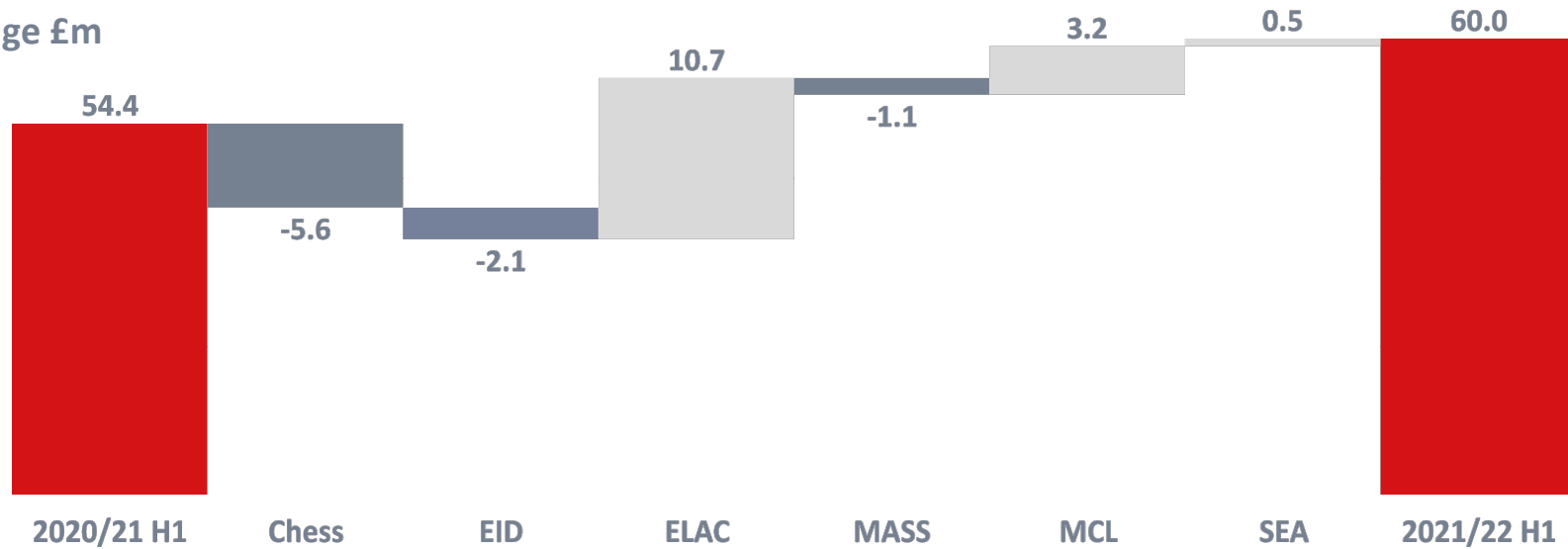
# FINANCIAL AND DIVISIONAL REVIEW

Simon Walther, Finance Director

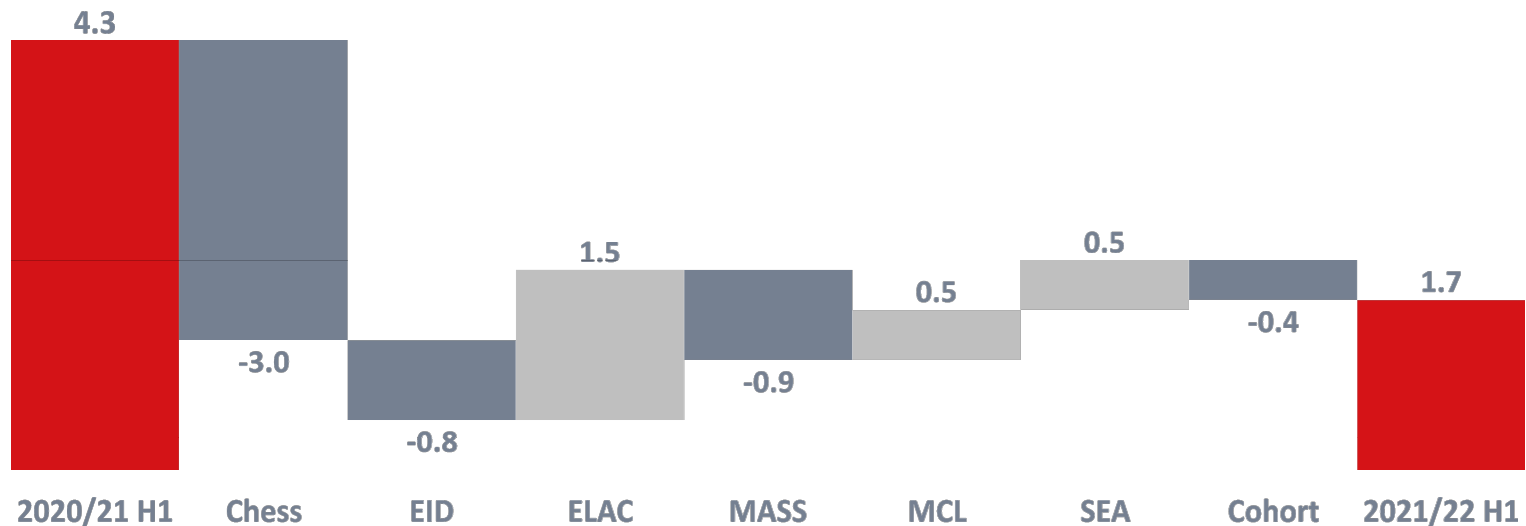


# REVENUE & ADJUSTED OPERATING PROFIT BRIDGE

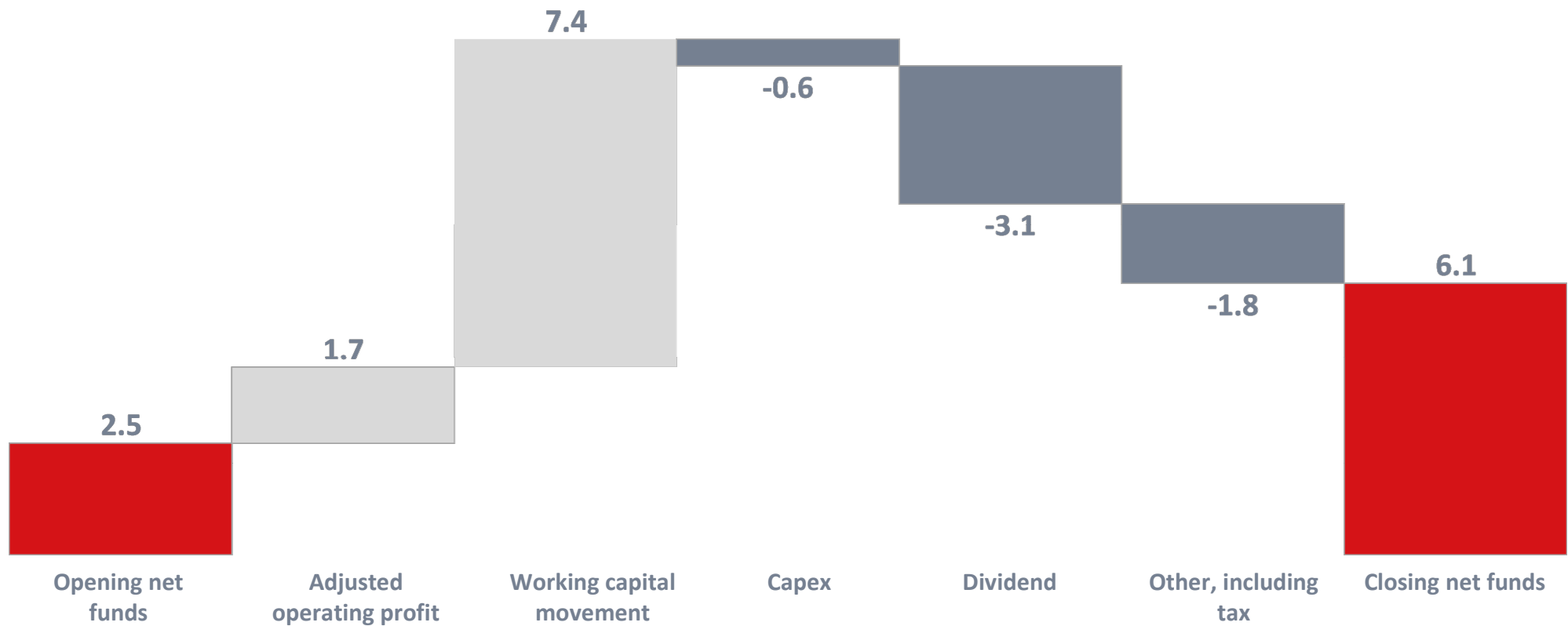
Revenue bridge £m



Adjusted operating profit bridge £m

