

**Andrew Thomis & Simon Walther** 

27 July 2021

#### **SOME CONTEXT....**

- Journey to a serious mid-sized defence company
- 14% CAGR in adjusted operating profit
- No equity fund raising
- Distributed >£25m dividends

# Operational and Divisional Highlights

**Andrew Thomis, Chief Executive** 





#### **FINANCIAL HIGHLIGHTS**

Achieved record adjusted operating profit

Revenue

**Adjusted Operating Profit** 

**Adjusted EPS** 

£143.3m

£18.6m

33.6p

+9.3%

+2.2%

-9.4%

(2020: £131.1m)

(2020: £18.2m)

(2020: 37.1p)

**Good order cover for coming** year

Order intake

Order book

Revenue cover

£180.3m

£242.4m

64%

(2020: £124.4m)

(30/4/20: £183.3m)

(2020/21: 62%)

Net funds better than expected

**Operating Cash flow** 

Net funds (debt)

Dividend

+£16.2m

£2.5m

+10%

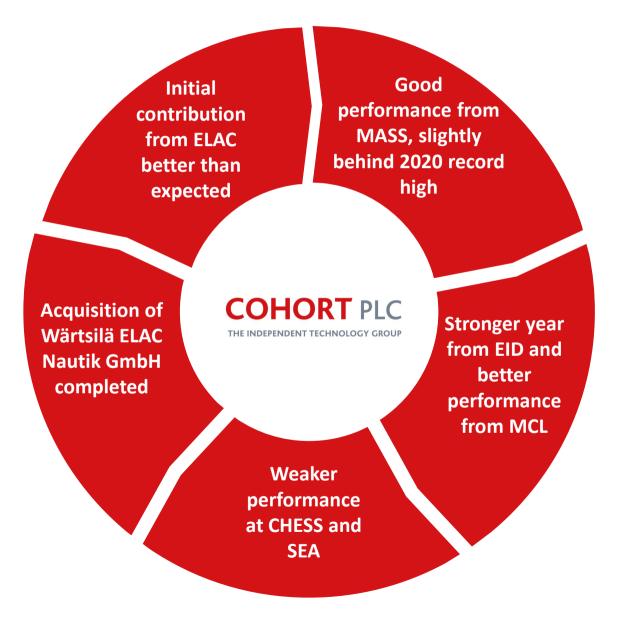
(2020: +£11.6m)

(30/4/20: -£4.7m)

11.1p



## **OPERATIONAL HIGHLIGHTS**





#### **BOARD AND SENIOR LEADERSHIP**



**Beatrice Nicholas Non-executive Director** 



Bernd Szukay
Joint Managing
Director, ELAC



Ole Schneider Joint Managing Director, ELAC



Richard Flitton
Managing Director, SEA



Frederico Lemos
Managing Director, EID



David Tuddenham
Managing Director,
Chess



# **Financial Review**

**Simon Walther, Finance Director** 





#### **CHESS HIGHLIGHTS**



	2020/21	2019/20
Revenue (£m)	28.6	25.2
Operating profit (£m)	3.0	3.9
Operating margin	10.5%	15.6%

- Revenue grew, but reduced margins led to fall in adjusted operating profit
- Revenue dominated by export customers
- Strengthened management team to address growing pains
- Strong year for orders with good platform for coming year





#### **EID HIGHLIGHTS**



	2020/21	2019/20
Revenue (£m)	20.9	18.0
Operating profit (£m)	4.8	3.1
Operating margin	23.1%	17.2%

- Grew on good performance, historically high net return
- Improved cash performance
- Decline in revenue from Portuguese armed forces
- Improved intercom deliveries for export
- New Managing Director appointed
- Delays in order intake will mean weaker performance in 21/22



## **ELAC HIGHLIGHTS**



	2020/21*	2019/20
Revenue (£m)	8.3	-
Operating profit (£m)	1.2	-
Operating margin	14.1%	_

<sup>\*5</sup> months only

- Initial contribution in line with expectations
- Only minor impact from COVID
- Significant order secured for Italian Navy
- Order coverage >90% for 21/22





#### **MASS HIGHLIGHTS**



	2020/21	2019/20
Revenue (£m)	39.5	41.1
Operating profit (£m)	8.7	8.9
Operating margin	22.1%	21.7%

- Slightly weaker after record year last year, but ahead of expectations
- Still strongest contributor in Group
- Net margins increased due to improved mix and flat overheads
- Continues to demonstrate strength in core markets
- Order book of £77m giving good visibility beyond 2023





