COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

Applying advanced technology to protect and secure

Interim Report for the six months ended 31 October 2022

Our purpose

Supporting entrepreneurial businesses to grow and innovate in defence, technology products & services

We support the businesses within our Group to grow. With a focus on entrepreneurialism, we foster agility and promote innovation. Our strong balance sheet provides a stable financial foundation. We create an environment of trust where our businesses share knowledge to widen market access and through partnership open doors globally.

COHORT PLC
THE INDEPENDENT TECHNOLOGY GROUP

CHESS EID
ELAC SONAR MASS
MCL SEA

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cohortplc.com

Financial and divisional highlights

A much stronger first half for the Group with a record closing order book. The increase in the interim dividend reflects the Board's confidence in the Group's growth prospects and commitment to a progressive dividend policy.

Financial highlights

- Revenue up 29% to £77.5m (2021: £60.0m).
- Adjusted* operating profit up significantly to £5.0m (2021: £1.7m).
- Strong adjusted* earnings per share of 10.12 pence (2021: 3.04 pence).
- Order intake of £88.6m (2021: £105.3m), 1.1x the period's revenue.
- Record closing order book of £304.2m (30 April 2022: £291.0m).
- Interim dividend increased by 10% to 4.25 pence per share (2021: 3.85 pence per share).
- Net debt of £0.6m at 31 October 2022 (31 October 2021: £6.1m net funds). As at 9 December 2022 net funds were £7.6m.

Operational highlights

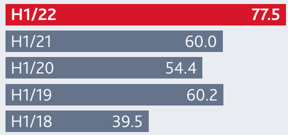
- Increased revenue was driven by higher UK MOD sales, particularly at MCL and export revenue at Chess.
- Adjusted* operating profit improved significantly on last year, due to higher revenue at Chess and MCL. MASS and SEA also performed slightly better. ELAC Sonar (ELAC) was weaker due to mix and delayed orders. Slower deliveries at EID resulted in an operating loss.
- Order intake was over 1.1x the period's revenue with strong performances at Chess, MCL and SEA, the latter including a large support contract for the UK's Royal Navy.

Looking forward

- Record high order book of £304.2m, with over £80m of revenue deliverable in the second half. Taking into account revenue recognised in the first half, this covers over 95% (2021: 89%) of consensus forecast revenue for the full financial year. Revenue deliverable in future years from committed orders continues to grow.
- The current year outlook for the Group is therefore unchanged.
- We continue to see a positive outlook for organic growth in the medium term.

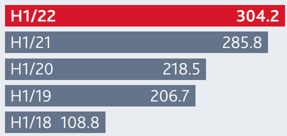
REVENUE (£M)

£77.5m
+29%



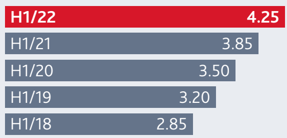
ORDER BOOK (£M)

£304.2m
+6%



INTERIM DIVIDEND (P)

4.25p
+10%



* Adjusted figures exclude the effects of marking forward exchange contracts to market value (£1.6m charge; 2021: £0.7m credit), amortisation of other intangible assets (£1.8m; 2021: £3.4m) and exceptional items (£nil; 2021: £0.3m income).

Chairman's statement

A much stronger first half for the Group with a record closing order book

Nick Prest CBE
Chairman

Compared to the same period last year Cohort delivered a much stronger performance for the six months ended 31 October 2022 with growth in both revenue and trading profit.

Overall, the Group's adjusted operating profit was significantly higher than the same period last year at £5.0m (2021: £1.7m) on revenue of £77.5m (2021: £60.0m).

Events in Europe have seen a significant re-prioritisation of spending by customers in the region. The increase in Group revenue was a result of increased UK MOD spend, most marked at MCL and export sales at Chess. Conversely, some parts of the Group have seen delays to deliveries and revenue because of customer focus on current events. This is particularly impacting MASS, despite which it reported an improved adjusted operating profit. Nevertheless, in the medium term we expect the current security issues to feed through to a longer-term investment in preparation for future threats, including training and information security, which will benefit MASS.

