

Chairman's statement

Good order cover for the coming year



Nick Prest CBE
Chairman

"Cohort achieved record adjusted operating profit."

Performance

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

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

The COVID-19 pandemic and subsequent lockdowns across the world came in the last quarter of our financial year, typically our busiest period. This resulted in some restriction of our activities, particularly access to customer sites to complete various integration and test milestones, and the inability of certain customers to accept completed goods. We have estimated the impact of COVID-19 on our reported results as a fall in revenue of around £3m and adjusted operating profit of £1m. Our interaction with customers has also been restricted and this has, in some instances, led to a delay in the receipt of new orders. This is discussed further in the "Outlook" section on page 8.

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

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

Strategic initiatives

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

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

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

Shareholder returns

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

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

Chairman's statement continued

Our people

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

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

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

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

Governance and Board

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

Outlook

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

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

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

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

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

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

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

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

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

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

Nick Prest CBE
Chairman

DIVIDEND (PENNY PER ORDINARY SHARE)

10.10p

+11%