## **MCL HIGHLIGHTS**



	2020/21	2019/20
Revenue (£m)	18.0	15.1
Operating profit (£m)	2.1	1.7
Operating margin	11.5%	11.0%

- Bounced back with revenue and operating profit exceeding expectations
- Strong cash performance
- Starts 2021/22 with improved visibility and good prospects for coming year





#### **SEA HIGHLIGHTS**



	2020/21	2019/20
Revenue (£m)	28.0	31.7
Operating profit (£m)	2.4	3.5
Operating margin	8.4%	11.1%

- Restructure exercise completed in July 2020 to shape cost base to activity
- Disappointing trading performance in 2020/21 due to delays in export orders
- Weaker research and transport activity due to impact of COVID
- Strong order intake with good coverage for 2021/22. Some orders out to 2031
- New Managing Director appointed
- Expect to see growth in 2021/22 and return to better performance thereafter



## **INCOME STATEMENT**

Year ended 30 April 2021					
	2021		2020		Variance
	£m		£m		%
Revenue	143.3		131.1		9.3%
Gross profit	52.7	36.8%	50.4	38.4%	
Overhead	(34.1)		(32.2)		
Adjusted operating profit	18.6		18.2		2.2%
Exceptional items	(1.3)		(0.8)		
Adjusted profit before interest and tax	17.3		17.4		(0.6)%
Net finance cost	(0.7)		(0.8)		
Adjusted <sup>1</sup> profit before tax	16.6		16.6		-%
Adjusted earnings per share (pence)	33.63		37.10		(9.4)%

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



# 2019/20 TO 2020/21 REVENUE & PROFIT BRIDGE



#### Adjusted operating profit bridge





## **EARNINGS PER SHARE**

- 9.4% decrease in adjusted earnings per share from 2% growth in adjusted operating profit
- Reconciled as follows:

	Adjusted operating profit £m	Adjusted earnings per share Pence
2020	18.2	37.10
Chess (81.84% owned for the year)	(0.9)	(1.56)
EID (80% owned)	1.7	3.38
ELAC (5 months in 2021)	1.2	3.00
100% owned businesses	(1.6)	(4.06)
Tax	-	(4.14)
Other (mostly interest) 2021		(0.09) <b>33.63</b>



#### **BALANCE SHEET**

- Chess earn out and minority now £2.8m (2020: £4.0m),
   expect to pay by 31 October 2021
- Amortisation of other intangible expected to be £6.8m in 2021/22, £3.1m in 2022/23 and £2.9m in 2023/24
- Defined benefit scheme acquired with ELAC. Net liability at 30 April 2021 of £8.0m (same as cash left in business by the seller)





## **NET CASH FLOW**

Year ended 30 April 2021	2021	2020
	<b>£m</b> _	£m
Adjusted operating profit	18.6	18.2
Working capital	(0.1)	(7.2)
Depreciation and share based payments	2.4	1.9
Net funds inflow from operations	20.9	12.9
Acquisition of ELAC	(1.3)	-
Exceptional items	(1.3)	(0.9)
Capital expenditure	(1.2)	(2.7)
Net purchase of own shares	(0.6)	(2.2)
Dividends	(4.3)	(3.9)
Other (including tax, interest and FX)	(5.0)	(1.6)
Net funds inflow	1.7	1.7
Opening net (debt)	(4.7)	(6.4)
Closing net funds /(debt)	2.5	(4.7)



# **EXPECTED CASH PROJECTION 2021/22**

	£m
Opening net funds	2.5
Operating cash flow	9.8
Chess earnout/minority purchase	(2.8)
Tax/capex/dividends	(9.5)
Closing net funds/(debt) at 30 April 2022	-



#### **BANKING**

- Total facility now £40m of which £10m available plus £32m cash
- Facility available out to November 2022
- Expect to use £2.8m re Chess minority purchase
- Discussions to begin with banks in late Summer to extend facility
  - German bank to be added



# Outlook

**Andrew Thomis, Chief Executive** 





#### **OUTLOOK FOR GROWTH**

# Home markets

- Defence review in UK offers opportunities already being seen by MCL
- New opportunities in Portugal
- Growing defence opportunities in Germany

