EDISON

Cohort

H123 results and outlook

Defence remains an increasing priority

Aerospace and defence

Cohort's expertise in innovative defence and security products and services are increasingly suitable for a wide range of global customers whose budgets are likely to rise. It is in a prime position to benefit from the growth in global defence spending that should result from increased geopolitical tension. We expect a return to sustainable organic growth in the current year accompanied by strong cash flow. An FY24e P/E multiple of 11.8x is undemanding, accompanied by 10% dividend income growth.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/21	143.3	17.9	33.6	11.1	12.8	2.6
04/22	137.8	14.7	31.1	12.2	13.8	2.8
04/23e	165.9	17.6	35.0	13.4	12.3	3.1
04/24e	179.7	19.6	36.5	14.7	11.8	3.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H123 conclusions

H123 trading performance saw a return to growth. Group revenue rose 29% with a substantial improvement in adjusted operating profit. A record £304m order backlog provides 95% order cover for FY23 external sales consensus forecast. Chess Dynamics has recovered and Marlborough Communications (MCL) benefited from strong UK Ministry of Defence (MOD) demand. SEA continued its progressive improvement and MASS achieved profit growth despite challenges to its revenues, which may start to ease in H223. ELAC SONAR is in a year of consolidation as it commences work on its major Italian contract but, with a step change in German defence spend, prospects are bright. Although EID remains in an order hiatus, it should recover in the medium term. The dividend was increased by 10% once again and the ungeared balance sheet supports the investment for growth strategy.

Defence prospects remain encouraging

Since the start of 2022, geopolitical tensions have increased sharply, notably in Europe following Russia's invasion of Ukraine, as well as in Asia-Pacific, centring on Taiwan. As a result, the UK and many NATO member countries and allies are committing to increase core defence spending in addition to the near-term boost to meet requirements for Ukraine's defence. Unfortunately, lower near-term growth expectations reduce the quantum provided by GDP-related commitments, with budgetary and inflationary pressures likely to further constrain additional funding. Nevertheless, the prioritisation of defence represents a significant boost to growth prospects that should create opportunities for Cohort and its defence peers.

Valuation: Unwarranted discount to defence peers

Following recent pressure on the share price, Cohort is now trading on a FY24e P/E of just 11.8x on our broadly unchanged estimates, a discount of c 25% to its UK defence peer group. After increasing the risk-free rate in our capped DCF valuation to 3%, it still returns a value of 610p (vs 683p previously), a substantial premium to the current share price. Given the positive defence market prospects and the return to growth seen in H123, there appears to be significant upside potential.

15 December 2022

Price	**430p**
Market cap	**£177m**

Adjusted net debt (£m) at 31 October 2022 (excludes £9.4m lease liabilities)	0.6
Shares in issue	41.2m
Free float	72%
Code	CHRT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(5.0)	(17.9)	(21.3)
Rel (local)	(7.7)	(13.0)	(16.2)
52-week high/low		630p	432.5p

Business description

Cohort is an AIM-listed defence and security company operating across six divisions: MASS (22% of H123 sales), SEA (21%), MCL (18%), the 80%-owned Portuguese business EID (3%), the now wholly owned Chess Dynamics based in the UK (25%) and ELAC SONAR in Germany (12%).

Next events

FY23 results	July 2023

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Investment summary

Delivering shareholder value through investment in defence

Cohort has consistently maintained its strategy focused on delivering growth from defence and security activities through a combination of organic and acquired growth. The strategy is agile, allowing devolved management and providing an entrepreneurial environment with disciplined financial and operational oversight and support from headquarters. The centre also encourages and coordinates strategic cooperation and development between the operations. While the pandemic constrained some operational and marketing activities due to travel and other restrictions, performance remained resilient. This was despite the well-flagged and persistent hiatus in orders for EID in Portugal over the last two years, and the more recent disruption to Chess in FY22. As both the UK and the global defence market environment have received a new impetus, Cohort's operations appear well-positioned to benefit from increased defence spending. In addition, Chess is resuming a positive trajectory as end-markets for its specialities are stimulated by learning from the Ukraine conflict, and even EID should experience a resumption in both domestic and export orders in 2023 leading to an improved performance from FY24.

Global defence spending accelerating

NATO member states spent $1.18tn on defence in 2021, with the total having grown progressively since 2015 from $0.90tn. This is despite only eight of the member states meeting the agreed 2014 commitments to spend over 2% of GDP, of which 20% should be on equipment. The median spend was c 1.6% of GDP. The response to Russia's invasion of Ukraine has been for many states to recommit to achieve the GDP goal sooner, and in the case of Germany, for the first time. On top of the support to Ukraine, the result should be significantly higher available funding for suppliers.

H123 delivers a return to growth

Cohort has a strong track record of delivering organic and acquired growth, albeit constrained in the last couple of years by the COVID pandemic and the coincident hiatus in activity at EID in Portugal. The contract adjustment at Chess in FY22 also detracted from group development, but this reversed in H123. Cohort entered FY23 with a strong order book of £291m, representing almost two years of revenues and providing order cover for FY23 externally forecast sales of 78%, well above the historical normal range of 55–65%. Strong intake in H123 has increased cover to 95% in a record backlog of £304m. With high levels of H123 working capital unwinding in H223, Cohort should end the year with adjusted net cash balances and, having secured an extended £50m bank facility in July, looks positioned to pursue new strategic opportunities should they arise.

Valuation: Exposures warrant a higher rating

As well as creating immediate demand for defence equipment, the war in Ukraine has focused the attention of NATO members and other European countries on national security issues. Commitments to increase defence spending should provide a more supportive environment for suppliers, especially in Europe and the United States, although inflationary pressures could erode the budgetary capacity of governments. The result has been not only a boost to orders for defence suppliers but also a re-rating of the defence sector, building on the resilience displayed by companies during the height of the pandemic despite operational constraints. Cohort operates on an increasingly international basis although it still is heavily oriented towards the UK, which accounts for c 60% of revenues. The issues at EID in Portugal and more recently Chess have delayed the return to growth, but our capped DCF valuation suggests potential upside of c 50% and the FY24e P/E rating of 11.8x appears undemanding.

Cohort: Growing the defence and security portfolio

Cohort is a defence and security holding company. It has six independent autonomous subsidiaries based in the UK (MASS, SEA, MCL and Chess), Germany (ELAC SONAR) and Portugal (EID), all of which provide specialist capabilities for defence and security markets, both domestically and to export customers. Since floating on AIM in 2006, Cohort has been progressively pursuing its strategy of building an independent group through both organic growth and strategically targeted, value-creating strategic acquisitions. The most recent acquisitions of EID, Chess and ELAC SONAR have served to broaden the group offering as well as extend the geographical footprint to customers in Europe and global export markets. The acquisitions have further focused the group on its core markets in defence and security (92% of FY22 sales), with small positions servicing markets in transport (5%) and other commercial markets (3%, including education). In FY22, product sales accounted for 60% of group revenues and services for 40%, much of which is delivered against multi-year contracts and programmes. These exposures have helped to insulate the group from the impact of the pandemic, however lockdowns and travel restrictions did constrain contract execution and new business development activities, although these are now returning to more normal patterns.

Maintaining the consistent growth strategy

The growth strategy remains underpinned by the business model that focuses on the progressive development of the core defence and security capabilities of the group.

The strategic goal of Cohort is to build on the agility, innovation and responsiveness of smaller, more entrepreneurial business models while providing the stability of a larger company with shared skillsets and knowhow, and broader and enhanced market access, all of which is combined with a stronger financial position. There are three key strategic objectives that form the basis for profitable growth while maintaining stakeholder confidence:

Organic growth – to be delivered through assured execution for customers, innovative and responsive engagement, identification of new opportunities and development of high-quality and high-performance leadership teams across the group.

Acquisitions – M&A remains a key element for Cohort as it seeks a proactive engagement with potential targets to demonstrate benefits from financial, structural and cultural aspects. It maintains a strong acquisition team and has been adept at structuring transactions to bridge value gaps.

Maintain confidence – with disciplined financial control, an evolving strategic approach, clear and consistent messaging to stakeholders, and a rapid, responsive attitude should issues arise.

Over the years group management has been fast to respond to operational challenges that have arisen, whether they are foreseen, such as the reduction in activity for submarines at EID, or more surprising, such as the pandemic or the contract issues at Chess. In general terms, management has been very proactive in appropriately managing overheads to reflect volumes.

The FY23 strategic priorities remain consistent with recent periods and the strategic objectives. For organic growth the main focus is on increasing the order book at all subsidiaries and improving order intake at EID. In addition, the group is seeking to capitalise on opportunities that may arise from the greater focus on defence by governments, especially in NATO, while proactively managing the challenges in the supply chain and labour markets. For M&A, the renewal of the group's financing was completed in July 2022. The two-part facility totalling £50m (£35m RCF and £15m accordion) was agreed on similar terms to the previous £40m facilitating the active search for appropriate value-creating acquisitions, with the acquisition of the outstanding Chess minority clearly aligned with this intention. In terms of maintaining confidence, completing the improvement of operational controls at Chess is also a focus.

