



## Operating review

# Results in-line, order book and balance sheet strengthened



**Andrew Thomis**  
Chief Executive

**“The Group’s profit performance for the year was in line with our revised expectations at the time of our half year results announcement on 14 December 2021. Pleasing improvements in performance at ELAC, MCL and SEA were offset by reduced profits at EID and, especially, Chess. Cash performance was better than expected, resulting in a strong positive net cash position at the year end. Order intake was also strong, and the resulting record order book gives us a solid base for 2022/23. We see good prospects for further significant new orders in the year ahead.”**

### 2021/22 highlights

- ▶ Order intake of £186.4m (2021: £180.3m) and a record closing order book of £291.0m (2021: £242.4m).
- ▶ Closing net funds of £11.0m much stronger than last year’s £2.5m.
- ▶ Adjusted operating profit of £15.5m (2021: £18.6m) on revenue of £137.8m (2021: £143.3m) represented a net return of 11.2% (2021: 13.0%), in line with our revised expectations at the time of the half year results announcement.
- ▶ MASS remained the strongest contributor to the Group’s adjusted operating profit, despite a slightly reduced level of revenue.
- ▶ SEA and MCL made good progress and ELAC made a positive full year contribution to the Group’s results (2021: five months).
- ▶ As expected, EID was lower than in 2021 in terms of revenue and profit following weak order intake in 2020.
- ▶ Chess had a poor year with weaker revenue and lower profit.

### Operating review

2022 saw another strong year for order intake, with £186.4m of new work contracted compared with £180.3m in 2021. That resulted in a record closing order book of £291.0m, an historic high for the Group, underpinning 78% of the consensus forecast revenue for 2023. Cash flow was robust, the Group closing the year with net funds of £11.0m (2021: £2.5m). In line with our expectations at the time of the half year results announcement in December 2021, revenue was down 4% despite a full year contribution from ELAC Sonar (ELAC) and trading profit down 17%.

We saw a welcome return to growth at SEA, with an increase in export deliveries following order wins in 2020/21. MCL again grew its revenue and trading profit with higher deliveries of autonomous vehicle systems to the UK MOD. Despite slightly reduced revenue, mostly from cessation of its lower margin support to the Metropolitan Police Service, MASS delivered a record high net margin. As expected, EID’s contribution was lower this year, with deliveries on a large export order in 2020/21 not being repeated. The main disappointment of the year was at Chess, where significantly reduced revenue and profit resulted from order slippage, delayed deliveries on key programmes and continuing cost increases on certain legacy projects.

ELAC performed well in its first full year in the Group (compared with its five-month contribution in 2020/21). Its revenue and profit included a £1.1m contribution from the mechanism agreed with Wärtsilä, ELAC’s former owner, in respect of an export contract that has not yet been made effective. This mechanism may provide up to a further £0.5m in 2022/23. ELAC has begun to recognise revenue on the major Italian submarine sonar contract won last July and has continued to deliver against a pleasing level of product, spares and repair orders.



## Operating review continued

### Operating review continued

Travel and operational restrictions arising from the COVID-19 pandemic continued in the first half of the financial year, with international travel restrictions still in place in many regions. This has affected some customer contact, and with that some order closure and pipeline building opportunities. Nevertheless, the Group overall has performed well in winning new business. The record closing order book of £291.0m gives us order cover of just under £128m for 2022/23. Over the last two years, despite the effects of COVID-19, the Group secured orders of £365m, materially growing and extending the duration of its order book.

We have seen an impact on deliveries of products and services resulting from pandemic related customer site closures and restrictions. This has been especially true of MASS's training work, some of which has slipped into 2022/23. Although COVID-19 restrictions have now generally lifted, we continue to see price increases and extended lead times for certain materials and components, especially semiconductors. We also see upwards pressure on salaries in certain specialist areas of expertise. We are taking action to maintain deliveries and protect our margins through increasing stock levels, seeking alternative sources of supply, and ensuring that our commercial arrangements enable us to pass on higher costs.

Towards the end of the financial year, we began to see an increase in activity as certain of our customers responded to Russia's invasion of Ukraine. This had minimal financial impact on 2021/22 but we anticipate some of this activity converting to tangible orders and deliveries during 2022/23.

As we signalled in December 2021, the Group's adjusted operating profit fell by nearly 17% to £15.5m (2021: £18.6m) on revenue of £137.8m (2021: £143.3m), a net operating return of 11.2% (2021: 13.0%). This was primarily a result of the disappointing performance at Chess. The Group's statutory operating profit of £11.1m (2021: £7.8m) reflects the amortisation of other intangible assets, a £6.9m non-cash charge in 2022 (2021: £10.1m charge).

In this review, therefore, the focus is on the adjusted operating profit of each business, which we consider to be a more appropriate measure of performance year on year. The adjusted operating profit is reconciled to the operating profit in the Consolidated income statement, and this is broken down by operating business in note 1.

### Adjusted operating profit by subsidiary

	Adjusted operating profit			Adjusted operating margin	
	2022 £m	2021 £m	Change £m	2022 %	2021 %
ELAC	3.8	1.2	2.6	17.5	14.1
MASS	9.1	8.7	0.4	23.7	22.1
MCL	2.2	2.1	0.1	10.4	11.5
SEA	3.4	2.4	1.0	10.9	8.4
EID	0.9	4.8	(3.9)	10.5	23.1
Chess	0.3	3.0	(2.7)	1.9	10.5
Central costs	(4.2)	(3.6)	(0.6)	—	—
	15.5	18.6	(3.1)	11.2	13.0

ELAC made a strong full year contribution after its initial five-month contribution in 2020/21. Its revenue included an initial contribution from the major Italian submarine sonar programme won in July 2021. It also delivered specialist sonar products for various export customers, including its widely used underwater communication system, and spares and support for both its current product range and legacy hydrographic products.