Challenges in material supplies and recruitment have continued but are showing some signs of improvement. EID in particular has suffered from supply chain delays, which have prevented it from delivering revenue to expectations. The recruitment of certain specialist professionals with high-level security clearances remains the most challenging aspect of people resourcing, and particularly applies at MASS.

The Group's adjusted operating profit was much stronger than last year, driven by improvements in the Group's UK businesses. This was partly offset by a weaker revenue mix at ELAC and delays to orders and deliveries at EID.

The closing order book of £304.2m was a record high for the Group and stretches out to 2032. The Group's order intake was slightly lower than last year's very strong performance for the same period at £88.6m (2021: £105.3m). We saw particularly strong order intake at SEA (£37.5m) and MCL (£16.1m). We continue to see good order prospects for the Group in the second half and beyond. These include naval systems for the Royal Navy, the Portuguese Navy, and export customers in Southeast Asia and Australasia, as well as communications and surveillance systems for customers in the UK and Europe.

The strong operational performance in the first half resulted in a significant working capital build across the Group, especially at Chess and MCL. EID and ELAC also saw stock builds for second half deliveries. As this unwinds, we expect a stronger operating cash performance in the second half and, as at 9 December 2022, the Group's net funds were £7.6m.

Governance

As previously announced on 28 July 2022, Stanley Carter formally stepped down from the Board at our Annual General Meeting on 27 September 2022. Stanley remains a major and supportive shareholder of the Group and has entered into a shareholder agreement with the Group. We look forward to continuing our long-standing relationship with him.

Following the AGM, the Board hosted a presentation of the Group's maritime capabilities for investors and analysts, which also gave the audience an opportunity to talk face to face with the Managing Directors of SEA, ELAC and EID.

The Board regularly evaluates and reviews the Group's environmental, social and governance (ESG) activity and is committed to maintaining appropriate standards. We continue to make good progress with a wide range of initiatives at subsidiary level with MCL, MASS and Chess working towards ISO 14001 accreditation, and each subsidiary has now published its net zero carbon plans. The Group's brand values, customer engagement principles and governance policies are all outlined on Cohort's website and in the Annual Report and Accounts.

Key financials

For the six months ended 31 October 2022 the Group's revenue was £77.5m (2021: £60.0m), including £19.1m from Chess, £17.2m from MASS, £13.8m from MCL, £16.4m from SEA, £8.9m from ELAC and £2.0m from EID.

The Group's adjusted operating profit in the period was £5.0m (2021: £1.7m). Central costs were £2.6m (2021: £2.1m).

Cohort made an operating profit of £1.6m after recognising amortisation of intangible assets (£1.8m) and marking forward exchange contracts to market value (charge of £1.6m) (2021: operating loss of £1.3m, after amortisation of intangible assets of £3.4m, income on marking forward exchange contracts to market value of £0.1m and exceptional income of £0.3m).

Chairman's statement continued

Key financials continued

Adjusted earnings per share for the six months ended 31 October 2022 increased to 10.12 pence (2021: 3.04 pence). The tax rate in respect of the adjusted operating profit was 17.0% (2021: 14.0%). Basic earnings per share were 2.73 pence (2021: loss per share of 1.74 pence).

The cash outflow from operations of £4.9m (2021: inflow of £9.1m) is due to higher receivables, particularly at MCL following a strong first half and the timing of supplier payments. The Group made payments in respect of dividends (£3.4m) and capital expenditure (£2.6m) resulting in net debt at 31 October 2022 of £0.6m (30 April 2022: net funds of £11.0m). The capital expenditure included an initial spend of £1.5m on a new facility for ELAC. The total spend for this project is expected to be £15m over the three years from 2022 to 2025.

The Group completed the acquisition of the non-controlling interest of Chess for £1.0m in cash on 30 November 2022.