# **Export** markets

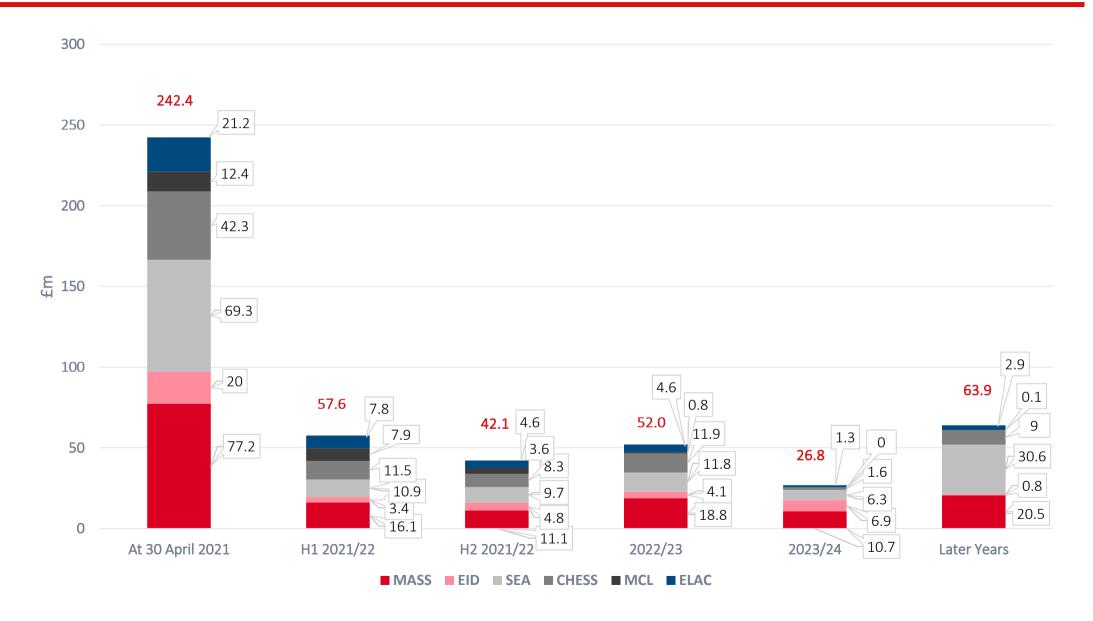
- Underlying demand drivers remain increasing geopolitical polarisation
- Strong maritime systems offering boosted by ELAC Sonar
- Large accessible opportunities in Europe, Canada and Australia

Well positioned to meet current and evolving customer requirements





# ORDER BOOK – UNDERPINNING 2021/22 AND BEYOND





## ORDER BOOK – GOOD UNDERPINNING FOR COMING YEAR

	30 April	To be delivered	30 April	Last year's to be
	2021	2021/22	2020	delivered 2020/21
	£m	£m	£m	£m
Chess	42.3	19.8	13.4	10.8
EID	20.0	8.2	36.5	20.2
ELAC	21.2	12.3	-	-
MASS	77.2	27.2	91.2	27.6
MCL	12.4	11.5	8.6	7.5
SEA	69.3	20.7	33.6	18.4
	242.4	99.7	183.3	84.5

- Chess, MCL and SEA stronger
- ELAC now over 90% following recent wins
- Overall, 64% of consensus external revenue on contract (62% last year) at 30 April 2021
- Now up to 70% (75% last year) in mid-July



#### **ORDERS AND PROSPECTS**

- Over £50m of orders since 1 May 2021
  - £43m sonar systems for two Italian submarines at ELAC
  - £10m of smaller orders
- Good pipeline of prospects
  - £10m+ contract extension, major new contract opportunities at MASS
  - Domestic and export prospects at EID
  - Multiple £10m+ systems and a £20m+ service opportunity at MCL
  - Naval and land export prospects at Chess
  - Naval communications in Australasia
  - Follow-on submarine orders at ELAC
- Continue to target acquisition opportunities



#### **INVESTING FOR ORGANIC GROWTH**

- Planned self-funded R&D expenditure of £3.6m (2021 £2.0m)
- Focus on:
  - SEA Krait V2, KDS software, transport
  - EID Handheld radio, soldier system, new features for ICCS and ICC
  - MASS DF evidence management, machine learning for missile defence
  - Chess Artificial intelligence for target identification
  - ELAC smart digital transducers for Sphere
- MCL looking at long-term business expansion by new application of existing skills for Royal Navy





#### **OUTLOOK & SUMMARY**

#### Strong order book and pipeline

70% of 2020/21 consensus revenue underpinned by orders (July 2020)

Well positioned to meet customer needs in growth markets

2021/22 overall performance expected to be slightly ahead of 2020/21

**Expect rate of growth to accelerate from 2022/23** 



Exciting long-term future as a major independent UK defence technology group offering world-class systems to domestic and export customers alike