MASS returned to growing its trading profit despite a slight (3%) fall in revenue. MASS continued to see some headwinds from COVID-19 restrictions, especially in the first half of the year, but these began to ease in the second half with a pick-up in its various training services and support to the UK's Joint Forces Command.

MCL delivered increased revenue and profit with provision of autonomous land vehicles and hearing protection more than offsetting a reduction in deliveries of systems for the UK submarine fleet last year.

SEA saw a welcome return to growth with higher export and support sales offsetting lower submarine activity. Transport sales also returned to growth following a hiatus in activity during COVID-19 restrictions in the early part of 2020/21.

As expected, EID's performance was much weaker than last year which included a large export order of intercom systems. EID had a stronger order intake for the year compared with 2020/21 but the business still awaits some key orders, particularly for long-term naval programmes which are anticipated in the coming financial year.

Chess had a poor year, delivering only a marginal trading profit on much lower revenue compared to 2020/21. This resulted from order intake that was lower than expected, delivery delays and cost overruns on a small number of problem projects. Over the year we have strengthened Chess's senior management team and made organisational changes intended to improve performance and reduce risk. These changes have begun to have an impact, and we have seen a much improved performance at the beginning of 2022/23.

The growth in central costs reflects the enhanced commercial, legal and financial resources we have brought in to support subsidiary growth, especially in export markets, together with the increasing compliance requirements faced by the Group.

### Our people

All the Group's capabilities and customer relationships ultimately derive from our people, and the success we have enjoyed is a result of their efforts. Their adaptability and perseverance through the challenges of the pandemic have been exemplary. I would like to take this opportunity to express my sincere thanks to all employees of Cohort and its businesses as we hopefully now return to more normal working practices.

We have made a small number of changes to the senior management of our subsidiary businesses. David Tuddenham took over as Managing Director of Chess in June 2021. After a period when they shared the role, Bernd Szukay has been appointed as sole

Managing Director of ELAC with Ole Schneider taking on the role of Finance Director, the latter including responsibility for certain operational matters. Both retain the German legal status of Geschäftsführer.

Like many high-skill businesses, we are facing challenges in recruiting qualified and experienced people to meet our customer demands and our own investment strategies. As our order book has grown, so have our employee numbers and the Group now has nearly 1,050 staff compared with just over 1,000 this time last year. We will continue to add more resources in the coming year, especially at Chess, ELAC and SEA.

### Operating strategy

#### Organic growth

The Group's adjusted operating profit was in line with our expectations at the time of the half year results in December 2021. Despite some good performances across the Group, overall, this meant a lower level of revenue and profit than in 2020/21. Nevertheless, the strong order intake achieved in 2021/22, and the further prospects we can see in the short and medium term, provide confidence that the Group will make progress in the year ahead.

Despite the difficulties thrown up by the COVID-19 pandemic in the first half of the year, we have had a good year for new orders, and we ended it with a record order book. The return to some normality in the second half of our financial year saw a welcome return to face-to-face business shows, with members of the Group attending defence events in the USA, Australia, Malaysia, Philippines and across Europe. These are positive indicators for future organic growth, and we enter 2022/23 with a record level of order cover for external revenue expectations for the year.

Cohort currently operates as a group of six small and medium-sized businesses, operating primarily in defence and security markets, and with a strong emphasis on technology, innovation and specialist expertise. Within our markets we have sought to identify niches where prospects are attractive and where we have some sustainable competitive advantage. Growth strategies and opportunities vary around the Group:



## Operating review continued

### Operating strategy continued

#### Organic growth continued

- ▶ MASS benefits from an extremely high customer reputation, rare or unique technical capabilities and experience at building long-lasting customer relationships. Much of its revenue derives from long-term service contracts, and it aims gradually to add more of these building-blocks to its revenue stream.
- ▶ EID combines a low cost-base by international standards with access to Portugal's extremely strong technical education system. This has allowed it to develop high-performance low-cost defence communications products that can win business in a highly competitive marketplace.
- ▶ Chess makes use of its innovative engineers, customer-focused culture and freedom to source sensors from the best international providers to win business against more vertically-integrated larger competitors.
- ▶ SEA has used its close long-term relationship with the Royal Navy to build confidence with that important customer, which in turn creates a strong platform for export orders. It is also investing in new technologies where there is an opportunity to build a strong competitive position, for instance in lightweight towed-array sonars and, alongside Chess, decoy launchers.
- ▶ MCL has a unique business model, combining a small but innovative engineering team with a wide range of international partnerships to provide highly specialised equipment and services to the UK armed forces and security services.
- ▶ ELAC, the newest member of the Group, has built on almost a century of hydro-acoustic knowledge to create a new architecture for sonar systems on a scale that only a few international providers can match. Its systems combine world-class performance with an ability for customers to tailor analysis techniques and data libraries to their own specific needs.

Our businesses have continued to be active in finding new customers, and 2022 has seen some notable successes for ELAC, MCL and, in particular SEA. Discussions with

potential customers have opened up some major longer-term opportunities for all of our businesses.

Being part of the Cohort Group brings material advantages to our operating businesses. The Group's strong balance sheet gives customers the confidence to award large or long-term contracts that we are well able to execute technically but which might otherwise be perceived as risky. Examples in the last year included the award of a €49m order to ELAC for sonar systems for the Italian Navy's new class of submarine and an initial development order for the Royal New Zealand Navy at SEA.

The Group's Directors have long experience of operating in the defence sector and have contacts and working relationships with senior customers in the UK and internationally that would be hard for independent smaller businesses to establish. Our six operating businesses, while remaining operationally independent, have formed close working relationships with each other and benefit from sharing technical capabilities, customer relationships and market knowledge within the bounds imposed by our various confidentiality obligations. We will continue to work to promote the Group's services and products in wider markets, including through business development visits as and when government restrictions allow.