Chess

Chess's first half performance was much stronger than last year. It reported an adjusted operating profit of £0.3m (2021: loss of £2.7m) on revenue of £19.1m (2021: £5.9m). As expected, the management, organisational and people changes we made in 2021/22 have delivered significant financial improvements in 2022/23. The operating cash performance at Chess has greatly improved with a positive cash flow in the first half, and we expect that to continue in the second half.

Notwithstanding this improvement, Chess's net margin of just under 2% for the first half is much lower than we expect to see for the full year. This reflects a weaker mix of revenue, including delivery of a small number of older problem projects at low margin. Completion of the latter did, nevertheless, contribute to the improved cash performance at Chess.

The Group owned 81.84% of Chess throughout the first half of the year (2021: 81.84%). We completed the acquisition of the remaining shares in Chess on 30 November 2022 for £1.0m in line with the terms set out in the acquisition announcement in December 2018.

Chess's order intake of £14.3m (2021: £6.1m) in the first half was much improved on last year and accounts for a proportion of the revenue improvement. Its closing order book of £35.9m (2021: £42.6m) underpins over £12m of the revenue expected to be delivered in the second half. We expect Chess to have a stronger second half, driving the business to an improved profit for the full year.

Chess's medium-term prospects for naval and land systems remain strong, with an attractive pipeline of opportunities including the Type 26 frigates in the UK and Australia.

EID

EID had a disappointing first half. On lower revenue, it delivered an adjusted operating loss of £0.9m (2021: loss of £0.5m). This was a result of continued order delays, which also resulted in its order intake being lower than last year at £1.9m (2021: £9.3m). These delayed orders included important orders for EID from the Portuguese Navy, and we now expect these during the first half of the 2023 calendar year. EID also saw the greatest challenge across the Group in respect of supply delays, with some of its expected deliveries slipping into the second half and some expected in 2023/24.

The Group owned 80% of EID throughout the first half of the year (2021: 80%).

EID's order book of £23.7m at 31 October 2022 (2021: £25.8m) underpins over £8m of second half revenue and gives us confidence that it will deliver a stronger performance in the second half. Nevertheless, EID's full year performance will be weaker than that achieved in 2021/22.

As previously stated, we expect EID to recover in 2023/24.

ELAC Sonar (ELAC)

ELAC had a weaker first half than last year with lower trading profit of £0.9m (2021: £1.5m). This reflected a weaker mix due to the Italian sonar programme, which is at lower margin than export sales of legacy products and spares. Revenue was slightly down due to some delays in German Government export approval. We believe this is primarily the result of greater scrutiny and resource limitations in the German Government pending new export control legislation which is expected in 2023. We expect this delay to begin to ease during the course of the next year.

This reporting period has seen the conclusion to the adjustment mechanism from the former owner of ELAC, Wärtsilä Corporation, with £0.4m of the trading profit arising from this source.

ELAC's order book of £58.7m (2021: £55.9m) underpins over £13m of revenue to be delivered in the second half. We expect ELAC to deliver a stronger second half, though its overall performance for the year will be behind that achieved in 2021/22.

Chairman's statement continued

MASS

MASS achieved an adjusted operating profit of £4.0m (2021: £3.7m), an improvement compared to last year, despite lower revenue. This was a result of a stronger revenue mix with some lower margin non-defence work ceasing last year.

MASS has seen a prolonged impact on its business from COVID-19 manifested in both delivery constraints, with some export work still facing challenges to deliver, and also in winning new business. The hiatus in business development for the last two years prevented MASS from converting and growing its pipeline of opportunities in export markets, but it has begun to rebuild this in the last six months.

The current geo-political situation has caused some of MASS's domestic customers' budgets to be redeployed in other areas, pushing scheduled training exercises back.

In the medium term, we believe the wider geo-political situation, especially the situation in Ukraine and the continuing Asia-Pacific tensions, will lead MASS's customers to increase spending on countering threats, including electronic warfare and security of communications and systems.

MASS's first half net margin was higher than last year at 23% (2021: 19%) due to improved mix of work. We expect the net margin for the full year to be slightly lower.