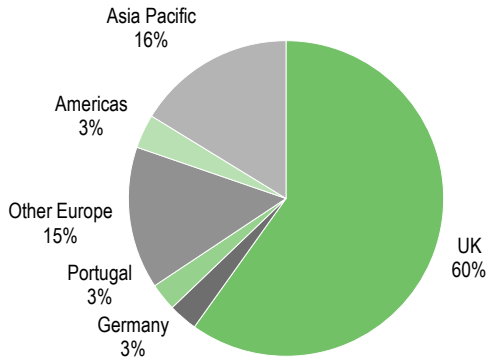
Stable and successful management team

Another element of consistency at Cohort has been the senior management team. After selling Alvis to BAE Systems in 2004, Nick Prest co-founded Cohort with Stanley Carter, who had founded its original business SCS in 1992, and became its chairman on flotation in March 2006. The current CEO, Andy Thomis, worked with the founders on the flotation and was its finance director before moving on to become corporate development director and managing director of MASS from 2007 until his appointment as CEO in May 2009. Simon Walther joined Cohort as finance director in May 2006. Clearly the team enjoy a stable and successful working relationship, which few listed defence peers can claim.

Group overview

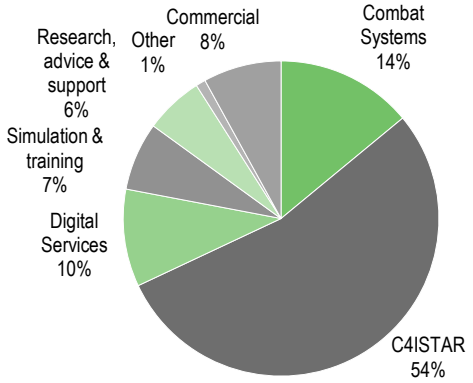
Cohort remains a predominantly UK-oriented company. However, following the acquisition of EID in Portugal in 2016 with its own strong export activity, the export-oriented Chess Technologies in 2018 and ELAC SONAR in Germany in 2020, the proportion of sales generated in overseas markets has increased. In FY22, overseas sales represented more than 40% of the group total, more than double the level in FY16 despite the currently depressed activity levels at EID. Most of the revenue increase since FY18 (pre-pandemic) has been from Europe (despite the decline in Portugal) and the Asia-Pacific region, with more modest increases in the UK and the US.

Exhibit 1: FY22 revenue by geography



Source: Cohort reports

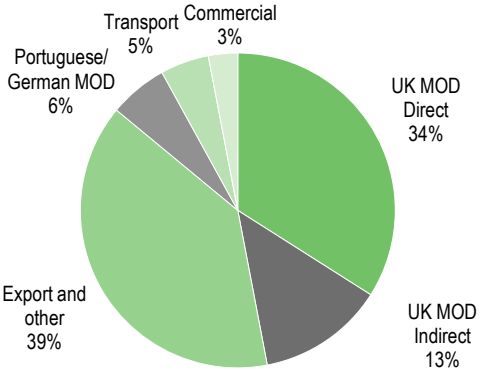
Exhibit 2: FY22 revenue by market segment



Source: Cohort reports

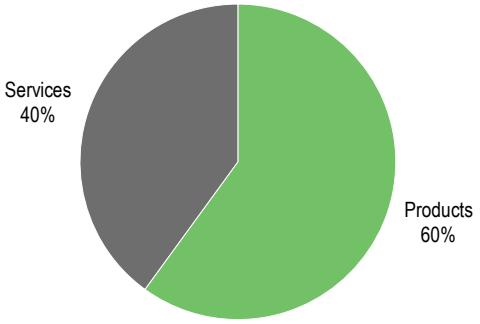
Defence and security accounts for 92% of group sales with just 8% from commercial segments. Most of the commercial revenue is generated in the UK, although transport systems does export, notably to the US. The group provides technical expertise and services across its divisions in addition to product and system sales.

Exhibit 3: FY22 revenue by customer



Source: Cohort reports

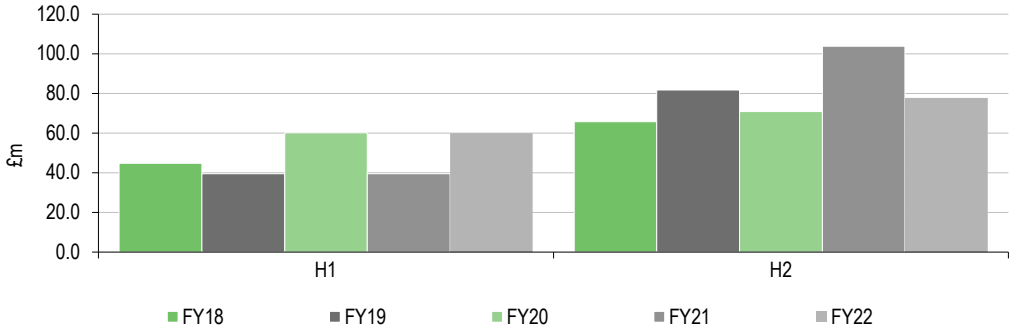
Exhibit 4: FY22 revenue by type of deliverable



Source: Cohort reports

Many of Cohort's contracts are fixed price in nature and these often include an element of technology development. The company holds risk and builds contingency into its projects, which if successfully delivered can be unwound, typically at the year end. With a largely fixed overhead base, this tends to skew H1/H2 performance, as can be seen in Exhibit 5. Although temporarily distorted by the impact of COVID in FY21 and by the Chess revenue deferral in FY22, the proportional split averages 40:60 in H1 against H2 in most years. We expect this historical second-half weighting will continue in FY23, although we expect a more normal weighting.

Exhibit 5: Cohort seasonal revenue bias to H2



Source: Cohort reports

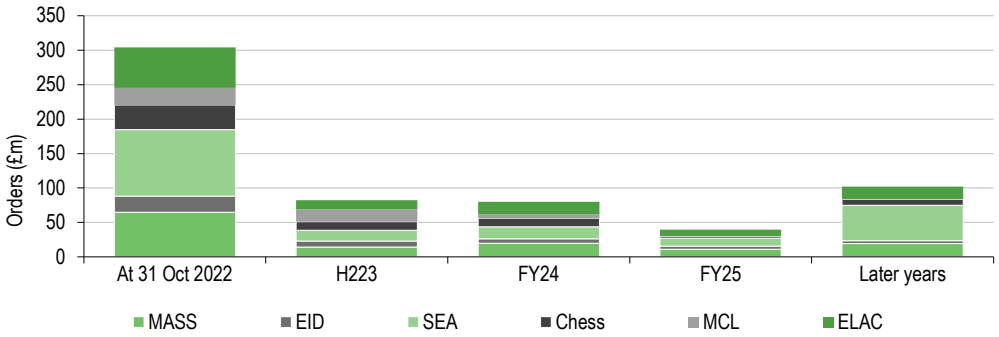
Order book underpins confidence

One of the strategic priorities continues to be to stabilise and build visibility. Order cover is typically in the range of 55–65% at the start of any given year. Cohort can also operate with an increasing level of shorter-term contracts, which can be supportive at the operating margin level but may not be visible in order book charts.

With £128m of backlog due for delivery in FY23 at the start of the year, order cover reached an exceptional 78% and following a further £20m of intake had risen to 90% by July 2022. By H123 the cover level stood at 95% with over £80m of the H123 backlog due for delivery in H223, giving us significant confidence that our FY23 estimate can be met.

Group order intake also remained positive in H123 with a book to bill ratio of 1.1x, notwithstanding the continued lack of activity at EID and a pause at MASS as customer resources were temporarily diverted to focus on events elsewhere. Exhibit 6 gives a picture of the visibility of the order book across the divisions. As can be seen, the backlog is now well extended with some longer-term orders improving visibility for MCL, historically the subsidiary with the shortest order cycle.

Exhibit 6: Delivery of the Cohort's H123 order book into revenue (£304m)



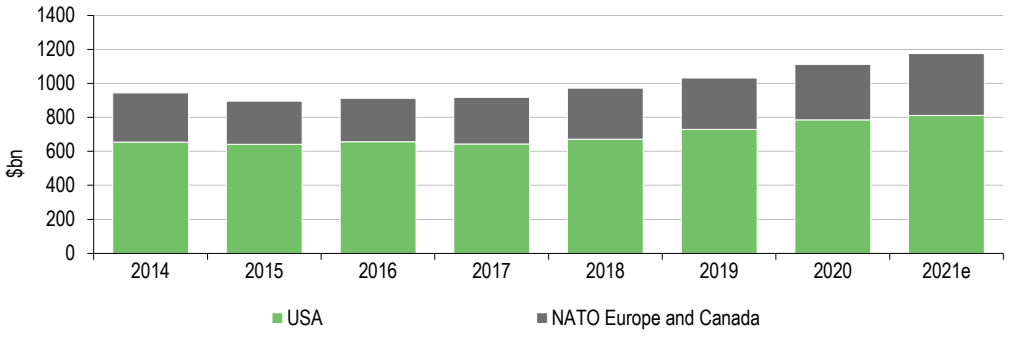
Source: Cohort reports

Defence market overview

Geopolitical tension has escalated sharply during 2022 with Russia's invasion of Ukraine focusing attention on defence capabilities and spending among NATO members and allies. Operational requirements to aid Ukraine have also boosted current demand for equipment and services with diversion of NATO resources likely to require replenishment. Concerns in Asia-Pacific have also increased, mainly relating to China and its ambitions.