These strategies have generated long-term customer relationships and good opportunities that give us confidence that we can continue to win substantial new business in the year ahead. Recent examples include a renewal of MASS's support to the Joint Forces Command out to July 2024 and significant (£15m) orders for hearing protection systems at MCL. We also expect to conclude some key long-term supply and support orders for the Royal Navy and systems orders for export naval customers in the coming year.

#### Acquisitions

Alongside our organic growth strategy, we continue to see opportunities to accelerate our growth by making further targeted value enhancing acquisitions. We believe that there are good businesses in the UK and overseas that would thrive under Cohort ownership, whether as standalone members of the Group or as "bolt-in" acquisitions to our existing subsidiaries.

The most likely candidates for bolt-in acquisitions are businesses with capabilities and/or customer relationships that are closely linked to one of our existing subsidiaries. We would expect to integrate an acquired business of this nature fully within the relevant subsidiary. This could lead to both cost savings and benefits from shared access to markets and technologies.

For standalone acquisitions we are looking for agile, innovative businesses that have reached a stage of development where there will be mutual benefit in joining Cohort. It is likely that candidates will be operating in the defence and security markets either in the UK or internationally, as that is where the Group can add most value. Growth prospects, sustainable competitive advantage, and the ability to operate as part of a publicly quoted UK group will all be important.

We have reviewed a significant number of possible acquisitions over the last year, in some cases leading to active discussions. Our experienced executive team is conscious of the various potential risks that arise from acquisitions and takes a careful approach, with only a small proportion of the opportunities we see being brought to fruition. When we do identify an opportunity that we believe to be value-creating, the close involvement of our senior team means we can be very flexible in terms of transaction structure, and quick in decision making. That gives us some advantage compared to competitors who may have larger resources available.

On 20 August 2021 SEA acquired the remainder of its joint venture, JSK, which is based in Canada, for a net consideration of £0.4m. This was part of SEA's plan to develop and grow its business in Canada, primarily to support the new Canadian Frigate programme.

We acquired 81.84% of Chess in December 2018 for an initial consideration of just over £20m. The acquisition includes an earn-out clause and an option for acquiring the minority interest (18.16%), both based on Chess's performance for the three years ended 30 April 2021. The performance period for determining the value of the earn-out and option ended on 30 April 2021, and we now expect to pay £1.4m (2021: £2.8m) in total on or before 31 October 2022 to acquire the minority shareholding.

#### Maintain confidence

Cohort's management approach is to allow its subsidiary businesses a significant degree of operational autonomy to develop their potential fully. At the same time we provide light-touch but rigorous financial and strategic controls at Group level to manage and control risks and ensure legislative and regulatory compliance. Our experience is that our customers prefer to work with businesses where decision making is streamlined and focused on solving their immediate problems. This model provides us with a degree of competitive advantage over some larger rivals where the decision-making process can be more extended. It is also cost-effective as it avoids the need for additional layers of management involved in coordination activities and for a large headquarters team. High-calibre employees find our business model attractive and more rewarding as it allows them to be involved in decisions affecting the business, even at a relatively junior level, rather than being constrained to a narrow or purely technical role. This positions us well with customers where such attributes are highly valued.

We have invested in our Head Office function over the last two years, introducing commercial support to the subsidiaries, particularly for export business. We have also invested in the financial, legal and company secretarial functions, partly to support the subsidiaries but also to deal with the ever-growing tide of compliance requirements. This includes increasingly wide and onerous external audit requirements, which is reflected in rising audit fees, and the need for external support for environmental reporting.

Although the degree of autonomy our subsidiary businesses enjoy is high, and we believe that this is an effective operational strategy, we take a practical view of the best way forward when circumstances change. When the operational situation is such that a merger, restructuring or even sale is necessitated, we will act and have acted in the best interests of the wider Group and its shareholders.

**Andrew Thomis**  
Chief Executive



## Subsidiary review

# CHESS

[chess-dynamics.com](https://chess-dynamics.com)

## Overview

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.

Based in Horsham, Plymouth and Wokingham, Chess Dynamics designs, develops and manufactures precision stabilised and non-stabilised multi-axis platforms, fire control directors and positioners for electro-optic, radar, communication, security, surveillance, tracking, and targeting systems, and a wide range of high-performance cameras and special sensors.

The Chess portfolio includes the Vision4ce branded real-time video and image processing solutions for electro-optic systems. This covers the supply of rugged hardware (PCs that utilise the latest Intel mobile processors) for harsh environments on land, at sea and in the air, along with integrated software solutions (such as GRIP View video management software and DART video tracking software) incorporating sophisticated image processing algorithms for object detection and tracking.

The more complex tracking and targeting systems are integrated into naval fire-control solutions and sophisticated vehicle-based surveillance, targeting, tracking and force protection systems.

The company is also a major developer and world-wide supplier of counter-sUAV (drone) protection systems including rapid deployment systems for military and security use. It provides a complete service including survey, installation, training, and maintenance across its entire product range, including bespoke engineering solutions.

Chess has been supplying equipment, sub-systems and systems to defence forces and prime contractors since 2005. Cohort acquired a majority share in Chess in 2018. It is led by Managing Director David Tuddenham.

## REVENUE

**£16.9m**

2021: £28.6m

## ADJUSTED OPERATING PROFIT

**£0.3m**

2021: £3.0m

## OPERATING CASH FLOW

**£(5.8m)**

2021: £(1.0m)





## Subsidiary review continued

# CHESS



**David Tuddenham**  
Managing Director of Chess Technologies

Chess had a very poor 2021/22. Order delays, technical and delivery delays, and continued project issues all negatively impacted on both revenue and trading profit. It has made a better start to 2022/23.

Chess previously operated through two distinct businesses, Chess Dynamics and Vision4ce, both owned by Chess Technologies. During 2021/22, Vision4ce was integrated with Chess Dynamics to ensure that the process improvements at Chess were replicated there, and that the full resources of the business, including its software arm, could be focused on the highest priority tasks.