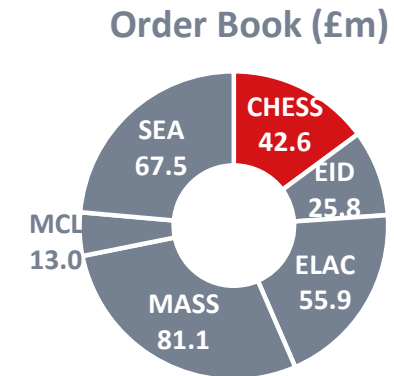
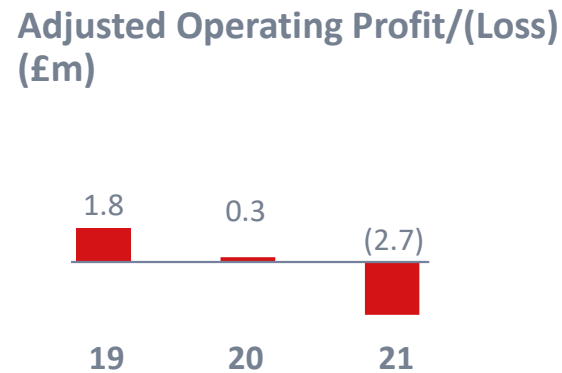
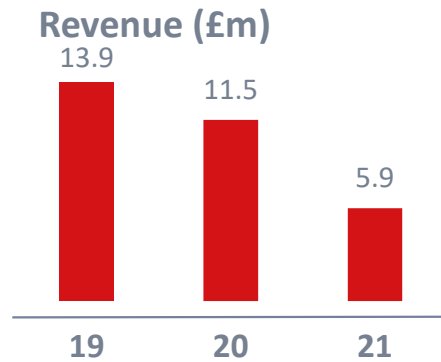


# CASH BRIDGE



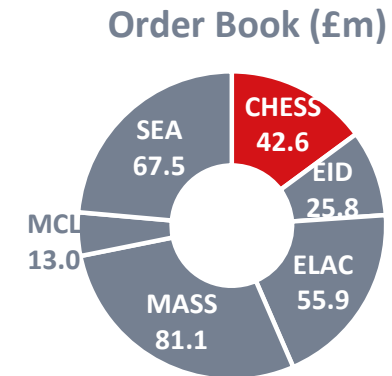
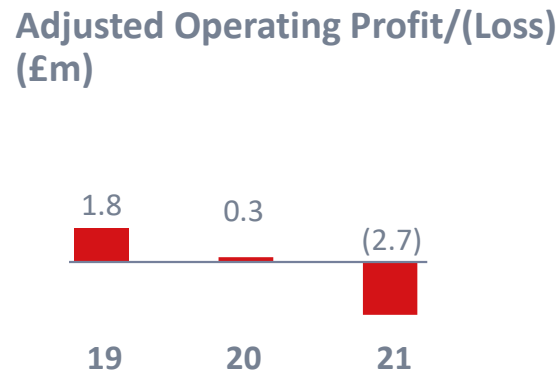
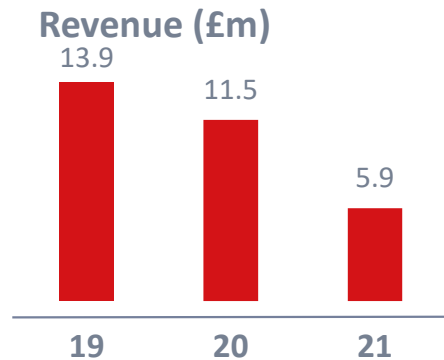