MASS's closing order book of £64.8m (2021: £81.1m) underpins over £14m of second half revenue. We expect a stronger second half from MASS, with an overall performance in line with last year. This is dependent on some return to normality in MASS's training provision, especially in the UK.

MCL

MCL delivered a very strong first half performance with adjusted operating profit of £2.2m (2021: £0.5m) on increased revenue of £13.8m (2021: £7.9m). This was a result of greater activity in supplying equipment to the UK MOD, notably including armoured fighting vehicle hearing protection.

MCL's order book of £24.8m (2021: £13.0m), a good pipeline of opportunities and the current geo-political tensions give us confidence that MCL's second half will remain as strong as its first half. Overall, we expect MCL's full year performance to be significantly higher than that achieved in 2021/22.

MCL's current level of activity with the UK MOD is expected to continue into the first half of 2023/24. In the longer term, MCL is working on securing significant delivery and support contracts from the Royal Navy. We expect the probability and timing of winning these contracts to become clearer in the year ahead.

SEA

SEA's adjusted operating profit of £1.2m (2021: £1.2m) was on slightly higher revenue of £16.4m (2021: £13.9m).

SEA's order intake in the first half was again very strong at £37.6m (2021: £12.0m), including a key five year order from the Royal Navy for systems and equipment upgrade of anti-submarine warfare and missile countermeasures systems. Its pipeline of opportunities, particularly in naval systems for the UK and export markets, remains robust.

SEA's revenue is well underpinned, with a strong closing order book of £96.3m (2021: £67.5m) including over £16m of revenue to be delivered in the second half of this financial year. Overall, we expect a stronger second half from SEA, delivering a full year performance ahead of last year's.

Dividend

The Board has declared an interim dividend of 4.25 pence per share (2021: 3.85 pence per share), 10% higher than last year. This increase reflects the Board's confidence in the outlook for Cohort and its commitment to a progressive dividend policy. The interim dividend is payable on 14 February 2023 to shareholders on the register as of 6 January 2023.

Outlook

The first half of 2022/23 has seen a welcome return to growth by the Group.

At 31 October 2022, our order book was a record £304.2m (30 April 2022: £290.0m), underpinning most of the second half of this financial year. In line with previous experience we anticipate a stronger Group performance in the second half and thus remain on track to achieve our expectations for the full year.

The Group's order book has steadily increased over the last few years to what is now a record high. Its longevity has also increased with revenue now deliverable out to 2032. The pipeline of order opportunities for the remainder of the year also looks strong. Demand for our solutions and services continues to be driven by the UK's increased spending on defence and security and by international tensions in the Asia-Pacific region and Europe. Overall, we continue to see a positive outlook for organic growth in the years ahead.

Nick Prest CBE
Chairman
14 December 2022

Consolidated income statement
for the six months ended 31 October 2022

	Notes	**Six months ended 31 October 2022 Unaudited £'000**	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
Revenue	2	**77,467**	60,038	137,765
Cost of sales		**(53,184)**	(38,914)	(81,160)
Gross profit		**24,283**	21,124	56,605
Administrative expenses		**(22,675)**	(22,442)	(45,515)
Operating profit/(loss)	2	**1,608**	(1,318)	11,090
Operating profit/(loss) comprises:				
Adjusted operating profit	2	**5,011**	1,718	15,525
(Charge)/credit on marking forward exchange contracts to market value at the period end (included in cost of sales)		**(1,567)**	80	716
Amortisation of other intangible assets (included in administrative expenses)		**(1,836)**	(3,389)	(6,865)
Research and development expenditure credits (RDEC) (included in cost of sales)		**—**	—	1,004
Exceptional items (included in administrative expenses):				
Profit on acquisition of JSK		**—**	273	272
Adjustment to earn-out on acquisition of Chess	7	**—**	—	438
Operating profit/(loss)		**1,608**	(1,318)	11,090
Finance income		**29**	5	6
Finance costs		**(552)**	(394)	(868)
Profit/(loss) before tax		**1,085**	(1,707)	10,228
Income tax (expense)/credit	3	**(184)**	287	(1,541)
Profit/(loss) for the period		**901**	(1,420)	8,687
Attributable to:				
Equity shareholders of the parent		**1,109**	(710)	9,202
Non-controlling interests		**(208)**	(710)	(515)
		901	(1,420)	8,687

Earnings per share		**Pence**	Pence	Pence
Basic	4	**2.73**	(1.74)	22.55
Diluted	4	**2.72**	(1.74)	22.42

All profit for the period is derived from continuing operations.