Chess's revenue is dominated by export customers. Deliveries during 2021/22 for some major contracts that were secured in the previous few years saw delays due to technical issues, including in one instance a customer requested deferral whilst a technical upgrade was developed and tested. Chess also suffered margin deterioration from continuing issues on legacy projects. We have made significant progress on these, and we expect them to be fully resolved in the coming year.

Chess and its customer reached a mutual agreement to terminate one contract in 2021/22. Approximately £6m of revenue had been recognised previously on the project and this was reversed in 2021/22. The profit impact in 2021/22 was minimal and the system has been subsequently sold to a new customer in 2022/23.

Despite the dip in performance in 2021/22, Chess has continued to demonstrate what a good strategic fit it is for the Group. It is a leading supplier within its market and has a strong ethos of innovation and responsiveness. For instance, it is working closely with SEA on developing a new generation of decoy launcher.

Chess's operations were only marginally impacted by the COVID-19 pandemic and lock-down with a few in-country activities being postponed. However, its business winning methods rely significantly on demonstrating its product, often at trade shows and exhibitions which Chess was unable to do during the various COVID-19 restrictions. In the last few months, as restrictions have eased, Chess has been able to renew its activities including demonstrating new products to the US Navy.

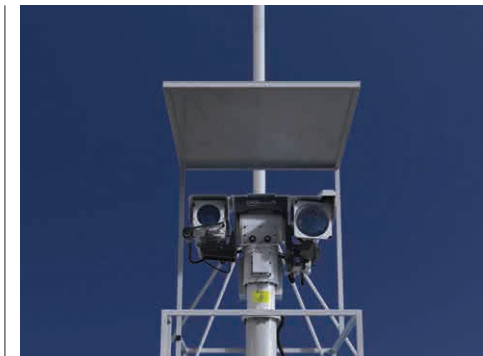
Chess's rapid evolution over the last few years has caused it some growing pains, especially in project control and delivery. This, along with an increase in working capital, has resulted in a weak cash performance this year. Cohort has been working with Chess's management to strengthen its processes to ensure it can successfully grow whilst still maintaining its agility and innovative approach. This work continues to focus on improving its project delivery, its commercial approach and ultimately its cash performance, with the aim of ensuring it will be fully able to deliver on its order winning success over the last two years.



We made changes to the senior management and organisation of Chess in 2021/22 following the appointment of David Tuddenham as Managing Director in June 2021. These have led in turn to improvements in processes and controls, which have begun to show a tangible positive impact. Most of Chess's problem projects are now either fully resolved or on a clear path to improvement.

Chess's order book at April 2022 of nearly £41m provides cover for £22m of 2022/23 revenue and our expectation is that Chess should return to growth in the coming year.

**"The management changes at Chess have already positively impacted 2022/23 and we expect a stronger trading and cash performance from the business in the coming year."**

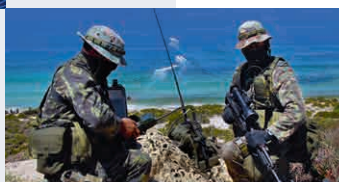




## Subsidiary review continued



eid.pt



## Overview

EID is a Portuguese high-tech company with over 35 years' experience and deep know-how in the increasingly critical fields of tactical and naval C3 (command, control and communications). The company's focus is the design, manufacture, delivery and support of advanced high-performance C3 equipment for the global defence and security markets. Its customers are primarily national naval and military forces in Portugal and overseas.

EID changed its operational structure in May 2021, creating single engineering and business development teams to enable a more coordinated focus on product development and to addressing its markets. These changes have already seen progress in developing both its next generation naval communication system and a new soldier system, the latter resulting in the award of a major contract by the Portuguese Army during 2021/22.

The Royal Navy is amongst the customers for its naval communications systems and its products equip over 145 vessels worldwide including the navies of Portugal, the Netherlands, Spain and Belgium and many non-NATO export customers. Its tactical communications products are used extensively in a variety of personal and vehicular applications for armies worldwide.

EID operates from an engineering and production facility near Lisbon and is led by its Managing Director, Frederico Lemos. EID is 80% owned by Cohort, with the remaining 20% of its shares held by the Portuguese Government through its defence investment arm, idD, and innovation agency IAPMEI. EID joined the Group in 2016.

## REVENUE

£8.2m

2021: £20.9m

## ADJUSTED OPERATING PROFIT

£0.9m

2021: £4.8m

## OPERATING CASH FLOW

£1.7m

2021: £5.4m



## Subsidiary review continued



**Frederico Lemos**  
Managing Director of EID

**“We expect an improved EID performance in 2022/23 but as previously stated, the return to stronger net margins will not be until 2023/24 when we expect significant new naval programmes to commence delivery.”**

As expected, EID’s revenue and profit were lower than in 2020/21, which saw the completion of a large export contract.

EID’s reliance on some significant export orders does bring a risk of year-to-year fluctuations in performance. In 2021/22 nearly 50% of EID’s revenue was from its domestic customer, the Portuguese MOD. We expect this situation to continue into 2022/23 with key orders for the Portuguese Army and Navy being important to EID’s trading performance over the next few years. One significant Army order, on which delivery has already begun, was secured in 2021/22. We expect to see a key naval order in 2023. EID is also actively working with both ELAC and SEA to promote their respective products and solutions for the Portuguese Navy, using EID as a local integrator and support partner.

EID had a solid cash performance for the year. Some significant deliveries were made late in the year and the receipts from these will be received in early 2022/23. EID is increasing its stock holding to enable it more readily to meet customer needs.

EID’s closing order book of £23m underpins over £11m of revenue for 2022/23, already greater than that achieved in 2021/22. At 75% of revenue expectation for the year this order cover is much greater than at the same time last year, when it was below 50%.