NATO defence spending fell significantly as military budgets declined due to the spending constraints faced by governments following the financial crisis in 2008/9, reaching a low point in 2015. Following the adoption by member states of the Defence Investment Pledge in 2014 (>2% of GDP with >20% equipment procurement), there has been a sustained growth in spending among European members and Canada. The United States, which already far exceeds the required levels, has also continued to grow defence spending and remains the largest budget in the world by some margin.

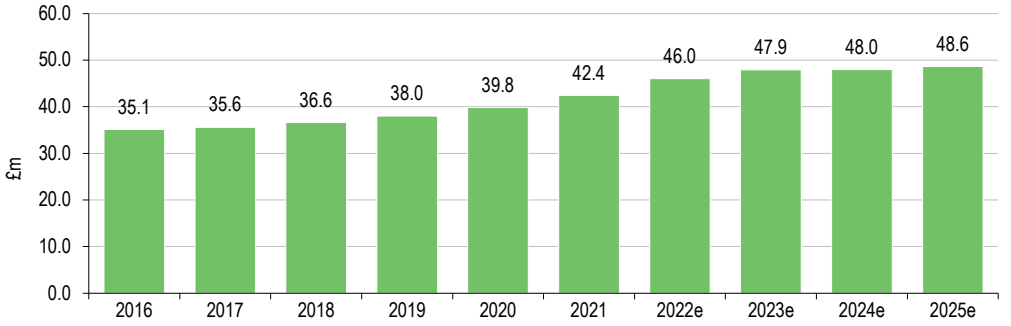
Exhibit 7: NATO members' defence spending



Source: NATO

The UK meets both NATO targets for defence spending adopted in the pledge but was only one of nine NATO member states to do so in 2022. Many more passed the 20% equipment threshold, but the median GDP spend was just over 1.6%. The war in Ukraine has led to a recommitment to attain pledge levels. Most countries have committed to spending more on defence more rapidly.

Exhibit 8: UK defence expenditure reported outturn and planned expenditure (£bn)



Source: UK House of Commons Library 'UK Defence Expenditure' April 2022

Cohort has longstanding relationships with the UK MOD across many different business areas. Many of the existing equipment and support contracts and programmes remain stable, long-term in nature and operationally important, for example in submarines and combat aircraft electronic warfare operational support (EWOS). The shorter cycle businesses, such as MCL and to some extent Chess, are able to rapidly fulfil more immediate operational requirements that, in general, are driven by the pace of defence operations.

Recently there has been discussion of the UK increasing the proportion of GDP spent on defence to 2.5% or even 3.0% by 2030. Such ambitions look increasingly unlikely given the state of the UK's public finances. In his recent Autumn Statement, the new chancellor of the exchequer deferred commitment to existing and future defence spending decisions made after the 2021 Integrated Review of Security, Defence, Development and Foreign Policy until a further review expected in Q1 2023 is complete. Defence is the fifth largest departmental budget in the UK (c 5.9% of government spending) after health, work and pensions, business, energy and industrial strategy, and education. While retaining 2% of GDP as a minimum target, we assume that the environment in the UK remains a potential opportunity given military requirements. The enormous competition for the allocation of funding makes such an assumption uncertain, exacerbated by inflationary pressures and growth concerns, but we feel that following the Ukraine invasion, national security and defence is likely to remain a priority. While this is nothing new, the ability of Cohort to provide value-for-money, responsive and flexible solutions and service propositions appears to be continuing.

As released in the UK MOD Annual Report and Accounts for 2021/22, defence spending cash out-turn in the fiscal year to April 2022 was £45.9bn, up from £35.1bn in the year to April 2015. That continues the growth of recent years but remains below the peak levels of the previous year and well below the higher levels seen in the early 1980s and at the turn of the decade of around £50bn. Under existing plans it is expected to reach £48.6bn in cash terms in 2024/25, representing a real annual average increase of 3.4% from 2020/21, although the current review may affect that.

In 2021/22 capital expenditure on equipment was £14.2bn (31% of UK defence spending) with a further £7.5bn (16%) spent on equipment support and £5.1bn on infrastructure (11%). Service personnel costs accounted for £10.4bn or 22% of the total.

Cohort's challenge is to maximise its opportunities in the evolving budgetary environment, which can change planned spending on programmes, for example submarines, while also responding to operational requirements that may now increase from recent low levels.

Germany is currently the third largest contributor to NATO, after the US and the UK. Following the invasion of Ukraine, the German government has reversed three decades of policy. It has also committed to at least 2% of GDP spending levels, partially through a €100bn (£85bn) special fund for military equipment modernisation that should lead to increased investment levels over the next three years. Germany has never met the goal and would probably overtake the UK in absolute spending terms if it does meet the target unless the UK increases defence spending to more than 2.5% of its GDP. In 2021 the German MOD received funding of €46.9bn. To meet the target, defence spending would have to rise to €75.5bn in 2022 compared to the draft budget appropriation of €50.3bn and €85.6bn by 2026, albeit Germany faces similar pressures to the UK in terms of public spending constraints and inflationary pressures.

In Portugal, neither of the NATO targets is currently being met; in 2021 it spent only €3.3bn or 1.6% of GDP. Portugal does not appear to have committed to the pledge, so equipment contracts remain more severely constrained than in other countries, however we believe there is a pipeline of domestic equipment orders to be placed. This could improve order intake for EID, which also continues to seek opportunities in its export markets.

Prospects in the Rest of the World are unlikely to diminish as the regional tensions in Asia-Pacific and elsewhere continue to exercise several governments. Globally defence expenditure remains on a rising trend and Cohort continues to develop export relationships from its UK, Portuguese and more recently added German operations.

Return to growth in H123

Cohort has seen a return to growth in H123. The easing of pandemic constraints has been partial but accompanied by a boost to defence market prospects following Russia's invasion of Ukraine. However, there has been some diversion of customer financial and human resources to focus on the effects of the conflict, which has delayed some programmes and mitigated increased operational demand for equipment and services. Chess has recovered strongly but EID remains in a depressed phase with Portuguese naval orders not expected to materialise until the first half of 2023. The key highlights of the H123 results are:

- H123 saw continued positive group order intake of £88.6m with a book to bill ratio of 1.1x, returning to H121 levels. It was below the exceptional £105.3m in H122 but that included the group's largest-ever single system order from Italy for sonars for ELAC. SEA and MCL achieved particularly strong intake and management sees strong order prospects for H223 and beyond.
- The closing order book of £304.2m (H122: £285.8m) was a record high and up from £291.0m at the start of the year. The backlog was further extended with some orders deliverable out to 2032.

Exhibit 9: Cohort H123 results summary

Half year to Sept (£m)	H121	H122	H123	*H123 vs H122*
Order intake	89.2	105.3	88.6	*-16%*
Book to bill (x)	1.64	1.75	1.14	
Order backlog	**218.5**	**285.8**	**304.2**	***6%***
Order cover of FY sales	92%	89%	95%	
Revenues				
Chess	11.5	5.9	19.1	*223%*
EID	4.7	2.6	2.0	*(23%)*
ELAC	-	10.7	8.9	*(16%)*
MASS	20.3	19.1	17.3	*(9%)*
MCL	4.7	7.9	13.8	*75%*
SEA	13.4	13.9	16.4	*18%*
Inter-segment revenue	(0.0)	(0.1)	(0.2)	
Group total	**54.4**	**60.0**	**77.5**	***29%***
Adjusted operating profit				
Chess	0.3	(2.7)	0.3	*n.m.*
EID	0.3	(0.5)	(1.0)	*95%*
ELAC	-	1.5	0.9	*(41%)*
MASS	4.6	3.7	4.0	*7%*
MCL	(0.0)	0.6	2.2	*295%*
SEA	0.8	1.2	1.2	*0%*
Unallocated central costs	(1.7)	(2.1)	(2.6)	*23%*
Group total	**4.3**	**1.7**	**5.0**	***192%***
(Loss)/profit before tax (reported)	(0.4)	(1.7)	1.1	*n.m.*
Adjusted profit before tax*	**4.0**	**1.3**	**4.5**	***238%***
Adjusted EPS (p)	**7.74**	**3.04**	**10.12**	***233%***
DPS (p)	3.50	3.85	4.25	*10%*
Adjusted net cash/(debt) excluding lease liabilities	(6.1)	6.1	(0.6)	

Source: Cohort reports. Note: *Before exceptional items, amortisation of other intangibles and FX mark to market.