# CHESS



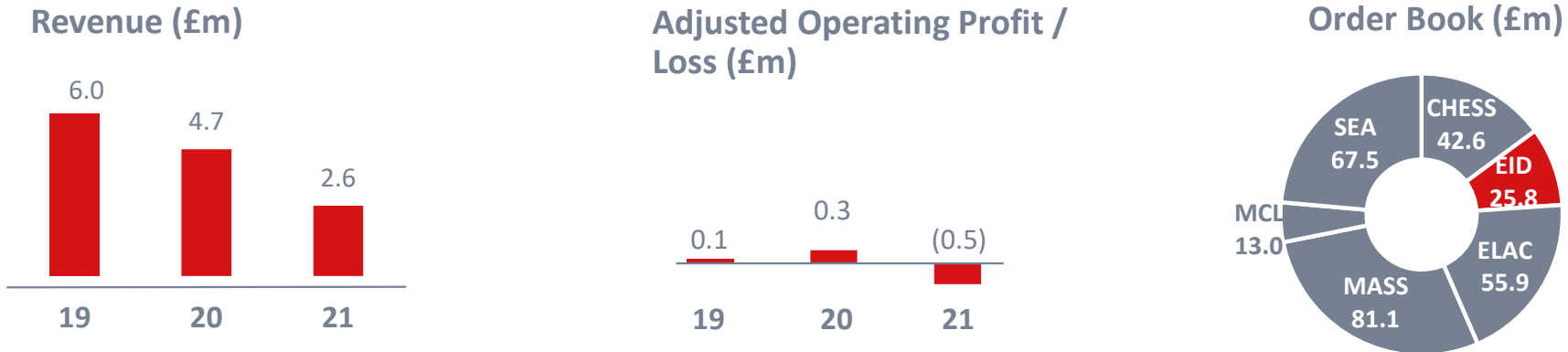
- Considerably weaker first half performance
- Against our expectations (revenue impact):
  - Delays to order intake - £2m
  - Customer driven changes to delivery schedule - £4m
  - Production and engineering delays - £3m
- Additionally cost growth impacted profitability
- Of the Group businesses Chess has been most affected by COVID-19 travel restrictions

# CHESS – ACTIONS TAKEN



- Organisation and people changes in place
- Strengthened top leadership team
- Full integration of Chess software team (Vision4ce)
- Good progress made on resolving project issues
- Stronger H2 expected, returning to profit for the year, but weaker than expectations
- Long term prospects for naval and land systems remain strong

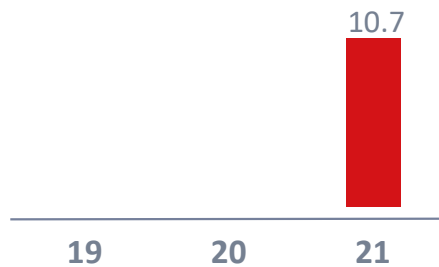
# EID



- Weaker performance albeit better than expected
- Important domestic and export orders further delayed – now expected in 2022/23
- Order book of £25.9m underpins £7.4m of expected H2 revenue
- Provides confidence that EID will return to full year profit
- EID expected to return to historical levels of performance in 2023/24

# ELAC SONAR

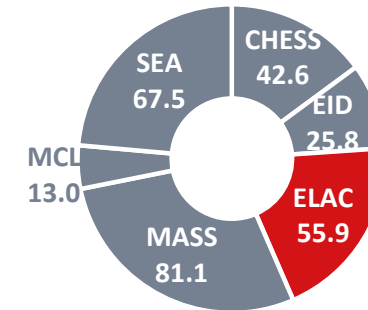
Revenue (£m)\*



Adjusted Operating Profit (£m)\*



Order Book (£m)

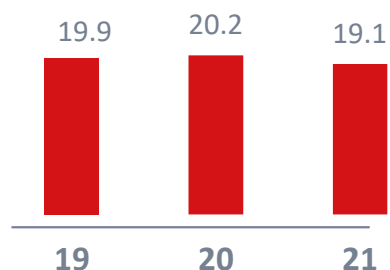


\*ELAC Sonar has been part of Cohort since December 2020

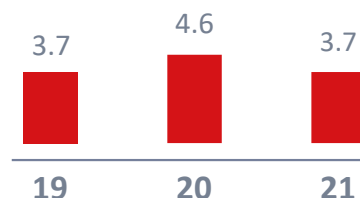
- Good first H1 contribution
- Order intake includes €49m order from Italy for submarine sonars, the biggest single system order in the Group's history
- ELAC expected to repeat its first half performance in H2

# MASS

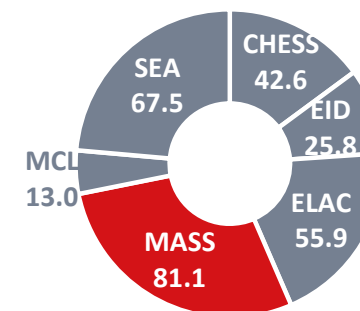
Revenue (£m)



Adjusted Operating Profit (£m)



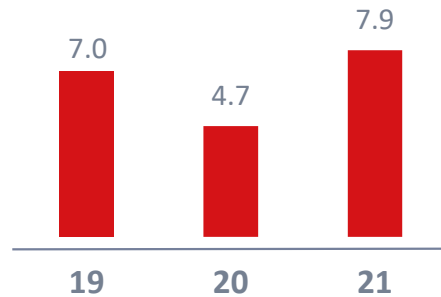
Order Book (£m)