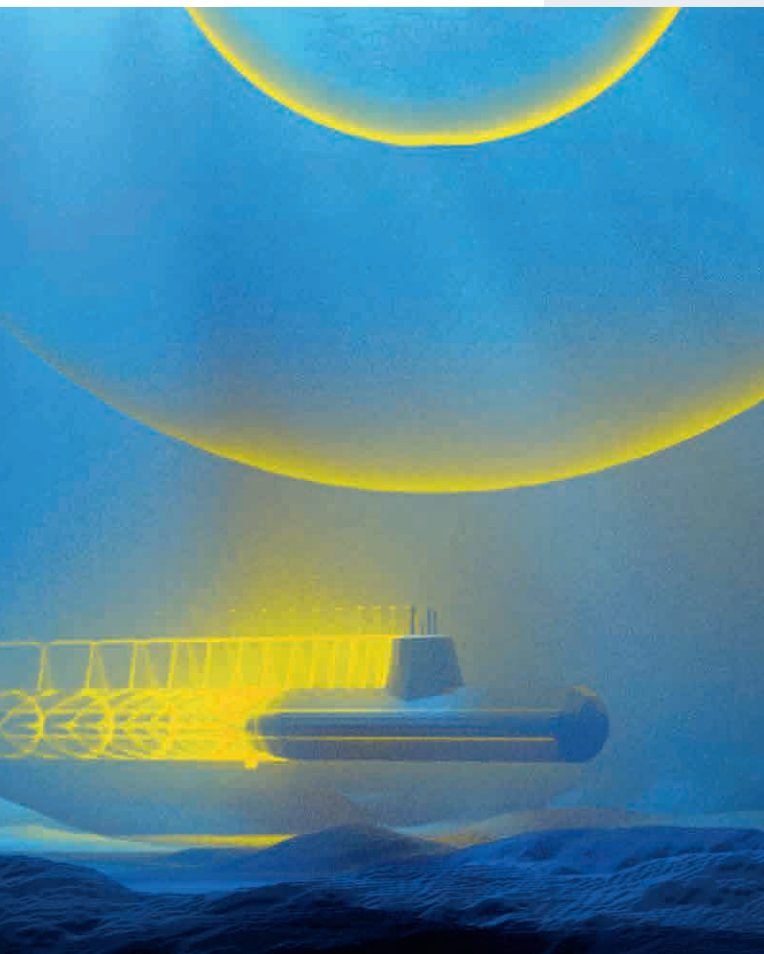




## Subsidiary review continued

# ELAC SONAR

elac-sonar.de



## Overview

ELAC Sonar (ELAC) serves global customers in the naval marketplace. Working with navies, system integrators and shipyards, ELAC supplies mission critical hydro-acoustic naval sensors for underwater surveillance, object avoidance and ranging. These include complete submarine and surface ship sonar suites, submarine rescue sonars, digital underwater communications and echo-sounders for manned and unmanned platforms. ELAC specialises in developing innovative hydro-acoustics, working in partnership with customers to meet their specific needs, offering flexibility through open architectures.

The market-leading digital underwater communication system UT3000 and the open-architecture based KaleidoScope system, developed and successfully delivered throughout the past 20 years, have laid the foundations for the current second-generation, open sonar processing platform and fully digitised hydrophones.

ELAC was founded in 1926 and is located in Kiel, Germany, where it benefits from being close to the German Navy and NATO Centre of Excellence for Confined and Shallow Waters. With several global players in naval shipbuilding, the naval systems industry and the University of Kiel nearby, ELAC has access to excellent resources and networks. ELAC is led by Bernd Szukay and joined the Cohort Group in December 2020.

## REVENUE

**£21.5m** (twelve months)

2021: £8.3m (five months)

## ADJUSTED OPERATING PROFIT

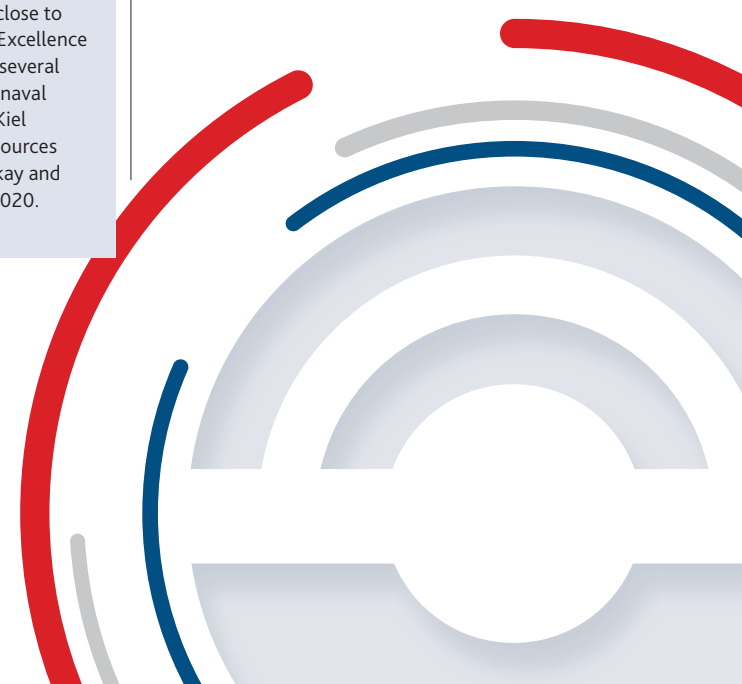
**£3.8m** (twelve months)

2021: £1.2m (five months)

## OPERATING CASH FLOW

**£6.6m** (twelve months)

2021: £0.4m (five months)







## Subsidiary review continued

# ELAC SONAR



**Bernd Szukay**  
Managing Director of ELAC Sonar (ELAC)

**ELAC's full year contribution was stronger than the annualised 2020/2021 equivalent. Much of this growth was due to the Italian sonar contract.**

In early July 2021, ELAC secured a contract for over £40m to provide sonar systems for two new U212 Near Future Submarines being supplied by Fincantieri for the Italian Navy. The contract also includes delivery of a special test and crew training system and associated technical services. This is expected to create a capability for the Italian Navy that is unmatched on a submarine of this class.