- Revenues were up 29% to £77.5m (H122: £60.0m), driven by higher sales to the UK MOD, particularly at MCL, as well as increased exports at Chess. The improvement was despite some diversion of customer resources to deal with current events, leading to some delivery delays, notably in provision of training services by MASS. However, the increased prioritisation of defence spending and the deferral of some revenues should support higher medium- and longer-term investment levels leading to improved future revenues.

- The exceptional revenue performance at Chess together with strong growth at MCL and SEA more than offset declines at MASS, ELAC and EID. Chess's exceptional sales level included project completions that were deferred from FY23 combined with a strong recovery in ongoing activity overseen by the new management team. MCL benefited from the increased pace of operational activity and SEA continued its progressive improvement.
- After its challenges in H122 Chess recovered to H121 levels, making a small £0.3m adjusted operating profit (H122: loss of £2.7m). EID made a loss of £1.0m, £0.5m worse than the prior year. In aggregate, MASS and SEA made slightly higher contributions, adding an aggregate £0.3m, while MCL was much improved at £2.2m (H122: £0.5m). ELAC's adjusted operating profit fell to £0.9m (H122: £1.5m) due to the higher proportion of lower margin initial work on the Italian sonar contract. Unallocated central costs once again rose by almost £0.5m to £2.6m.
- As a result, group adjusted operating profit was £5.0m (H122: £1.7m).
- Adjusted EPS more than trebled to 10.12p (H122: 3.04p).
- The interim dividend was increased by 10% to 4.25p (H122: 3.85p), maintaining the group's progressive dividend policy and reflecting management's confidence in the return to growth underpinned by the record order book.
- Adjusted net debt (excluding lease liabilities) was £0.6m (H122: net cash £6.1m). There was a significant working capital build, especially at Chess and MCL. EID and ELAC also saw inventory increase for H223 deliveries. As this unwinds operating cash flow should improve and management indicates, as at 9 December 2022, the group's net cash was £7.6m.

Exhibit 10: Cohort half yearly results by division and estimates

Year-end April (£'000)	H122	H222	FY22	H123	H223e	FY23e
Revenue						
Chess	5,925	10,980	16,905	19,134	12,969	32,103
EID	2,630	5,597	8,227	2,029	8,831	10,860
ELAC	10,692	10,826	21,518	8,943	13,651	22,594
MASS	19,064	19,447	38,511	17,324	20,417	37,741
MCL	7,913	13,832	21,745	13,823	15,533	29,356
SEA	13,859	17,114	30,973	16,387	17,064	33,451
Inter-segment revenue	(45)	(69)	(114)	(173)	(77)	(250)
Group total	**60,038**	**77,727**	**137,765**	**77,467**	**88,387**	**165,854**
Adjusted operating profit						
Chess	(2,663)	2,977	314	329	2,881	3,210
EID	(489)	1,349	860	(952)	1,006	54
ELAC	1,515	2,255	3,770	888	1,823	2,711
MASS	3,724	5,414	9,138	3,983	4,962	8,945
MCL	547	1,708	2,255	2,158	2,245	4,403
SEA	1,228	2,157	3,385	1,234	2,947	4,181
Unallocated central costs	(2,144)	(2,053)	(4,197)	(2,629)	(2,406)	(5,035)
Group total	**1,718**	**13,807**	**15,525**	**5,011**	**13,459**	**18,470**
Adjusted operating margin						
Chess	*-44.9%*	*27.1%*	*1.9%*	*1.7%*	*22.2%*	*10.0%*
EID	*-18.6%*	*24.1%*	*10.5%*	*-46.9%*	*11.4%*	*0.5%*
ELAC	*14.2%*	*20.8%*	*17.5%*	*9.9%*	*13.4%*	*12.0%*
MASS	*19.5%*	*27.8%*	*23.7%*	*23.0%*	*24.3%*	*23.7%*
MCL	*6.9%*	*12.3%*	*10.4%*	*15.6%*	*14.5%*	*15.0%*
SEA	*8.9%*	*12.6%*	*10.9%*	*7.5%*	*17.3%*	*12.5%*
Group Total	*2.9%*	*17.8%*	*11.3%*	*6.5%*	*15.2%*	*11.1%*

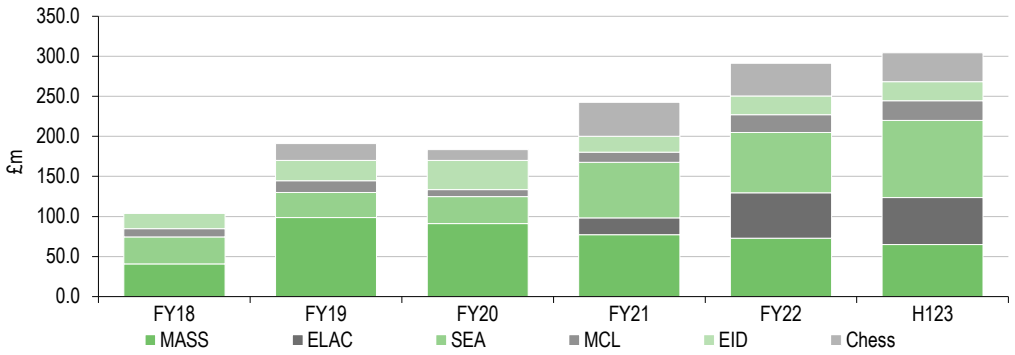
Source: Cohort reports, Edison Investment Research estimates

Outlook

SEA, EID, ELAC and MCL all increased their backlogs from the start of the year, with particularly strong order intake at SEA (£37.5m) and MCL (£16.1m). While Chess saw its backlog decline, its

intake was significantly ahead of H122, but with deferred revenues from FY22 being delivered during the period sales were exceptionally high. MASS continued to work through its existing backlog but management believes it is starting to rebuild its business development pipeline. Over £80m of the group's H123 backlog should be delivered in H223, providing strong order cover of 95% for FY23 consensus forecast revenue expectations and providing confidence in our estimates. Management indicates the pipeline of opportunities remains strong for H223.

Exhibit 11: Cohort order backlog development



Source: Cohort

Earnings revisions

Overall the H123 performance and 95% order cover supports our estimates for FY23 and FY24. We do now expect modestly higher revenues with slightly lower margins due to changes in the divisional mix. The Chess minority purchase in November for £1.0m leads to a small enhancement in FY23 EPS, with a slightly greater benefit for the full year effect in FY24. The growth in PBT is partially mitigated by the increase in corporation tax effective from next year.

Exhibit 12: Cohort earnings estimates revisions

Year to April (£m)	2023e	2023e		2024e	2024e	
	Prior	New	% change	Prior	New	% change
Revenues						
MASS	44.5	37.7	(15.3)%	46.8	43.4	(7.2)%
SEA	34.7	33.5	(3.6)%	38.2	36.8	(3.6)%
MCL	25.2	29.4	16.4%	27.2	32.3	18.5%
EID	10.8	10.9	0.1%	12.6	12.6	0.1%
Chess	26.2	32.1	22.5%	27.5	28.9	5.2%
ELAC SONAR	22.6	22.6	0.0%	26.0	26.0	0.0%
Intra group sales	0.0	-0.3		0.0	-0.3	
Total Group	**164.1**	**165.9**	**1.1%**	**178.2**	**179.7**	**0.8%**
EBITDA	**22.8**	**22.9**	**0.2%**	**25.1**	**25.2**	**0.2%**
Adjusted operating profit						
MASS	9.8	8.9	(8.7)%	10.1	9.3	(7.2)%
SEA	4.3	4.2	(3.6)%	4.6	4.4	(3.6)%
MCL	3.0	4.4	45.5%	3.3	4.7	43.2%
EID	0.5	0.1	(88.4)%	1.2	1.2	0.1%
Chess	2.6	3.2	22.5%	3.0	3.2	5.2%
ELAC SONAR	2.7	2.7	0.0%	3.1	3.1	0.0%
HQ Other and intersegment	(4.5)	(5.0)	11.9%	(4.7)	(5.4)	14.1%
Group total	**18.5**	**18.5**	**0.0%**	**20.6**	**20.6**	**0.1%**
Adjusted PBT	**17.6**	**17.6**	**0.0%**	**19.6**	**19.6**	**0.1%**
EPS - adjusted continuing (p)	**34.2**	**35.0**	**2.1%**	**35.6**	**36.5**	**2.4%**
DPS (p)	13.4	13.4	0.0%	14.7	14.7	0.0%
Adjusted net cash	5.0	4.9	(2.2)%	10.3	10.2	(1.7)%

Source: Edison Investment Research estimates

After paying for the Chess minority, the company remains in a strong financial position, with near neutrality for adjusted net funds (excluding leases) of £4.9m expected at the year end.