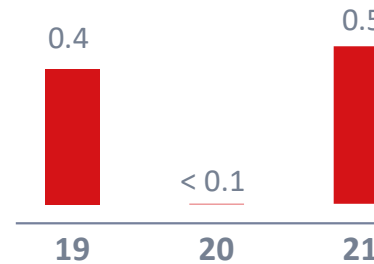
- Remains strongest contributor to Group profit
- Operating profit below 2020 with lower net margin due to COVID-19 related delays in delivering EWOS services to some overseas customers
- Net margin for the year expected to rise to 20% provided COVID-19 restrictions allow training and support deliveries
- Important contract extension received for UK Joint Forces Command with cover out to July 2024
- Stronger H2 with overall performance expected to be slightly above 2020 if no further delays to EWOS services

# MCL

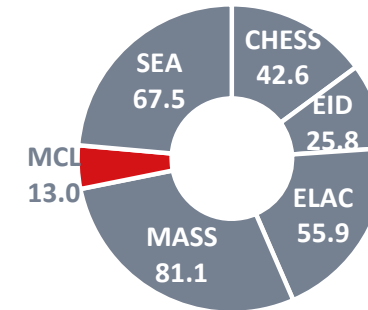
Revenue (£m)



Adjusted Operating Profit (£m)

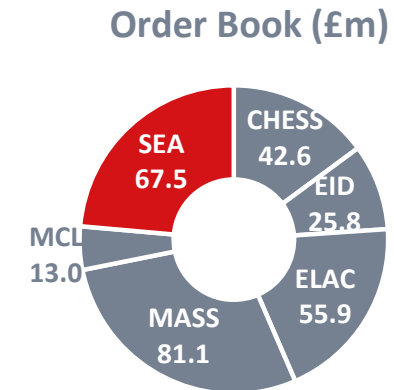
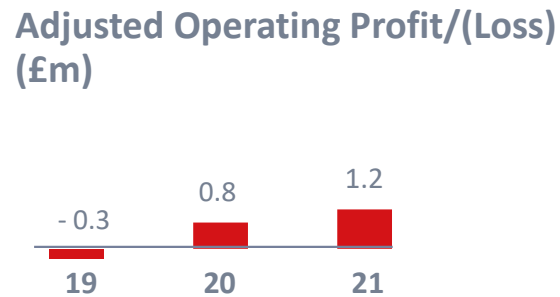
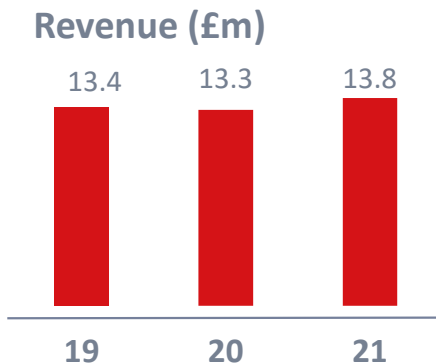


Order Book (£m)



- Stronger performance reflecting improved UK market
  - Specifically in autonomous vehicles
  - High level of bidding activity for UK MOD
- Order book at £13.0m (2020: £10.9m) up on last year with good pipeline of opportunities
- Confidence that MCL will have a stronger H2 and be at least in line with 2020

# SEA



- Stronger performance following good order intake last year
- Margin mix improved on 2020 with Torpedo Launcher Systems and towed sonar array systems delivered to overseas customers
- Improved order intake and stronger H2 expected
- SEA acquired remaining 50% of Canadian joint venture JSK for a £1.0m consideration. Provides SEA a route to market in Canada, following the award by the Royal Canadian Navy for SEA's TLS solution for its new frigate programme

# OTHER FINANCIAL ITEMS

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## Income Statement

- ELAC profit includes £0.6m income from Wärtsilä as relief for costs carried by the business in anticipation of an order that has been delayed

## Balance Sheet

- No goodwill impairment

## Payables

- Expect to acquire remaining shares in Chess during H2

## Banking Facilities

- £35.5m cash at 31 October 2021
- £40m facility of which £29.4m is drawn



# 2021/22 MODELLING GUIDANCE

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## Income Statement

- Anticipate full year amortisation of £6.9m in 2021/22, £3.6m in 2022/23, £3.1m in 2023/24 and around £1.0m in each of the two years thereafter
- Underlying tax rate of 14% (excluding RDEC) but still hold tax provisions

## Cash Flow

- Operating cash inflow of ~£4m in H2
- Tax/capex/dividends £7.5m in H2

## Balance Sheet

- Expected to be in neutral net debt position at year end

**H2 strongly weighted as in previous years**

# OUTLOOK & PROSPECTS

Andy Thomis, Chief Executive



# OUTLOOK FOR GROWTH

## Domestic markets

- UK defence spending boost has already benefitted Group, with delayed programmes now showing momentum
- Portuguese General Election in January 2022
- Cohort businesses major programmes are stable, long term and operationally important