The contract stretches out to 2030 with the customer having the option for a further two submarines to be supplied with the same system. This project, which is the largest technical delivery contract the Group has ever won, has been overseen by a Programme Advisory Committee set up by Cohort and whose members have extensive knowledge and experience of operating, developing and delivering submarine systems.

We continue to closely review the project and how it is monitored going forward.

In addition to the significant contribution of this project to ELAC's 2021/22 performance, it also saw a number of good orders for its market-leading underwater communication systems, both new, upgrades and spares. ELAC also had a good contribution from higher margin spares, repairs and legacy hydrographic equipment. ELAC continues to add key resources, both people and capital to enable it to deliver its order book and secure further important naval sonar programmes with other navies.

As for 2021/22, ELAC has already 90% coverage of its 2022/23 revenue expectations.

At the time of the acquisition ELAC had agreed in principle to supply another customer with submarine sonar systems, but this has not yet resulted in a finalised contract. A mechanism was agreed with the seller to alleviate some of the operational costs the business would have to bear if this opportunity was delayed or not secured. The cost recovery is payable over two years, with a maximum value of £2.1m if the opportunity is not secured by 1 December 2022. The current year trading performance of ELAC includes £1.1m in respect of this mechanism, which will contribute up to a further £0.5m in 2022/23.

In the coming few years, ELAC will invest in a new facility in the Kiel area to further enhance its offering. Its current facility is now old and is planned to be redeveloped by its landlord for the University of Kiel.



**"The underlying ELAC business should continue to grow in the coming year with 90% of its expected revenue for 2022/23 now on order."**



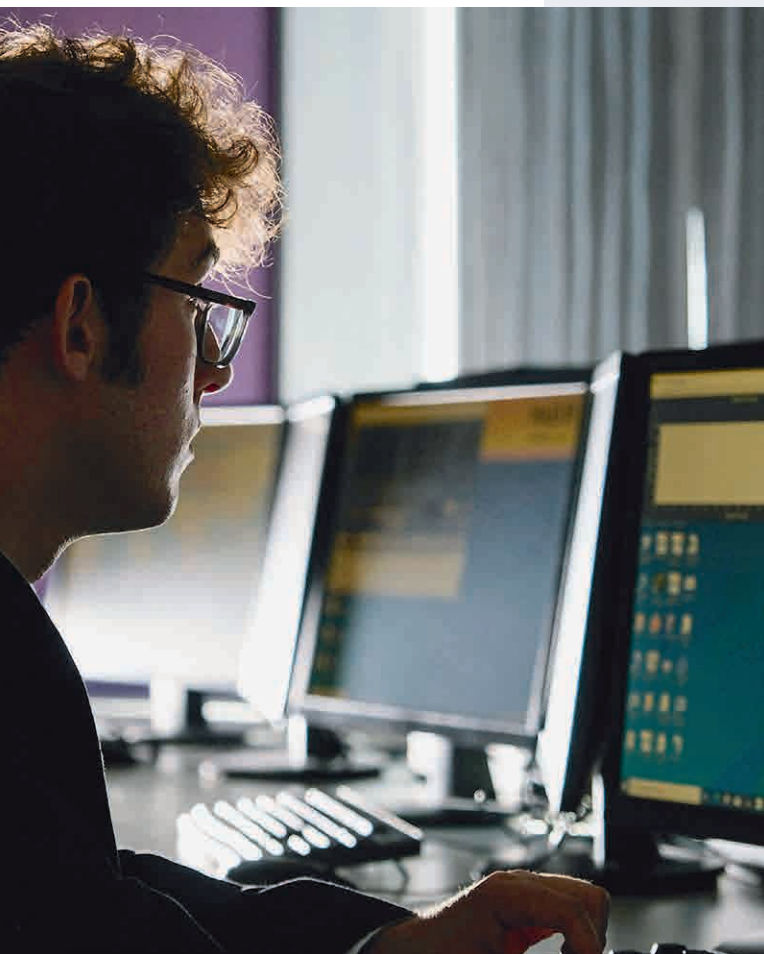


## Subsidiary review continued

# MASS



mass.co.uk



## Overview

MASS is a global technology company, trusted by the most secure organisations to provide advanced, cyber hardened digital services centred around data, information and knowledge. MASS has built its reputation through decades in defence, providing training, electronic warfare and cyber security services for governments to keep their confidential information safe. It now offers its data management and protection solutions to other sectors where data security expertise is crucial.

MASS works in partnership with customers to fit solutions to their needs, using highly-skilled, technical experts. The company innovates through new technology and thinking that enables swift adaptation to the changing data environment. MASS also supports opportunities and local initiatives for talented young people in STEM.

MASS operates through four divisions:

- ▶ The EWOS (Electronic Warfare Operational Support) division includes the THURBON™ Electronic Warfare (EW) database, SHEPHERD (the provision of a system embodying THURBON™ to the UK MOD) and MASS's EW managed service offerings in the UK and elsewhere.
- ▶ The Digital Services division offers solutions and training to wider government, including security customers. This division also delivers secure network design, delivery and support and information assurance services to commercial, defence and educational customers.
- ▶ The Strategic Systems division provides certain managed service and niche technical offerings to the UK MOD.
- ▶ The Training Support division provides training simulation and support to the UK's Joint Warfare Centre as well as similar high-level command training to other UK and overseas customers.

Established in 1983, MASS joined the Cohort Group in 2006. MASS is based in Cambridgeshire and it also operates an Electronic Warfare Training Academy in Lincolnshire. MASS is led by Managing Director Chris Stanley.