Consolidated statement of comprehensive income
for the six months ended 31 October 2022

	Six months ended 31 October 2022 Unaudited £'000	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
Profit/(loss) for the period	**901**	(1,420)	8,687
Foreign currency translation differences on net assets of overseas subsidiaries, net of loans used to acquire overseas subsidiaries	**995**	(37)	(422)
Changes in retirement benefit obligations	**(690)**	—	1,002
Other comprehensive income/(expense) for the period, net of tax	**305**	(37)	580
Total comprehensive income/(expense) for the period	**1,206**	(1,457)	9,267
Attributable to:			
Equity shareholders of the parent	**1,414**	(647)	9,785
Non-controlling interests	**(208)**	(810)	(518)
	1,206	(1,457)	9,267

Consolidated statement of changes in equity
for the six months ended 31 October 2022

	Attributable to the equity shareholders of the parent								
	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 May 2021	4,104	29,956	(1,068)	923	(2,362)	47,760	79,313	5,738	85,051
Loss for the period	—	—	—	—	—	(710)	(710)	(710)	(1,420)
Other comprehensive (expense)/income for the period	—	—	—	(6)	—	69	63	(100)	(37)
Total comprehensive expense for the period	—	—	—	(6)	—	(641)	(647)	(810)	(1,457)
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Issue of new shares	10	300	—	—	—	—	310	—	310
Equity dividend	—	—	—	—	—	(3,106)	(3,106)	—	(3,106)
Vesting of Restricted Shares	—	—	—	—	—	279	279	—	279
Own shares purchased	—	—	(551)	—	—	—	(551)	—	(551)
Own shares sold	—	—	140	—	—	—	140	—	140
Net loss on selling own shares	—	—	337	—	—	(337)	—	—	—
Share-based payments (including deferred tax and foreign exchange)	—	—	—	276	—	—	276	—	276
At 31 October 2021	4,114	30,256	(1,142)	1,193	(2,362)	43,955	76,014	4,928	80,942
At 1 May 2021	4,104	29,956	(1,068)	923	(2,362)	47,760	79,313	5,738	85,051
Profit/(loss) for the year	—	—	—	—	—	9,202	9,202	(515)	8,687
Other comprehensive income/(expense) for the year	—	—	—	—	—	583	583	(3)	580
Total comprehensive income/(expense) for the year	—	—	—	—	—	9,785	9,785	(518)	9,267
Transactions with owners of the Group and non-controlling interests, recognised directly in equity:									
Issue of new shares	17	571	—	—	—	—	588	—	588
Equity dividends	—	—	—	—	—	(4,684)	(4,684)	—	(4,684)
Vesting of Restricted Shares	—	—	—	—	—	279	279	—	279
Own shares purchased	—	—	(2,923)	—	—	—	(2,923)	—	(2,923)
Own shares sold	—	—	282	—	—	—	282	—	282
Net loss on selling own shares	—	—	363	—	—	(363)	—	—	—
Share-based payments	—	—	—	572	—	—	572	—	572
Deferred tax adjustment in respect of share-based payments	—	—	—	(204)	—	—	(204)	—	(204)
Transfer of share option reserve on vesting of options	—	—	—	(291)	—	291	—	—	—
Change in option for acquiring non-controlling interest in Chess	—	—	—	—	962	—	962	—	962
At 30 April 2022	4,121	30,527	(3,346)	1,000	(1,400)	53,068	83,970	5,220	89,190
At 1 May 2022	4,121	30,527	(3,346)	1,000	(1,400)	53,068	83,970	5,220	89,190
Profit/(loss) for the period	—	—	—	—	—	1,109	1,109	(208)	901
Other comprehensive income for the period	—	—	—	—	—	305	305	—	305
Total comprehensive income/(expense) for the period	—	—	—	—	—	1,414	1,414	(208)	1,206
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Issue of new shares	16	622	—	—	—	—	638	—	638
Equity dividend	—	—	—	—	—	(3,393)	(3,393)	—	(3,393)
Vesting of Restricted Shares	—	—	—	—	—	189	189	—	189
Own shares purchased	—	—	—	—	—	—	—	—	—
Own shares sold	—	—	111	—	—	—	111	—	111
Net loss on selling own shares	—	—	198	—	—	(198)	—	—	—
Share-based payments (including deferred tax and foreign exchange)	—	—	—	312	—	—	312	—	312
Change in option for acquiring non-controlling interest in Chess	—	—	—	—	384	—	384	—	384
At 31 October 2022	**4,137**	**31,149**	**(3,037)**	**1,312**	**(1,016)**	**51,080**	**83,625**	**5,012**	**88,637**