# Questions





# **Appendix**





#### **COHORT BUSINESS MODEL**

- Subsidiaries enjoy a significant degree of operational autonomy in order to develop their potential fully:
  - Enables streamlined decision-making and focus on solving customer's immediate problems
  - Provides competitive advantage over larger rivals where the decision-making process can be more extended
  - Attractive model for high calibre employees
- Group operates a light-touch but rigorous financial and strategic control regime:
  - Cost-effective as avoids need for additional layers of management and a large HQ team

Being part of Cohort brings significant advantages compared to operating individually



#### Applying advanced technology to protect and secure

We create solutions to keep people safe. Acting with agility to find a better way, make smart decisions and meet customers' needs. Where independent subsidiaries are free to grow and deepen relationships with the support of a steadying hand. Bringing the expertise of the Group to the ingenuity of our businesses.

To deliver purposeful innovation that protects us all.

#### **Our Engagement Principles**

We hold innovation at our core
We nurture agile partnerships
We commit to mission critical effectiveness

#### **Our Values**

We believe in playing our part
We believe in being results driven
We believe in independent thinking

#### **Environment**

We keep the environmental impact of our activities under review in order to improve resource efficiency and reduce waste. As part of our commitment to minimising the impact of its business operations on the environment we work with our suppliers, customers and communities to improve standards of environmental protection.

#### Society

We maintain strong relationships across all our stakeholder groups.

- Diversity & inclusion
- Leadership Development Programme
- STEM outreach activities
- Community & charitable engagement

#### Governance

We are committed to maintaining high standards of corporate governance and managing the Group in a flexible and effective manner.

- Business Ethics Policy
- Modern Slavery Statement
- Anti-bribery policy



## **ACQUISITION STRATEGY**

- Continue to see opportunities to accelerate growth by making targeted acquisitions in the UK and overseas
- Stand-alone acquisitions
  - Likely to be operating in defence and security markets
  - Ready to join a larger public group
  - Growth potential and sustainable competitive advantage
- Bolt-in acquisitions
  - To be integrated with an existing group business
  - Closely-linked capabilities and/or customer relationships
- Disciplined and cautious approach experienced team



## **ACQUISITION TRACK RECORD**

• 2006: SCS acquisition helped create the Group at IPO

(SCS now fully integrated within other divisions)

• 2006: MASS acquired for £13m

• 2007: SEA acquired for £25m

• 2014: Disposal of Space Division for £6.5m

• 2014: J+S acquired for £12m (now fully integrated within SEA)

• 2014: 50% MCL acquired. 100% acquired 2017. Final price £14m

• 2015/16: EID acquired for £13.3m (80% ownership, balance retained by

Portuguese Government)

• 2018: Chess acquired for £20.1m (81.84% - will acquire outstanding

holding in 2021)

• 2020: Wärtsilä ELAC Nautik GmbH acquired for €11.25m





Chess Dynamics is an innovative, well-respected surveillance, tracking and gunfire control specialist for military and commercial customers.

Chess's military customers include defence forces and prime contractors in the UK and overseas for the naval and land sectors.

Platforms: 68%

Fire control, surveillance & tracking systems

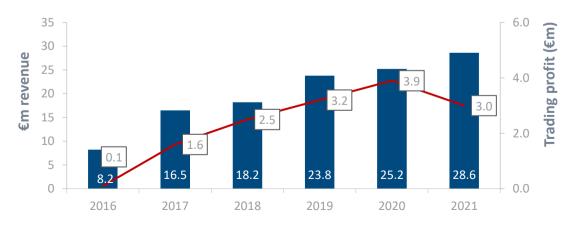
**Counter UAV: 25%** 

Counter UAV systems for military & civilian applications

Vision4ce: 7%

Software for surveillance, tracking & fire control systems hardware









EID is a Portuguese high-tech company with 35 years' experience and know-how in the increasingly critical fields of electronic tactical and naval communications, command and control (3C) equipment.

The company's focus is the design, manufacture, delivery and support of advanced high-performance 3C equipment for the global defence markets.

#### **Tactical Communications: 84%**

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

#### **Naval Communications: 16%**

Fully Integrated Information and Communications Systems for warships

# Trading History (Under Cohort since June 2016)







ELAC SONAR is an innovative German company supplying global navies with advanced sonar systems and underwater communications, located in Kiel Germany

It works with navies, system integrators and shipyards to supply mission critical hydro-acoustic naval sensors - from fully-fledged submarine combat sonars, anti-submarine warfare sonars and submarine rescue sonars to digital underwater communications and measurement systems, offering flexibility through open architectures.