Divisional overview

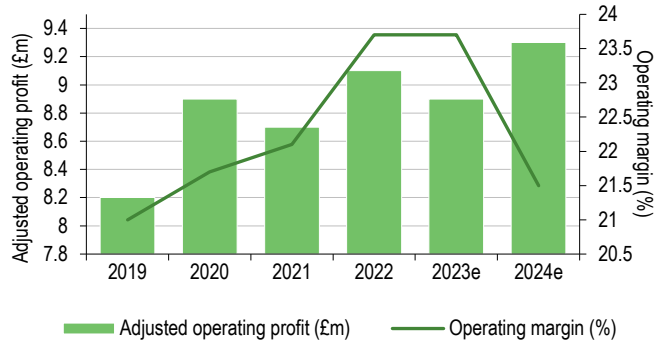
MASS: Strong profitability despite challenges

MASS provides the core capabilities in Cohort's electronic warfare (EW) and ICT service offerings, with its predominant customers being government bodies. It includes Cohort's developing cyber capability and data security services and operates through four divisions:

- EWOS: the THURBON EW database, SHEPHERD (a system provided to the UK MOD that incorporates THURBON) and EW managed service offerings.
- Digital Services: solutions and training services offered to wider government as well as a range of services delivered to commercial, defence and educational customers.
- Strategic Systems: managed service and niche technical offerings provided to the UK MOD.
- Training Support: training and support for the UK's Joint Warfare Centre as well as command training for other customers.

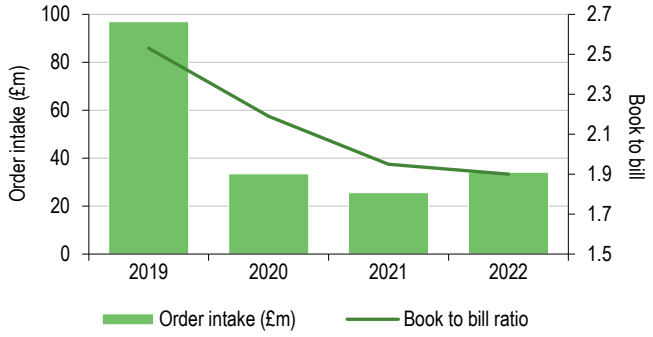
MASS is consistently the group's most profitable business, with longstanding client relationships providing tailored and well-integrated solutions; operating margins have increased year-on-year from 2019 to 2022. It benefits from long-term service contracts including its Joint Command and Staff Training (JCAST) contract of over 20 years with the UK armed forces' Strategic Command. This contract has been extended over a two-year period for a value of over £11m, commencing in the summer of 2022, and demonstrates MASS's commendable customer-tailored capabilities.

Exhibit 13: MASS adjusted operating profit (£m) and operating margin (%), FY19–FY24e



Source: Cohort reports

Exhibit 14: MASS order intake (£m) and book to bill ratio, FY19–FY22



Source: Cohort reports

As mentioned in our August update note, MASS's sales fell 3% in FY22 to £38.5m (FY21: £39.5m). Its adjusted operating profit improved to £9.1m (FY21: £8.7m) with a record margin of 23.7% achieved due to favourable revenue mix, cost savings in delivering some longer-term contracts and flat overheads. Despite improved order intake of £34.1m (FY21: £25.6m), the book to bill ratio decreased marginally and the order backlog declined to £72.8m as the operations continued to deliver against long-term contracts.

Exhibit 15: MASS revenue by sector, FY19–FY22

Sector	FY19 (£m)	FY20 (£m)	FY21 (£m)	FY22 (£m)
Defence and Security	**35.8**	**38.7**	**37.6**	**35.3**
Direct to UK MOD	18.1	19.8	19.3	21.0
Indirect to UK MOD (Cohort as a sub-contractor/ partner)	3.6	4.3	4.8	4.9
Total to UK MOD	**21.7**	**24.1**	**24.1**	**25.9**
Security	3.2	4.2	4.5	3.1
Export Defence	10.9	10.4	9.0	6.3
	14.1	**14.6**	**13.5**	**9.4**
Other Commercial	**3.2**	**2.4**	**1.9**	**3.2**
MASS Total Revenue	**39.0**	**41.1**	**39.5**	**38.5**

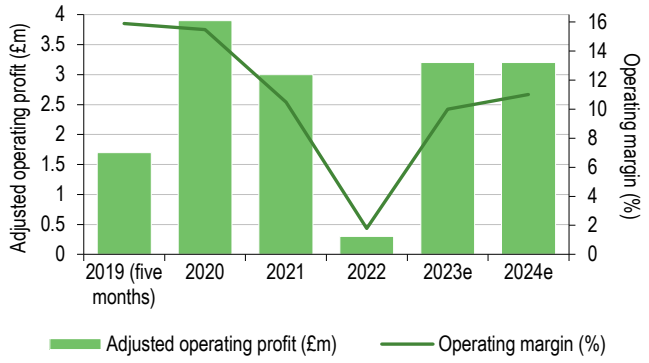
Source: Cohort reports

The trends continued in H123 with lower sales and subdued order intake, but with a higher margin of 23.0% (H122: 19.5%), benefiting from an improved mix of work, although management expects it to fall slightly in H223. Of the £64.8m backlog, £14m is deliverable in FY23, underpinning revenue expectations for a stronger second half, with an overall profit performance in line with last year. It assumes some return to more delivery of training services, especially in the UK.

Chess: Strong recovery in H123

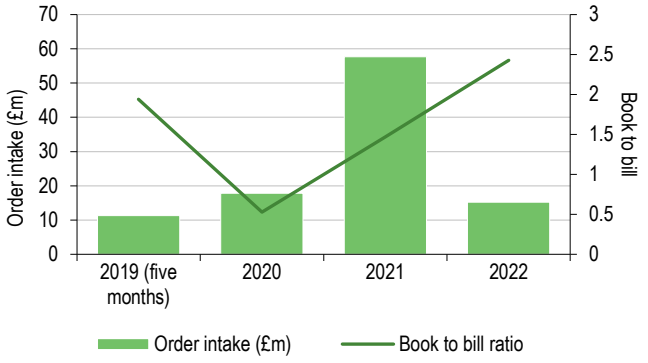
Chess Dynamics is an innovative, well-respected surveillance, tracking and gunfire control specialist for military and commercial customers. It was acquired by Cohort in 2018, having supplied a range of equipment and systems to defence leaders since 2005. It designs, manufactures and supplies a range of electro-optical and electro-mechanical systems to the defence and security markets including tracking, targeting and drone-protection systems.

Exhibit 16: Chess adjusted operating profit (£m) and operating margin (%), FY19–FY24e



Source: Cohort reports

Exhibit 17: Chess order intake (£m) and book to bill ratio, FY19–FY22



Source: Cohort reports

As previously indicated, in FY22 there was a sharp drop in revenues of 41% to £16.9m (FY21: £28.6m). Over half the fall was caused by a mutually terminated contract that led to a reversal of £6m of already booked revenues in FY22. The system involved has subsequently been sold, which, together with a robust order backlog, provides complete cover for FY23 sales expectations. Order intake was a healthy £15.2m (FY21: £57.7m) net of the cancelled order, primarily for European land forces, including some extensions to existing contracts. It also included £4m of spares and repairs. The FY22 end backlog fell slightly to £40.7m (FY21: £42.3m)

Despite much stronger order intake in H123 of £14.3m (H122: £6.1m), the order backlog declined further to £35.9m (FY22: £42.6m) due to the exceptional revenue performance due to the project deliveries delayed from last year, although these carried lower margins. With £12m of revenue to be delivered in H223 from the backlog, management expects Chess to have a far stronger second half margin and deliver an overall improvement for FY23. Cohort completed the buyout of the

outstanding 18.16% minority for £1.0m on 30 November 2022, which will modestly boost group EPS in FY23 and beyond.