## Export markets

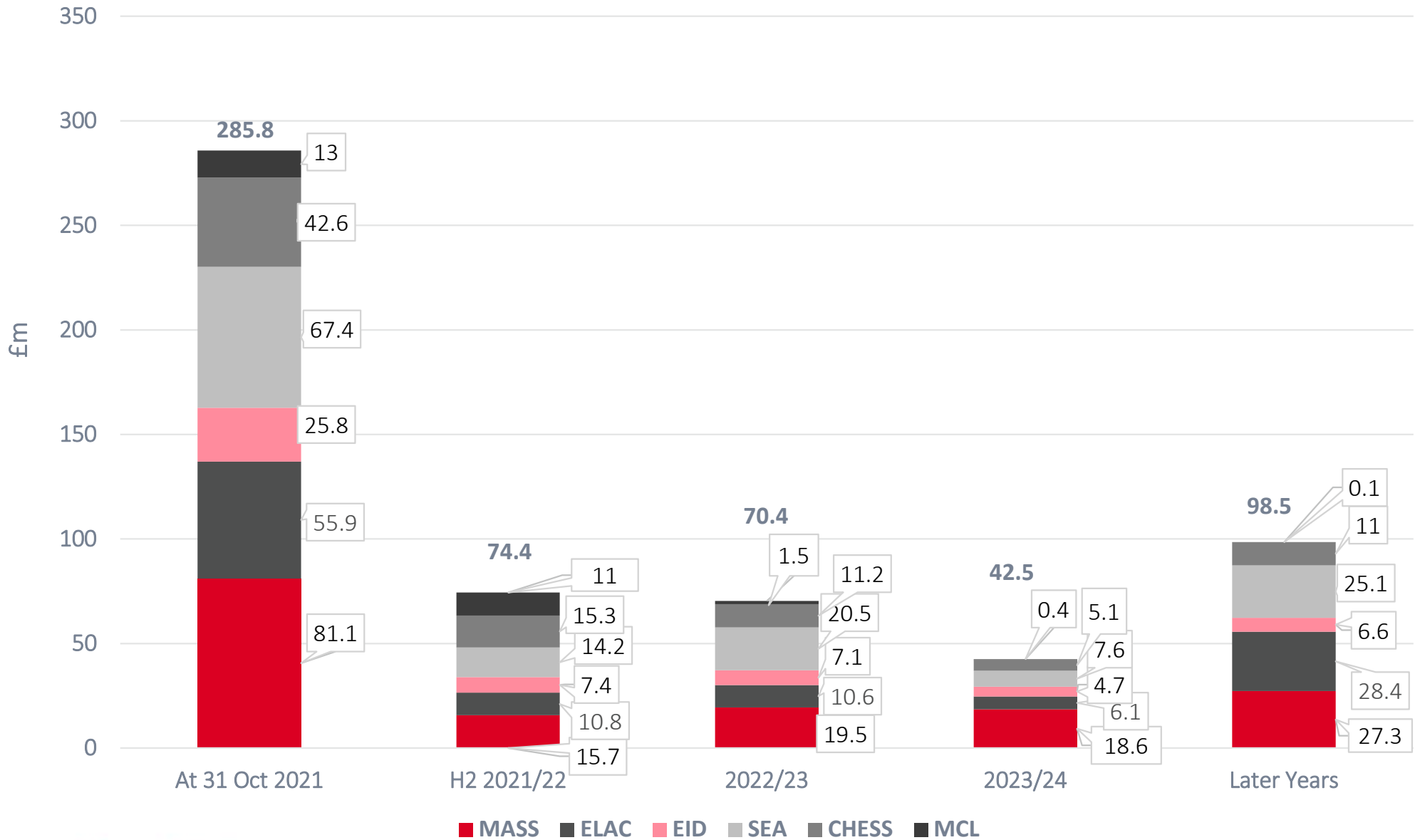
- Export revenues remain strong in H1 2021/22 (£21.6m)
- Export orders of just over £54m represented 52% of total H1 order intake
- Geopolitical demand drivers remain

## COVID-19

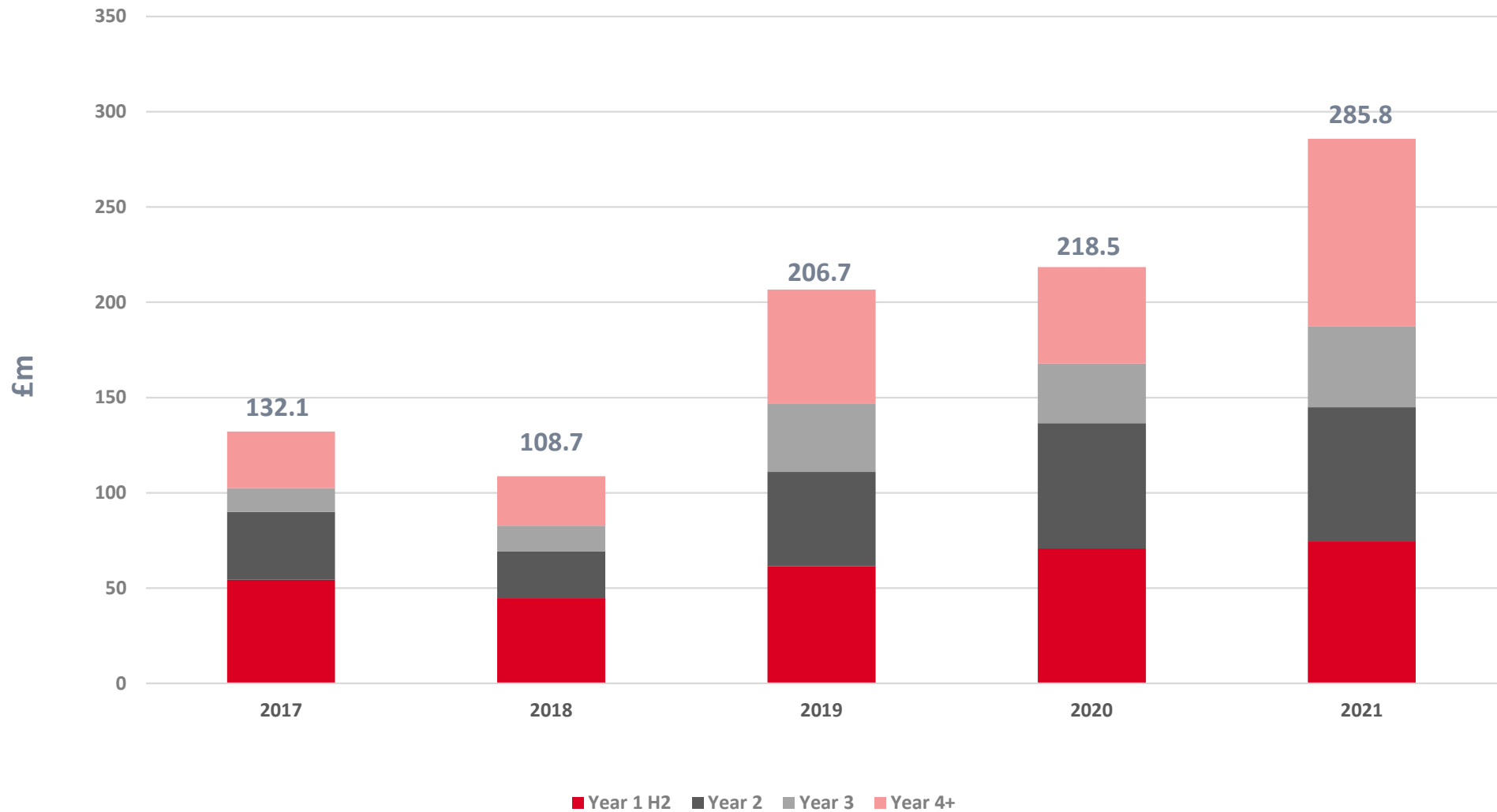
- Future impact of COVID-19 dependent on new variants
- COVID-19 travel restrictions may continue to affect order intake
- Managing challenges from employment and material costs