Consolidated statement of financial position
as at 31 October 2022

	31 October 2022 Unaudited £'000	31 October 2021 Unaudited £'000	30 April 2022 Audited £'000
Assets			
Non-current assets			
Goodwill	**50,145**	50,368	50,145
Other intangible assets	**7,806**	13,117	9,641
Right of use asset	**8,804**	7,727	9,615
Property, plant, and equipment	**13,829**	11,993	12,310
Deferred tax asset	**1,364**	3,843	1,361
	81,948	87,048	83,072
Current assets			
Inventories	**22,755**	16,212	22,777
Trade and other receivables	**59,711**	54,221	56,161
Derivative financial instruments	**128**	40	793
Cash and cash equivalents	**29,030**	35,537	40,367
	111,624	106,010	120,098
Total assets	**193,572**	193,058	203,170
Liabilities			
Current liabilities			
Trade and other payables	**(45,002)**	(48,461)	(53,985)
Derivative financial instruments	**(1,711)**	(679)	(861)
Lease liabilities	**(1,264)**	(1,653)	(1,515)
Bank borrowings	**(19)**	(32)	(29,362)
Provisions	**(8,835)**	(9,625)	(8,878)
Other current liabilities	**(1,016)**	(2,800)	(1,400)
	(57,847)	(63,250)	(96,001)
Non-current liabilities			
Deferred tax liability	**(985)**	(3,776)	(1,353)
Lease liabilities	**(8,131)**	(6,549)	(8,631)
Bank borrowings	**(29,612)**	(29,427)	(8)
Provisions	**(1,294)**	(1,331)	(1,139)
Retirement benefit obligations	**(7,066)**	(7,783)	(6,848)
	(47,088)	(48,866)	(17,979)
Total liabilities	**(104,935)**	(112,116)	(113,980)
Net assets	**88,637**	80,942	89,190
Equity			
Share capital	**4,137**	4,114	4,121
Share premium account	**31,149**	30,256	30,527
Own shares	**(3,037)**	(1,142)	(3,346)
Share option reserve	**1,312**	1,193	1,000
Other reserves	**(1,016)**	(2,362)	(1,400)
Retained earnings	**51,080**	43,955	53,068
Total equity attributable to the equity shareholders of the parent	**83,625**	76,014	83,970
Non-controlling interests	**5,012**	4,928	5,220
Total equity	**88,637**	80,942	89,190