## REVENUE

**£38.5m**

2021: £39.5m

## ADJUSTED OPERATING PROFIT

**£9.1m**

2021: £8.7m

## OPERATING CASH FLOW

**£9.9m**

2021: £4.6m





## Subsidiary review continued

# MASS



**Chris Stanley**  
Managing Director of MASS

**“MASS continues to demonstrate its strength in its core markets of EWOS and niche technical support to key government capabilities. Its order book of £73m gives good visibility beyond 2023.”**

MASS had a stronger year despite a small fall in its revenue. The mix of work and flat overheads improved its trading profit.

MASS continued to see the impact of COVID-19 restrictions, particularly in the first half of the financial year on its EWOS training provision. The same issues impacted exercise work at the Joint Forces Command. The nature of MASS's work reflects its long-term investment in defence capability and threat analysis. Short-term changes in operational circumstances can delay MASS's delivery, even when under contract, as we have seen recently with Joint Forces Command support. We now expect that to return to a normal level of activity in 2022/23.

The EWOS business, which is mostly export, saw a further reduction in training and overseas support activity, some slipping into 2023. Digital Services activity was up slightly but the mix drove a stronger trading profit. In the other parts of the business, especially its technical support to key parts of UK defence, MASS was able to increase its activity as COVID-19 restrictions eased.

MASS's net margin increased again to 23.7% (2021: 22.1%). This was due to improved mix, especially in Digital Services, cost savings in delivering some of its long-term work and flat overheads. Together these offset the lower revenue and margin in the EWOS division.

MASS's operating cash flow this year was very strong, catching up on some delayed receipts in 2020/21. We do not expect such a strong cash inflow in 2022/23.

MASS continues to demonstrate its strength in its core markets of EWOS and niche technical support to key government capabilities. Its order book of nearly £73m gives good visibility beyond 2023 although its coverage for 2022/23 of 60% is slightly lower than we have seen in recent years.





## Subsidiary review continued



marlboroughcomms.com



## Overview

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

MCL utilises an ever-expanding international network of specialist technology providers, combined with its own bespoke design, engineering and integration skills, to deliver and support a diverse portfolio of C4 and ISTAR capabilities that transform the effectiveness of its customers' operations.

The company's specialist C4IS portfolio includes a full suite of hearing protection equipment for vehicle mounted and dis-mounted operations, communication ancillaries including antennas, while its ISTAR capabilities include signals intelligence, electronic warfare and UAV and UGV technologies. The company supplies customers including the UK MOD, other UK Government departments and defence prime contractors. With an expanding, expert workforce of nearly 40 employees, MCL is adept at identifying the latest technologies and capabilities to suit the unique demands of each customer it works with.

Founded in 1980 and based in Surrey, MCL has been part of the Cohort Group since 2014 and is led by Managing Director Shane Knight.

## REVENUE

**£21.7m**

2021: £18.0m

## ADJUSTED OPERATING PROFIT

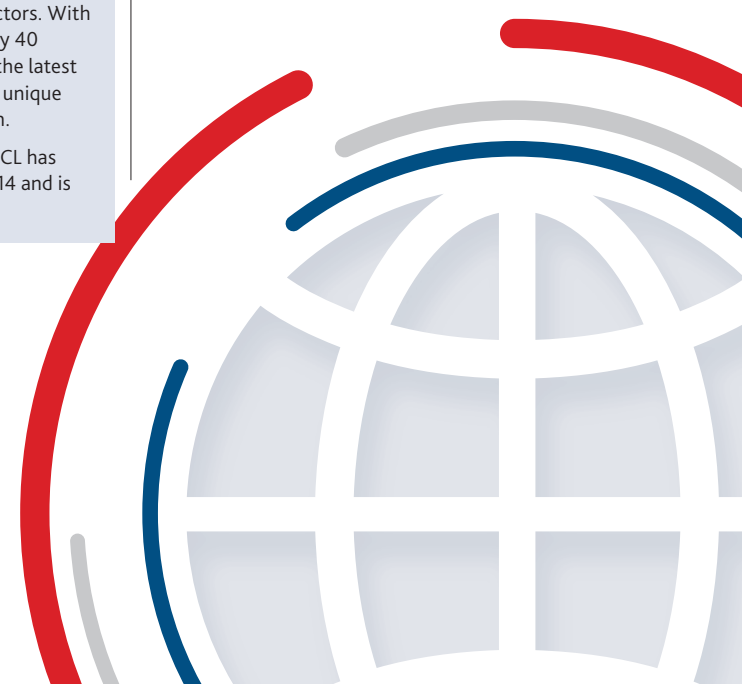
**£2.2m**

2021: £2.1m

## OPERATING CASH FLOW

**£0.6m**

2021: £4.3m







## Subsidiary review continued



**Shane Knight**  
Managing Director of MCL

**“MCL starts 2022/23 with a record level of order cover for the coming year at 80% and some good new prospects.”**

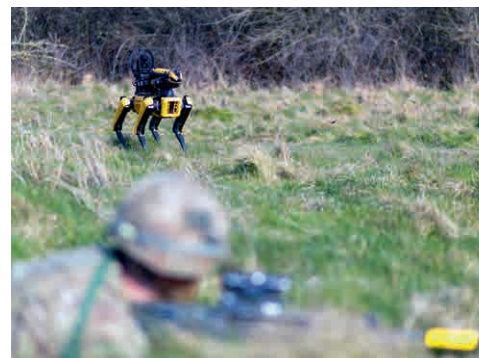
**MCL grew again in 2021/22 with revenue and adjusted operating profit up by 21% and 5% respectively.**

MCL's deliveries in 2021/22 included the autonomous ground vehicles ordered in 2020/21, as well as hearing protection systems for the Army and systems for Royal Navy submarines that now enter a period of long-term support.

When we acquired MCL, back in July 2014, one of the primary objectives was to support it in building an order book and business with greater longevity and visibility. This year saw the order book increase from £12.4m (April 2021) to £22.5m (April 2022) which underpins 80% of its revenue expectations for the coming year. The visibility of MCL's revenue still remains, on average, in the three to six-month range, MCL does see some substantial opportunities in long-term UK naval support programmes, particularly on the new planned frigates for the Royal Navy. Success in these would enable MCL to improve its revenue visibility significantly.