# ORDER BOOK – UNDERPINNING 2021/22 AND BEYOND



# ORDER BOOK EVOLUTION AT HALF YEAR

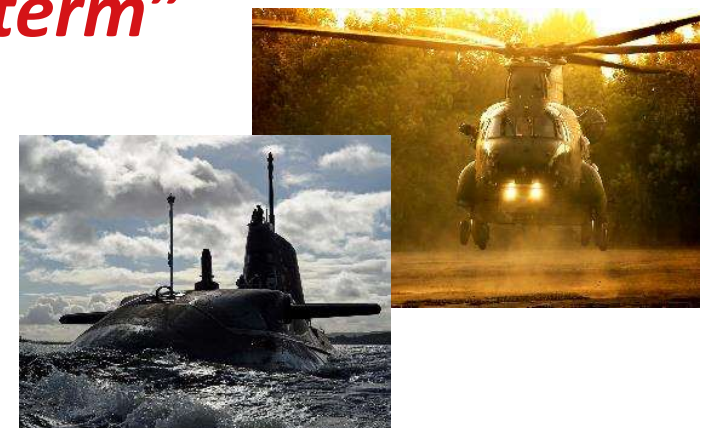


# 2021/22 OUTLOOK & SUMMARY

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- Weaker first half performance and order intake for Chess
- Continuing impact from COVID-19 restrictions
- Record order book of £285.8m, underpinning £74m of revenue in H2
- Increased order book longevity and good pipeline of order opportunities
- 10% dividend increase reflecting the Board's confidence

***“We continue to see a positive outlook for organic growth in the medium term”***



# APPENDIX



# COHORT BUSINESS MODEL

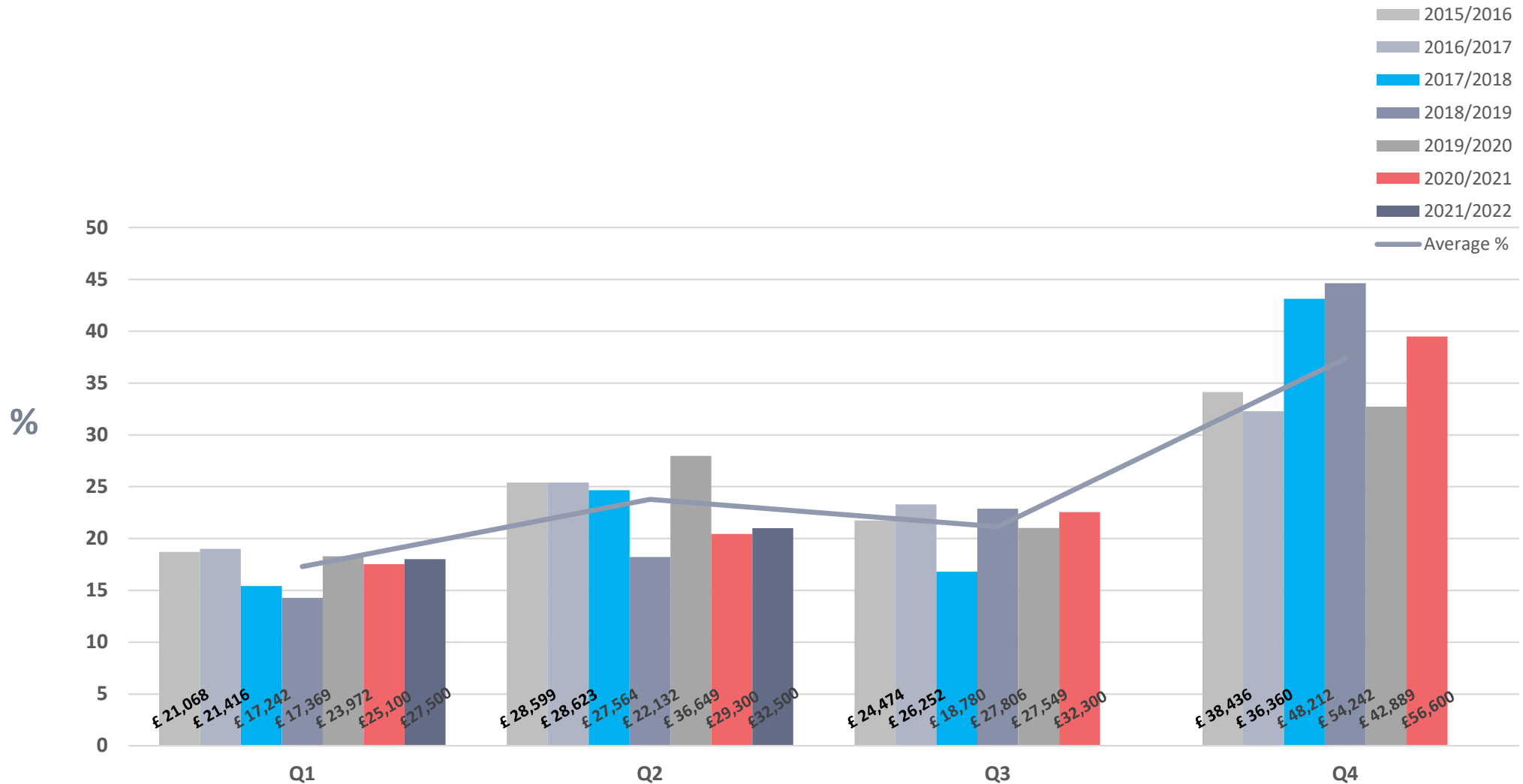
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- Subsidiaries enjoy a significant degree of operational autonomy in order to develop their potential fully:
  - Enables streamlined decision-making and focus on solving customer’s immediate problems
  - Provides competitive advantage over larger rivals 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 2021