Consolidated cash flow statement
for the six months ended 31 October 2022

	Notes	**Six months ended 31 October 2022 Unaudited £'000**	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
Net cash (used in)/generated from operating activities	6	**(5,846)**	8,847	19,525
Cash flow from investing activities				
Interest received		**29**	5	6
Purchases of property, plant, and equipment		**(2,612)**	(642)	(2,005)
Acquisition of JSK (net of cash acquired)		**—**	(372)	(372)
Net cash used in investing activities		**(2,583)**	(1,009)	(2,371)
Cash flow from financing activities				
Issue of new shares		**638**	310	588
Dividends paid		**(3,393)**	(3,106)	(4,684)
Purchase of own shares		**—**	(551)	(2,923)
Sale of own shares		**111**	140	282
Repayment of borrowings		**(17)**	(34)	(50)
Repayment of lease liabilities		**(941)**	(942)	(1,916)
Net cash used in financing activities		**(3,602)**	(4,183)	(8,703)
Net (decrease)/increase in cash and cash equivalents		**(12,031)**	3,655	8,451
Represented by:				
Cash and cash equivalents brought forward		**40,367**	32,294	32,294
Net (decrease)/increase in cash and cash equivalents		**(12,031)**	3,655	8,451
Exchange gains/(losses)		**694**	(412)	(378)
Cash and cash equivalents carried forward		**29,030**	35,537	40,367

Net funds/(debt) reconciliation

	At 1 May 2022 £'000	Effect of foreign exchange rate changes £'000	Cash flow £'000	**At 31 October 2022 £'000**
Cash and cash equivalents	40,367	694	(12,031)	**29,030**
Loan	(29,332)	(278)	—	**(29,610)**
Finance leases	(38)	—	17	**(21)**
Bank borrowings	(29,370)	(278)	17	**(29,631)**
Net funds/(debt)	10,997	416	(12,014)	**(601)**

Notes to the interim report
for the six months ended 31 October 2022

1. Basis of preparation

The financial information contained within this Interim Report has been prepared applying the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in conformity with UK-adopted International Accounting Standards and expected to apply at 30 April 2023. As permitted, this Interim Report has been prepared in accordance with the AIM Rules for Companies and is not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS. This Interim Report is presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

For management and reporting purposes, the Group, for the period just ended, operated through its six trading businesses: Chess, EID, ELAC, MASS, MCL and SEA. These businesses are the basis on which the Company, Cohort plc, currently reports its primary segmental information.

The Group's first half trading is in line with historical trends for the Group where typically we see a first half of a third or less of the full year in respect of earnings.

Going concern

The Group meets its day-to-day working capital requirements through a facility which was renewed in July 2022 and runs until July 2025 with options to extend by a further two years until July 2027. The new facility is for a £35m revolving credit facility with an accordion (option) to draw another £15m. Both the current domestic economic conditions and continuing UK Government budget pressures create uncertainty, particularly over the level of demand for the Group's products and services, specifically in respect of UK defence spending (UK MOD represents 47% of the Group's 2022/23 first half revenue). The current heightened international security situation, especially the ongoing conflict in Ukraine, has increased the focus of governments, particularly in NATO, on defence capability and how this should be enhanced, including increased investment. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance for a period of at least 12 months from the date of signing this Interim Report, show that the Group should be able to operate within the level of its current facility.

The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing this Interim Report.

(A) Statutory accounts

The financial information set out above does not constitute the Group's statutory accounts for the year ended 30 April 2022. RSM UK Audit LLP has reported on these accounts; its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis, or material uncertainty, without qualifying its report and (iii) did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006. In accordance with Section 434 of the Companies Act 2006, the unaudited results do not constitute statutory financial statements of the Company. The six months results for both years are unaudited.

(B) Statement of compliance

The accounting policies applied by the Group in this Interim Report are consistent with its consolidated financial statements for the year ended 30 April 2022 and are in accordance with UK-adopted International Accounting Standards. The accounting policies have been applied consistently to all periods presented in the consolidated financial statements of this Interim Report.

Critical accounting estimates and judgements

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities. The Directors have identified the following critical judgements and estimates in applying the Group's accounting policies that have the most significant impact on the amounts recognised in this Interim Report.