Exhibit 18: Chess revenue by sector, FY19–FY22

Sector	FY19 (£m)	FY20 (£m)	FY21 (£m)	FY22 (£m)
Defence and Security	**10.7**	**25.2**	**28.6**	**16.8**
Direct to UK MOD	-	-	-	0.1
Indirect to UK MOD (Cohort as a sub-contractor/ partner)	1.2	2.2	2.1	2.6
Total to UK MOD	**1.2**	**2.2**	**2.1**	**2.7**
Security	4.8	4.8	2.4	2.0
Export Defence	4.7	18.2	24.1	12.1
	9.5	**23.0**	**26.5**	**14.1**
Other Commercial	**-**	**-**	**-**	**0.1**
Chess Total Revenue	**10.7**	**25.2**	**28.6**	**16.9**

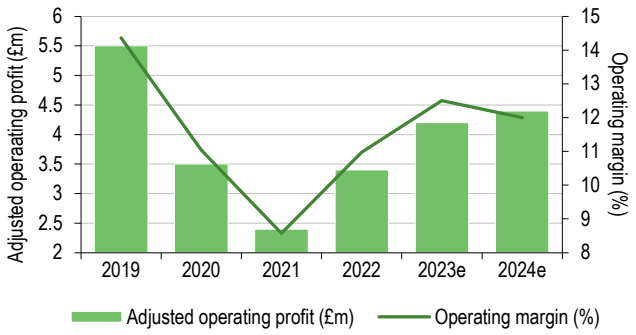
Source: Cohort reports

SEA: Improved defence environment supports growth

SEA delivers a broad range of systems, products and services into the defence and transport markets. It operates through three divisions:

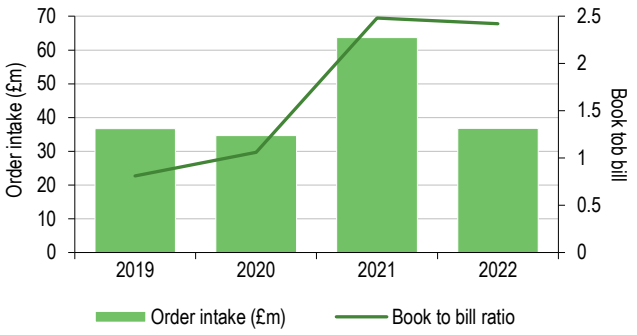
- Complex Systems.
- Maritime Solutions: provides Combat systems requirements to UK and export customers including communications and ship and fleet protection, such as torpedo launching systems (TLS). It also supplies anti-submarine warfare systems, including towed array sonars, infrastructure and training. It carries out technology research on behalf of the UK MOD into future maritime and soldier systems.
- Transport Management: delivers automated traffic enforcement systems in the UK and US.

Exhibit 19: SEA adjusted operating profit (£m) and operating margin (%), FY19–FY24e



Source: Cohort reports

Exhibit 20: SEA order intake (£m) and book to bill ratio, FY19–FY22



Source: Cohort reports

FY22 order intake was strong at £36.8m, but a repeat of the exceptional levels seen in FY21 of over £63m was not expected. Orders secured in FY22 included ECS (External Communications System) and other systems work for the UK submarine fleet, including initial orders for the new Dreadnought class. Export orders included TLS for the Philippines Navy and an initial ECS for a Royal New Zealand Navy frigate. SEA also acquired the 50% of the JSK activity in Canada that it did not already own, positioning it to secure and support business with the Canadian Navy, including TLS for the new frigate programme. Order intake was also robust for the Transport business, ROADflow, where revenues returned to pre-pandemic levels.

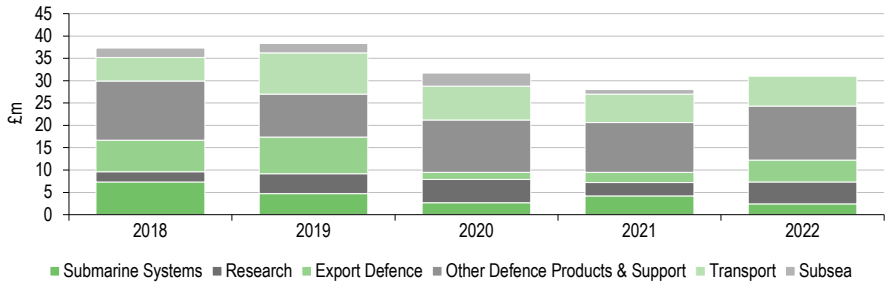
2022 has seen a new era of global conflict, which provides a significant opportunity for the division's maritime defence business. With the ongoing invasion of Ukraine, Russia continues to pose a significant threat to the North Atlantic, with its large submarine fleet of c 64 vessels. Additionally, China now has the largest navy in the world, by both tonnage and the sheer number of vessels,

with maritime capability on a par with the US Navy; the Chinese Navy consists of well-armed ships with modern sensors and weapon systems. Its invasive cyber and espionage capability, alongside its focus on missile capability, poses an ongoing threat to Taiwan. Combined, these factors have driven increases in defence spending particularly in the maritime domain in the UK and Far East Asia. This is advantageous for SEA, being a trusted brand that supplies to the Royal Navy and increasingly sells to Australia and Canada. Consequently, we expect a boost in order intake in upcoming years.

In Q123, Cohort announced that SEA had been awarded a new £34m contract by the UK MOD to upgrade systems and equipment of the anti-submarine warfare and countermeasures system on various platforms that the Royal Navy uses. In-service system support will be provided for a five-year period with the option to further extend for two years. The order significantly strengthened the division's order backlog to £96.3m at H123, providing improved visibility of future revenues.

With positive H123 revenue development and £17m of the significantly increased backlog deliverable in H223, management expects a stronger H223 performance to deliver FY23 adjusted operating profit ahead of FY22.

Exhibit 21: SEA revenues by business area

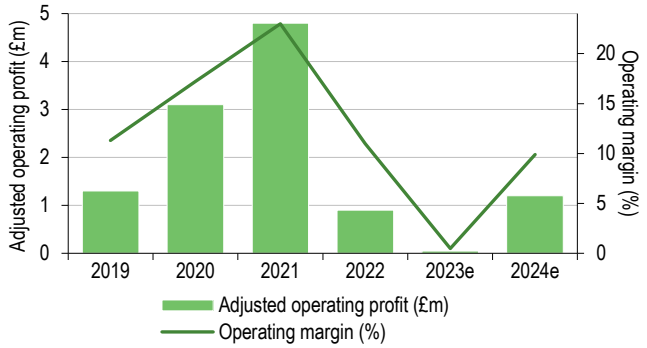


Source: Cohort reports

EID: Domestic and export order hiatus continues

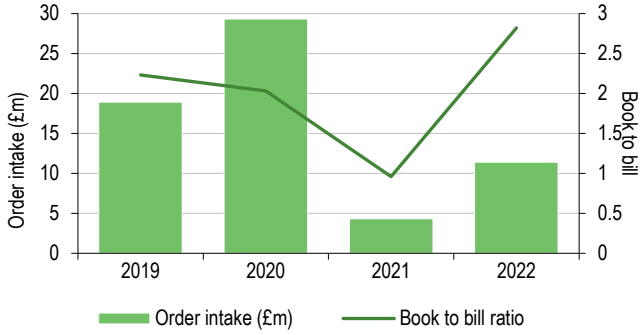
EID is Cohort's subsidiary in Portugal, with the Portuguese government owning 20%. Its capabilities lie in the increasingly important areas of tactical and naval command, control and communications (C3). It supplies domestically to naval and military customers as well as to a wide range of export customers including 145 naval vessels globally.

Exhibit 22: EID adjusted operating profit (£m) and operating margin (%), FY19–FY24e



Source: Cohort reports

Exhibit 23: EID order intake (£m) and book to bill ratio, FY19–FY22



Source: Cohort reports

EID sales declined sharply in FY22 to £8.2m (FY21: £21.0m) following the completion of a large intercom systems export contract in FY21 combined with low domestic activity. Adjusted operating

profit was £0.9m (FY21: £4.8m,) largely due to operational gearing, with the margin of 11.1% (FY21: 23.1%) well below the historical range. Order intake improved to £11.4m (FY21: £4.2m) following the award of a long-delayed order by the Portuguese Army. The year-end order backlog improved to £23.1m (FY21: £20.0m).

EID's H123 performance was disappointing as the continued delays to orders led to lower revenues and a larger adjusted operating loss. Of all Cohort's activities, EID was affected the most by continued supply chain and order delays, as well as price increases, which have led to the deferral of some deliveries into H223 and FY24. With £8m of H223 revenues deliverable from the £23.7m backlog, management expects some improvement in operating profit, but a break-even result now appears likely.

While there are some good prospects, EID now expects to secure an anticipated significant naval order for the Portuguese Navy in the first half of calendar 2023. It also still awaits a pickup in its important export markets, which could be helped by the increased global focus on up-to-date and secure defence capabilities and tensions in Asia-Pacific boosting maritime defence investment.