MCL, of all of our businesses, is very much at the forefront of changes in operational tempo at the UK MOD. It has in the last few months seen a significant uplift in activity from the UK MOD, and we anticipate some of this translating to orders in the coming financial year.

MCL moved its operations to a new site, close to its former site in Horley in January of 2022. The new facility provides much improved facilities for developing and trialling its products.



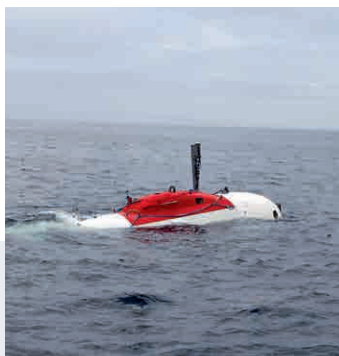


## Subsidiary review continued

# SEA



sea.co.uk



## Overview

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

In the maritime domain, SEA's engineering capabilities cover a wide range of maritime combat systems requirements, including communications, ship and fleet protection via torpedo and decoy launcher systems, and anti-submarine warfare systems, including towed-array sonar systems, infrastructure and training. As well as providing products and services for UK and export customers in these areas, it carries out technology research on behalf of the UK MOD into future maritime and soldier systems.

SEA also delivers complex data management solutions alongside automated traffic enforcement systems to UK Government and export customers in the transport domain, utilising its award-winning expertise in signal processing and software engineering.

SEA manages its business through three divisions:

- ▶ Complex Systems, based at Beckington.
- ▶ Maritime Solutions, based at Barnstaple.
- ▶ Transport Management, based in Bristol.

The technology and innovation activities of the organisation are underpinned by strong project management and dedicated production and support teams. In the last year SEA has enhanced its senior management team with several new recruits and has adjusted its strategy to align its research and training activities to support its product offerings, rather than being independent business lines.

In the final quarter of the year, SEA combined all of its engineering capability into a single function under one Director, to ensure that the engineering resource is effectively managed and prioritised, and that development and skill gaps are addressed.

SEA was founded in 1987 and joined the Cohort Group in 2007. SEA is located in the UK in Somerset, Bristol and Devon, and is led by Managing Director Richard Flitton.

## REVENUE

**£31.0m**

2021: £28.0m

## ADJUSTED OPERATING PROFIT

**£3.4m**

2021: £2.4m

## OPERATING CASH FLOW

**£5.7m**

2021: £9.8m



## Subsidiary review continued

# SEA



**Richard Flitton**  
Managing Director of SEA

**“Export revenue at SEA was up significantly with orders won in the final quarter of the previous financial year being delivered in 2021/22. Export revenue included development work on an order for the Royal New Zealand Navy.”**

After a strong order intake in 2020/21, SEA had a solid year with revenue growing by over 10% and trading profit by over 40%.

The change in SEA's revenue over the last six years is analysed by activity as follows:

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m
Submarine systems	16.9	7.3	4.7	2.7	4.2	<b>2.4</b>
Research	2.1	2.3	4.5	5.2	3.0	<b>4.9</b>
Export defence	6.0	7.1	8.2	1.6	2.3	<b>4.9</b>
Other defence products and support	11.9	13.2	9.6	11.7	11.1	<b>12.1</b>
Transport	5.9	5.3	9.2	7.6	6.4	<b>6.7</b>
Subsea	1.9	2.1	2.1	2.9	1.0	—
<b>SEA total revenue</b>	<b>44.7</b>	<b>37.3</b>	<b>38.3</b>	<b>31.7</b>	<b>28.0</b>	<b>31.0</b>

Submarine systems activity at SEA declined following the cancellation of a major contract in early 2021/22. This contract was terminated by the Australian Government following a change to its strategic stance. Its intention is to move away from a conventional (diesel) powered submarine to a nuclear-powered vessel in alliance with the UK and USA (AUKUS). We are optimistic that, when this programme re-launches, SEA's external communication system, as used on the UK's nuclear submarine, will be the preferred solution.

SEA's research activity saw growth in naval research. SEA's research, training and simulation activities will in future have a greater focus on supporting its main product and service offerings.

Export revenue at SEA was up significantly with orders won in the final quarter of the previous financial year being delivered in 2021/22. Export revenue included development work on an order for the Royal New Zealand Navy. This was to upgrade the external communication system on the ANZAC class of frigates. SEA secured a further follow-on export order from a previous customer for its Torpedo Launcher System.

Revenue from other defence products also increased, a result of higher levels of support activity and the inclusion of revenue from JSK, SEA's Canadian subsidiary.

SEA's transport business saw a 5% rise in revenue with a return to pre-COVID-19 activity levels. The new Clean Air Zone for Bristol provided both order intake and revenue in this year.

Over the past few years, the decline in submarine systems work has resulted in a higher proportion of revenue being derived from less predictable orders. For instance, SEA's transport contracts are typically on short timeframes from win to delivery, usually a few weeks to months. SEA has won nearly £100m of orders in the last two years. This has provided SEA with improved short and long-term visibility, including a number of export contracts for its Torpedo Launcher Systems.

The closing order book of over £75m underpins just over £27m of revenue expectations for 2022/23. SEA's position for UK submarine communication systems and key defence systems for the Royal Navy's surface fleet provides very good prospects for the coming and future years in securing long-term support and delivery orders, some of which will stretch into the early 2030s. SEA secured its first significant orders for the new Dreadnought class of submarine in 2021/22. We also expect follow-on orders for some of its key export contracts.

SEA acquired the other half of its joint venture, JSK, which is based in Canada. This has allowed SEA to fully control the delivery of its Torpedo Launcher Systems to the Canadian Frigate programme and to reinvigorate its efforts to support existing Royal Canadian Navy vessels including the Victoria Class submarines.