MASS is a data technology company with over 35 years' heritage serving the defence and security markets.

Providing electronic warfare operational support, digital services and training support to military operations in the UK and to international customers.

MASS's core skill is enabling its customers to convert their own data, often of vast quantities, into information for operational and strategic application.

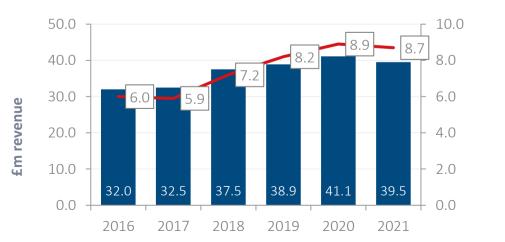
**Electronic Warfare (EW): 33%** 

**Strategic Systems: 28%** 

**Digital Services: 17%** 

**Training Support: 22%** 

#### **Trading History Under Cohort**









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

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

**Electronic Warfare: 33%** 

**Communications: 51%** 

Surveillance and UAVs: 16%

# Trading History (September year end, April year 2017 onwards)









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

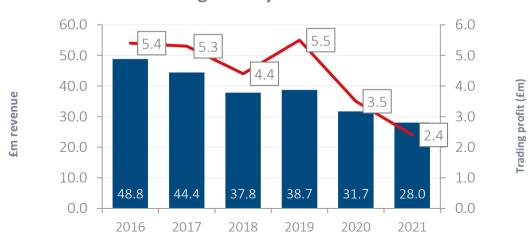
SEA's engineering capabilities cover a wide range of maritime mission systems requirements including communications, torpedo and decoy launching systems and sonar systems.

Defence: 73%

**Transport: 23%** 

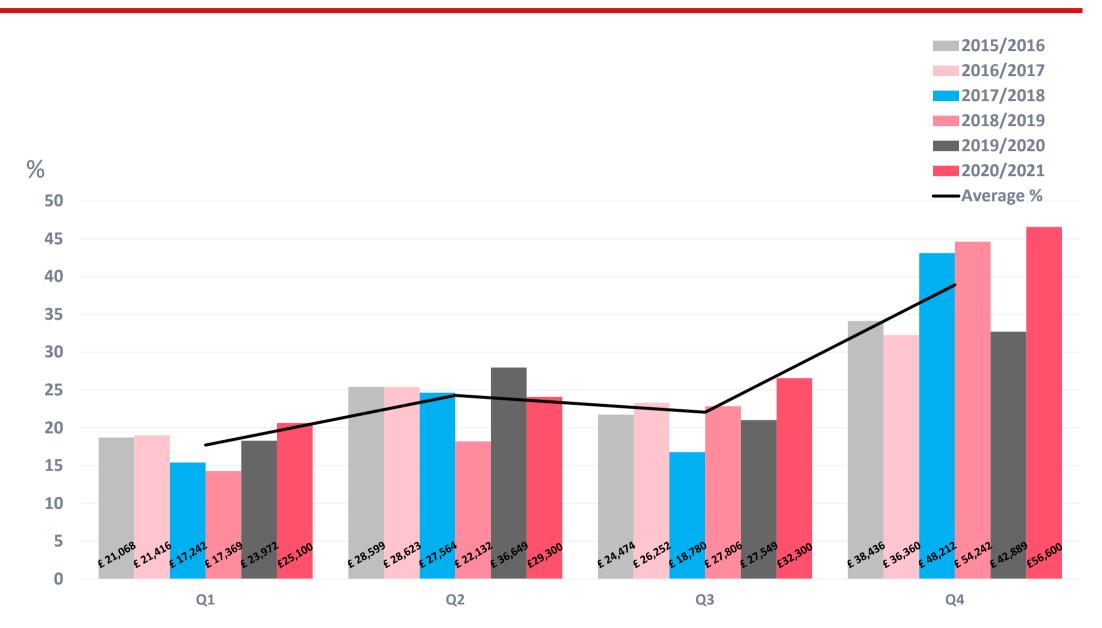
Offshore energy: 4% (divested August 2020)

#### **Trading history under Cohort**





# QUARTERLY PROFILE OF GROUP REVENUE





# **THANK YOU**

#### **Cohort plc**

One Waterside Drive Arlington Business Park Theale Reading RG7 4SW

www.cohortplc.com