	2021 to 31 October £m		2020 to 31 October £m	
Revenue	<b>60.1</b>		54.4	
Gross profit	<b>21.1</b>	<b>35.1%</b>	19.6	36.0%
Overhead	<b>(19.4)</b>		(15.3)	
<b>Adjusted<sup>1</sup> operating profit</b>	<b>1.7</b>		4.3	
Exceptional items	<b>0.3</b>		1.1	
<b>Adjusted<sup>1</sup> profit before interest and tax</b>	<b>2.0</b>		3.2	
Net finance cost	<b>(0.3)</b>		(0.3)	
<b>Adjusted<sup>1</sup> profit before tax</b>	<b>1.7</b>		2.9	
<b>Adjusted<sup>1</sup> earnings per share (pence)</b>	<b>3.04</b>		<b>7.74</b>	

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

# EARNINGS PER SHARE

	<i>Adjusted operating profit £m</i>	<i>Adjusted earnings per share pence</i>
	<u>£m</u>	<u>pence</u>
2021	4.0	6.94
Weighted share capital movement	-	(0.02)
Tax	-	(0.20)
Chess (81.84% owned)	(1.5)	(3.38)
EID (80% owned)	0.3	(0.98)
ELAC	-	1.5
100% owned businesses (includes interest)	1.5	(2.19)
	<u><b>4.3</b></u>	<u><b>3.04</b></u>

# FUNDS FLOW

## *Six months ended 31 October 2021*

	2021	2020
	£m	£m
Adjusted operating profit	1.7	4.3
Working capital	6.3	(1.1)
Depreciation and share based payments	1.1	0.9
<b>Net funds inflow from operations</b>	<b>9.1</b>	<b>4.1</b>
Capital expenditure	(0.6)	(0.5)
Net purchase of own shares	(0.1)	-
Dividends	(3.1)	(2.8)
Other (including tax, interest and FX)	(1.7)	(2.2)
<b>Net funds outflow</b>	<b>3.6</b>	<b>(1.4)</b>
Opening net funds / (debt) at 1 May 2021	2.5	(4.7)
<b>Closing net funds / (debt)</b>	<b>6.1</b>	<b>(6.1)</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: 68%**

Fire control, surveillance & tracking systems

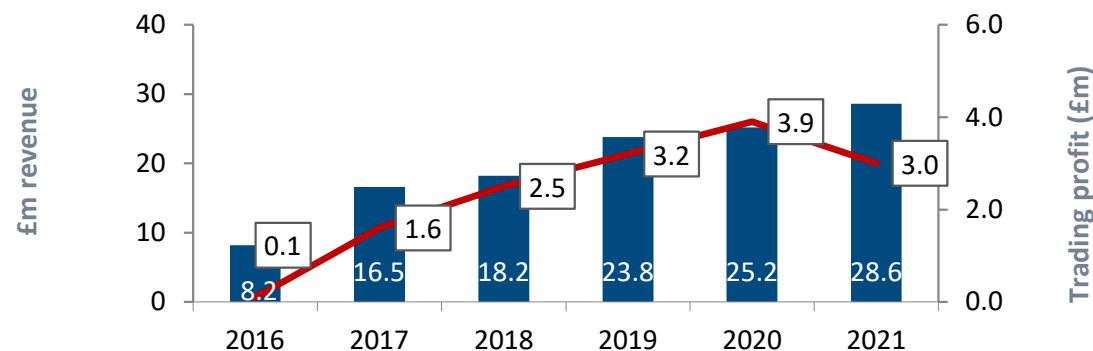
**Counter UAV: 25%**

Counter UAV systems for military & civilian applications

**Vision4ce: 7%**

Software for surveillance, tracking & fire control systems hardware

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







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.

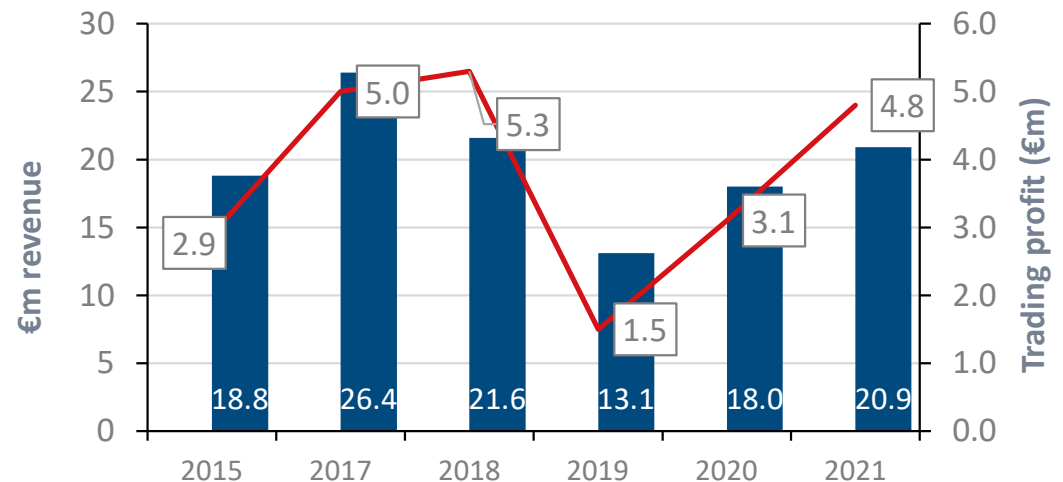
### Tactical Communications : 84%

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

### Naval Communications: 16%

Fully Integrated Information and Communications Systems for warships

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





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.