Exhibit 24: EID revenue by sector, FY19–FY22

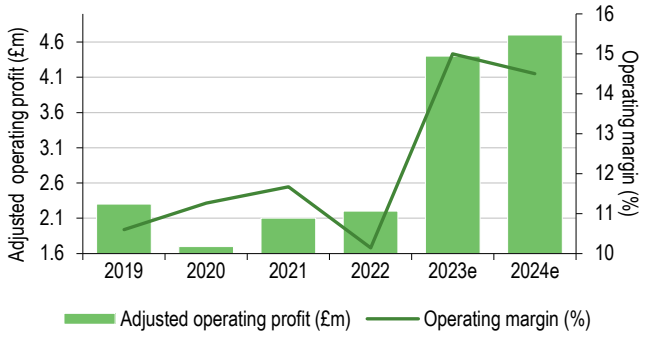
Sector	FY19 (£m)	FY20 (£m)	FY21 (£m)	FY22 (£m)
Defence and Securities	**11.4**	**18.0**	**20.9**	**8.2**
Indirect to UK MOD (Cohort as a sub-contractor/ partner)	0.2	0.1	0.1	0.1
Total to UK MOD	**0.2**	**0.1**	**0.1**	**0.1**
Portuguese MOD	4.4	8.3	5.9	3.9
Export Defence	6.8	9.6	14.9	4.2
	11.2	**17.9**	**20.8**	**8.1**
Other Commercial	**0.1**	**-**	**-**	**-**
EID Total Revenue	**11.5**	**18.0**	**20.9**	**8.2**

Source: Cohort reports

MCL: Positive momentum in order pipeline

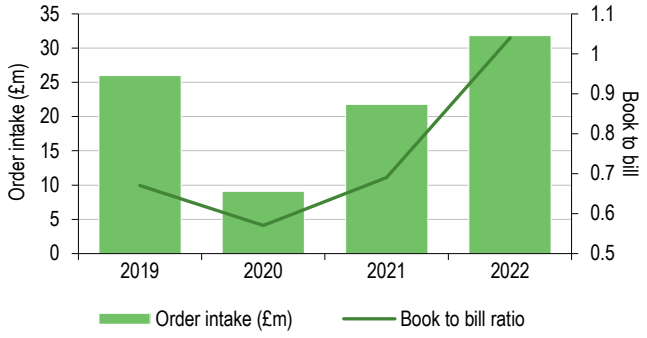
Marlborough Communications Limited (MCL) is a leading supplier of advanced electronic communications, information systems and signals intelligence technology to the defence and security sectors. Its primary customer is the UK MOD, which accounts for more than 90% of revenues. It supports a diversified portfolio of C4IS capabilities, including hearing protection systems, communication headsets and radio communication devices. Alongside this, its ISTAR portfolio includes signals intelligence and EW systems, as well as unmanned aerial vehicle (UAV)/counter-UAV technologies.

Exhibit 25: MCL adjusted operating profit (£m) and operating margin (%), FY19–FY24e



Source: Cohort reports

Exhibit 26: MCL order intake (£m) and book to bill ratio, FY19–FY22



Source: Cohort reports

In FY22, MCL continued to recover from the challenges faced in FY20, delivering further revenue growth of 21% to £21.7m (FY21: £18.0m). Adjusted operating profit rose slightly to £2.2m (FY21:

£2.1m) with margins falling slightly to 10.4% (FY21: 11.5%) due to a higher level of systems deliveries in FY21. The order book grew substantially to £22.5m (FY21: £12.4m) following a very strong order intake of £31.8m (FY21: £21.8m). Orders secured included over £15m for hearing protection systems as well as close to £7m of additional work on autonomous vehicles. Management continues to try to secure larger and longer-term delivery and support opportunities for the Royal Navy that would improve visibility for MCL. It has the shortest order cycle of Cohort's businesses with typical lead times of three to six months. However, it also tends to be at the forefront of the pace of defence operations and as such has seen positive momentum in its order pipeline in the last few months. Strong H123 order intake further increased the period end order backlog to £24.8m (H122: £13.0m), significantly higher than historical levels.

With high UK MOD activity levels, including the supply of armoured fighting vehicle hearing protection, the continuing geopolitical tensions and a good pipeline of opportunities, visibility has increased. Management appears confident that it can repeat the strong performance in H223, providing a much-improved FY23 profit.

Exhibit 27: MCL revenue by sector, FY19–FY22

Sector	FY19 (£m)	FY20 (£m)	FY21 (£m)	FY22 (£m)
Defence and Security	**21.7**	**15.1**	**18.0**	**21.7**
Direct to UK MOD	20.2	12.9	16.6	19.3
Indirect to UK MOD (Cohort as a sub-contractor/ partner)	0.3	1.1	0.4	0.8
Total to UK MOD	**20.5**	**14.0**	**17.0**	**20.1**
Security	1.0	1.1	1.0	1.6
Export Defence	0.2	-	-	-
	1.2	**1.1**	**1.0**	**1.6**
MCL Total Revenue	**21.7**	**15.1**	**18.0**	**21.7**

Source: Cohort reports

ELAC: A year of consolidation

ELAC SONAR, the most recent acquisition for a net consideration of £1.3m in November 2021, serves global naval customers, including navies, system integrators and shipyards. It supplies hydroacoustic sensors for underwater surveillance, object avoidance and ranging, including submarine and surface ship sonar suits, submarine rescue sonars, digital underwater communications and echo-sounders for manned and unmanned platforms. EID is its sister company, with both cooperating on sonar naval projects.

ELAC made a stronger first full-year contribution in FY22 than management expected compared to just five months in FY21, following its acquisition. FY22 revenues were £21.5m (FY21: £8.3m) and contributed £3.8m (FY21: £1.2m) to adjusted operating profit at a margin of 17.5%. The margin benefited from £1.1m of cost recovery from Wärtsilä, relating to an order that had yet to be finalised, with the underlying margin being 12.4%. A final £0.4m was received from the arrangement in H123 before it concluded as the contract for submarine sonar systems was secured, benefiting FY22 order intake of £57.1m. The £43m contract for two Italian U212 NFS submarines from Leonardo provides long-term underpinning of its sonar activity, with options for two more boats; ELAC is supplying the sonar suite kaleidoscope 2.0 to the submarines. ELAC also secured new, upgrade and spares orders for its market-leading underwater communication systems. It also more than doubled the order backlog to £56.8m (FY21: £21.2m), which further increased to £58.6m at H123.

It delivered a weaker H123 performance due to slightly lower sales and the anticipated adverse business mix as it continued work on the early stages of its major Italian sonar contract, which carries lower margins than exports and legacy products and spares. The adjustment payments from Wärtsilä to cover costs incurred on a delayed order prospect ended during the period and contributed £0.4m of the £0.9m divisional operating profit. £13m of revenue to be delivered in H223 is in the opening order book. Management expects ELAC to deliver a stronger H223, although

FY23 will see a reduced profit contribution. With navies requesting larger, more capable solar arrays, ELAC has stated it will move into a new facility in a few years to cope with these larger projects; and the division will likely start to focus on expanding globally as a result. The first £1.5m of the £15m capex investment for the project was committed in H123.

Exhibit 28: ELAC revenue by sector since acquisition in November 2021

Sector	FY21 (£m)	FY22 (£m)
Defence and Security	**8.3**	**20.3**
German MOD	1.0	4.0
Export Defence	7.3	16.3
	8.3	20.3
Other Commercial	**-**	**1.2**
ELAC Total Revenue	**8.3**	**21.5**

Source: Cohort reports

Sensitivities

Cohort remains oriented towards the UK defence and security market, notwithstanding the substantial increase in overseas and export sales over the last decade, principally arising from the acquisitions of EID in Portugal and ELAC SONAR in Germany. While prospects for improved global defence spending have improved over the last 12 months as geopolitical uncertainties have increased, the UK budget still risks being constrained by domestic political and economic upheavals, as GDP grows more slowly and energy induced inflationary pressures partially consume increased funding levels. In the current environment Cohort's agile, innovative and flexible offer appears appropriate, delivering value for money as a specialist and expert solutions provider. The pace of spending and demand for new solutions is also influenced by operational and regional tensions. Other sensitivities include:

- Rebids, follow-ons and renewals: while there is always a risk with rebids, we note that MASS (formerly SCS) has held contracts to support the UK's Joint Forces Command and its predecessors continuously since 1996, successfully rebidding in competition multiple times. Follow-on development contracts and renewals also carry levels of uncertainty, although Cohort's UK project involvements tend to be stable, long term and operationally committed. A key priority of the growth strategy is to increase and extend the group order book, providing increased certainty and visibility of performance in future years.
- Acquisition performance: management's ability to successfully integrate and deliver acquisition business cases including potential synergies could affect results. Cohort maintains a rigorous acquisition, management and review process to ensure successful execution.
- Export contract visibility and timing: export contracts tend to offer higher-margin sales and thus can be material in terms of expectations. However, the timing of contract award is difficult to predict, as has been apparent at EID in recent years and during the pandemic for EWOS contracts, although these are now resuming.
- Foreign exchange (FX) movements: until the acquisition of EID the impact of FX exposure was quite limited. With the addition of ELAC SONAR, the translational exposure to the €/£ rate has increased to around 20% of revenues. Some additional $/€ and $/£ transactional exposure is apparent in export markets. The net exposure on an individual contract basis is managed using forward FX contracts.

Valuation

Capped DCF valuation

We continue to use our capped DCF methodology as our main valuation tool for Cohort. The valuation utilises our forecast cash flows for a period of six years, then assumes zero growth in the terminal value. To reflect the lack of growth, we also normalise capex to depreciation and working capital movements to zero in the terminal cash flow. Given the high levels of inflation and increased UK interest rate environment, we have increased our assumed risk-free rate from 2% to 3%, which increases the cost of equity assumed to 9%. For Cohort our calculated WACC is now marginally above 8.0%. The DCF currently returns a value of 610p per share, which would have been 687p using the previous assumptions (683p previously).

For a company such as Cohort where we envisage a continued growth of cash flows due to the strategy of enhancing long-term organic growth in defence markets with selective, value-creating and complementary acquisitions, we feel that such a methodology is inherently conservative. We show a sensitivity analysis to terminal growth rate and WACC assumptions in Exhibit 29 below, with the value closest to our calculated levels highlighted.

Exhibit 29: Cohort capped DCF sensitivity to WACC and terminal growth (p/share)

		WACC								
		6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
Terminal growth rate	0%	843	772	711	658	**612**	572	536	504	475
	1%	850	778	717	663	617	576	540	507	478
	2%	857	784	722	668	622	580	544	511	481
	3%	863	790	728	673	626	584	547	514	485

Source: Edison Investment Research estimates

Peer group comparison

When considered against its UK defence peer group, Cohort had been derated significantly over the last 12 months, with the share price falling by 16%, in part due to the issues that arose at Chess in H122. However, the core performance has been relatively resilient through the pandemic and the defence market outlook is significantly better than it has been for a long period. As can be seen from the table below, Cohort trades at a 28% discount or 23% if we adjust to exclude the outliers (Babcock, Rolls-Royce, and Senior). Most defence peers have responded well in 2022 to the improved defence environment, notably BAE Systems, which is up c 50% in response to the invasion of Ukraine. Given that Cohort has already returned to growth in H123, ahead of expectations, and has a record order book combined with a strong balance sheet to support strategically targeted M&A, the discount appears unwarranted to us and should narrow.

Exhibit 30: UK-listed defence peers

Company	Market cap (£m)	Share price (£)	Fiscal year end	ROE	EBITDA T12m (£)	P/E: 1FY (x)	P/E: 2FY (x)
Cohort	169.6	4.10	Apr 23	11.3%	20.17m	11.8	11.5
Avon Protection	316.2	10.45	Sep 23	-0.94%	21.45m	23.0	16.5
Senior Plc	514.2	1.23	Dec 22	2.57%	64.6m	33.1	20.1
Chemring	854.95	3.02	Oct 23	13.66%	78.70m	15.2	14.8
Babcock	1.48bn	2.92	Mar 23	18.93%	494.40m	8.6	7.6
Qinetiq Group	2.02bn	3.49	Mar 23	18.20%	235.80m	17.3	14.4
Rolls-Royce Holdings	7.56bn	0.90	Dec 22	-	2.38bn	180.4	24.4
BAE Systems	25.12bn	8.15	Dec 22	9.52%	5.73bn	15.6	14.3
Average		4.31	-	10.32%	1.16bn	41.9	16.0
Adjusted average*		6.28	-	10.11%	1.43bn	17.8	15.0

Source: Refinitiv. Note: *Adjusted average excludes Senior, Rolls-Royce Holdings and Babcock.

Exhibit 31: Financial summary

£m	2021	2022	2023e	2024e
Year end 30 April	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	143.3	137.8	165.9	179.7
Cost of Sales	(90.0)	(81.2)	(97.7)	(105.9)
Gross Profit	53.4	56.6	68.1	73.8
EBITDA	22.1	19.4	22.9	25.2
Operating Profit (before amort. and except.)	18.6	15.5	18.5	20.6
Intangible Amortisation	(10.1)	(6.9)	(3.1)	(2.9)
Exceptionals	(0.7)	2.4	0.0	0.0
Other	0.0	0.0	0.0	0.0
Operating Profit	7.8	11.1	15.4	17.7
Net Interest	(0.8)	(0.9)	(0.9)	(1.0)
Profit Before Tax (norm)	17.9	14.7	17.6	19.6
Profit Before Tax (FRS 3)	7.1	10.2	14.5	16.7
Tax	(1.6)	(1.5)	(2.7)	(4.0)
Profit After Tax (norm)	13.8	12.2	14.4	15.3
Profit After Tax (FRS 3)	5.5	8.7	11.7	12.7
Average Number of Shares Outstanding (m)	40.8	40.8	41.2	41.2
EPS - fully diluted (p)	33.3	30.9	34.8	36.3
EPS - normalised (p)	33.6	31.1	35.0	36.5
EPS - (IFRS) (p)	13.4	22.5	28.4	30.3
Dividend per share (p)	11.1	12.2	13.4	14.7
Gross Margin (%)	37.2	41.1	41.1	41.1
EBITDA Margin (%)	15.4	14.1	13.8	14.0
Operating Margin (before GW and except.) (%)	13.0	11.3	11.1	11.5
BALANCE SHEET				
Fixed Assets	78.4	81.7	80.3	79.1
Intangible Assets	58.8	59.8	57.5	54.6
Tangible Assets	12.5	12.3	13.2	14.9
Right of Use assets	7.1	9.6	9.6	9.6
Investments	0.0	0.0	0.0	0.0
Current Assets	112.5	121.5	135.6	137.8
Stocks	12.9	22.8	26.5	28.2
Debtors	66.0	56.2	66.3	71.9
Cash	32.3	40.4	40.4	35.4
Other	1.4	2.2	2.3	2.4
Current Liabilities	(56.6)	(94.5)	(65.5)	(70.1)
Creditors	(56.6)	(65.1)	(65.5)	(70.1)
Short term borrowings	(0.1)	(29.4)	0.0	0.0
Long Term Liabilities	(49.2)	(19.5)	(55.0)	(44.7)
Long term borrowings	(29.8)	(0.0)	(35.5)	(25.2)
Lease liabilities	(7.6)	(10.1)	(10.1)	(10.1)
Other long term liabilities	(11.9)	(9.3)	(9.3)	(9.3)
Net Assets	85.1	89.2	95.4	102.0
CASH FLOW				
Operating Cash Flow	21.1	22.9	7.4	20.8
Net Interest	(0.8)	(0.9)	(0.9)	(1.0)
Tax	(4.1)	(2.5)	(3.1)	(4.4)
Capex	(1.2)	(2.0)	(3.3)	(4.5)
Acquisitions/disposals	(3.3)	(2.3)	(1.0)	0.0
Financing	(0.3)	(2.1)	0.0	0.0
Dividends	(4.2)	(4.7)	(5.2)	(5.7)
Other	0.0	0.0	0.0	0.0
Net Cash Flow	7.2	8.5	(6.1)	5.3
Opening net debt/(cash)	4.7	(2.5)	(11.0)	(4.9)
HP finance leases initiated	0.0	0.0	0.0	0.0
Other	(0.0)	0.0	0.0	0.0
Closing net debt/(cash) (excluding leases)	(2.5)	(11.0)	(4.9)	(10.2)
Total net financial liabilities	5.1	(0.9)	5.3	(0.0)

Source: Cohort reports, Edison Investment Research estimates

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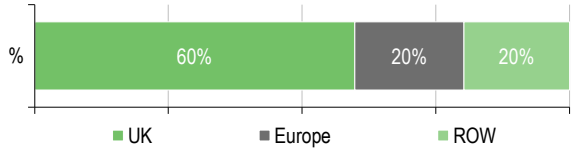

Management team

Chairman: Nick Prest

Nick Prest became chairman of Cohort on its flotation in March 2006. After graduating from Oxford in 1974, Nick joined the UK MOD. He then moved to Alvis in 1982, undertaking a variety of roles before becoming CEO in 1989 and chairman and CEO in 1996. Nick left Alvis following its acquisition by BAE Systems in 2004. He was also chairman of Aveva Group from 2006 until 2012 and of Shephard Media until 2020.

Chief Executive Officer: Andrew Thomis

Andrew took over as CEO of Cohort in May 2009. He graduated with an MEng in electrical and electronic engineering from Imperial College, London, in 1987. He spent nine years in science, technology and policy roles in the UK MOD until 1996. After a period working with public and private sector clients at Capita's management consultancy arm, he joined Alvis in a strategy, M&A and business development role. Following the acquisition of Alvis by BAE Systems in 2004, he worked with Nick Prest and Stanley Carter on the creation of Cohort, acting as finance director during the flotation and subsequently corporate development director. From 2007 to 2009, he was managing director of MASS.

Finance Director: Simon Walther

Simon Walther joined Cohort as finance director in May 2006. After graduating with a BSc in toxicology and pharmacology from University College, London, he went on to qualify as a chartered accountant with Touche Ross in 1992. Simon moved to the Peninsular and Oriental Steam Navigation Company (P&O) in 1993 where he was appointed a chief accountant for P&O European Ferries in 1995. He has over 15 years' relevant industry experience, with previous senior finance roles at Alvis and BAE Systems.

Principal shareholders	(%)
Carter (Albert Edward Stanley)	22.0
Schroder Investment Management Ltd	12.2
Liontrust Investment Partners	11.5
Canaccord Genuity Wealth Management	8.4
Prest (Nicholas Martin)	4.3
Unicorn Asset Management	3.3
Herald Investment Management	3.3

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