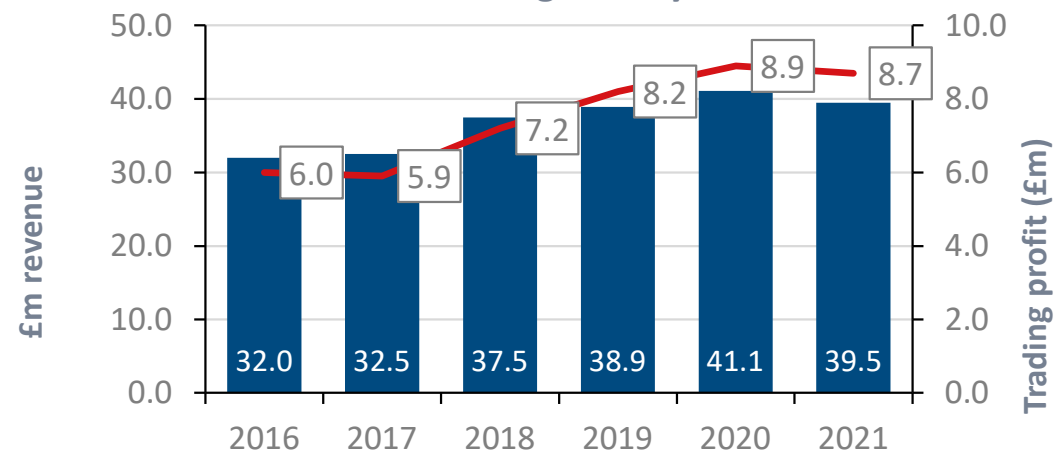
**Electronic Warfare (EW): 33%**

**Strategic Systems: 28%**

**Digital Services: 17%**

**Training Support 22%**

Trading History





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

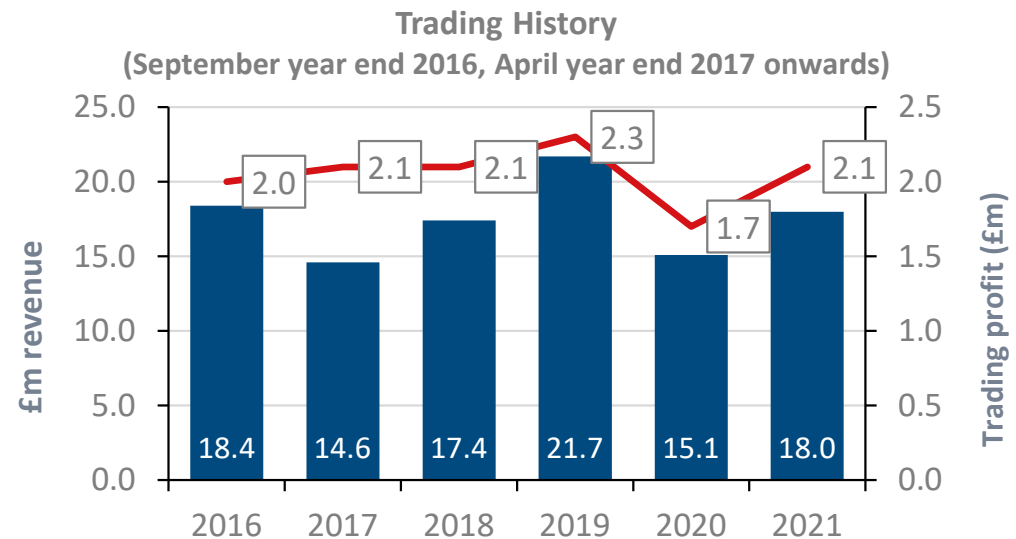
The company has over 40 years' experience in supporting the UK's ISTAR programmes including signals intelligence, electronic warfare, UGV and UAV technologies.

**Electronic Warfare: 33%**

**Communications: 51%**

**Surveillance and UAVs: 16%**

**COHORT PLC**





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

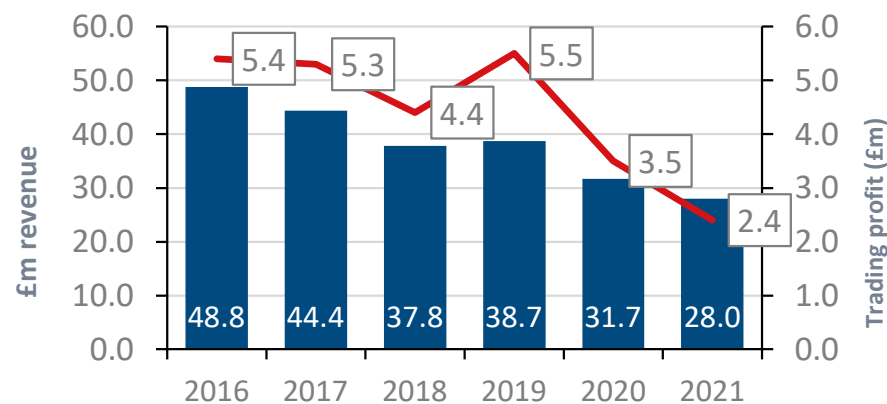
SEA's engineering capabilities cover a wide range of maritime mission systems requirements including communications, torpedo and decoy launching systems and sonar systems.

**Defence: 73%**

**Transport: 23%**

Offshore energy: 4%  
(divested August 2020)

**Trading History**



# COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

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