Goodwill

The carrying value of goodwill is not subject to amortisation but is tested for impairment at each reporting date. This is a judgement based upon the future cash flows of its cash-generating units (trading subsidiaries), growth rates and the weighted average cost of capital applied to those future cash flows. This impairment test as at 31 October 2022 showed no impairment of the Group's goodwill.

Notes to the interim report continued
for the six months ended 31 October 2022

1. Basis of preparation continued
Critical accounting estimates and judgements continued
Other payables

On the acquisition of 81.84% of Chess (12 December 2018), the sale and purchase agreement provided for additional consideration to be paid to the shareholders of Chess in respect of an earn-out and to acquire the non-controlling interest. This figure is estimated at £1.0m as at 31 October 2022 (30 April 2022: £1.4m; 31 October 2021: £2.8m) based upon the performance of Chess for the three years ended 30 April 2021. The acquisition of the non-controlling interest in Chess was completed on 30 November 2022.

Other estimates and adjustments including revenue recognition, recoverability of trade and other receivables, provisions and taxation have not materially changed since the year end.

The Interim Report was approved by the Board on 8 December 2022 and authorised for issue on 14 December 2022.

2. Segmental analysis of revenue and adjusted operating profit

	Six months ended 31 October 2022 Unaudited £'000	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
Revenue			
Chess	**19,134**	5,925	16,905
EID	**2,029**	2,630	8,227
ELAC	**8,943**	10,692	21,518
MASS	**17,324**	19,064	38,511
MCL	**13,823**	7,913	21,745
SEA	**16,387**	13,859	30,973
Inter-segment revenue	**(173)**	(45)	(114)
	77,467	60,038	137,765
Operating profit comprises:			
Trading profit/(loss) of:			
Chess	**329**	(2,663)	314
EID	**(952)**	(489)	860
ELAC	**888**	1,515	3,770
MASS	**3,983**	3,724	9,138
MCL	**2,158**	547	2,255
SEA	**1,234**	1,228	3,385
Central costs	**(2,629)**	(2,144)	(4,197)
Adjusted operating profit	**5,011**	1,718	15,525
(Charge)/credit on marking forward exchange contracts to market value at the period end	**(1,567)**	80	716
Amortisation of intangible assets	**(1,836)**	(3,389)	(6,865)
Exceptional items	**—**	273	710
Research and development expenditure credits (RDEC)	**—**	—	1,004
Operating profit/(loss)	**1,608**	(1,318)	11,090

All revenue and adjusted operating profits are in respect of continuing operations.

The operating profit/(loss) as reported under IFRS is reconciled to the adjusted operating profit as reported above by the exclusion of marking forward exchange contracts to market value at the period end, exceptional items and the amortisation of other intangible assets.

The adjusted operating profit is presented in addition to the operating profit to provide the trading performance of the Group as derived from its constituent elements on a comparable basis from period to period.

The Group's adjusted operating profit includes the cost of share options of £310,000 for the six months ended 31 October 2022 (six months ended 31 October 2021: £276,000; year ended 30 April 2022: £572,000).

The chief operating decision maker as defined by IFRS 8 has been identified as the Board.

Notes to the interim report continued
for the six months ended 31 October 2022

2. Segmental analysis of revenue and adjusted operating profit continued
Revenue analysis by sector and type of deliverable

	Six months ended 31 October 2022 Unaudited		Six months ended 31 October 2021 Unaudited		Year ended 30 April 2022 Audited	
	£m	**%**	£m	%	£m	%
By sector						
UK MOD	**36.8**	**47**	28.7	48	64.9	47
Portuguese MOD	**0.4**	**1**	0.4	1	3.9	3
German MOD	**0.8**	**1**	—	—	4.0	3
Export defence	**29.7**	**38**	21.6	35	47.1	34
Security	**4.8**	**6**	4.1	7	6.7	5
Defence and security revenue	**72.5**	**93**	54.8	91	126.6	92
Transport	**3.7**		3.5		6.8	
Other commercial	**1.3**		1.7		4.4	
Non-defence revenue	**5.0**	**7**	5.2	9	11.2	8
Total revenue	**77.5**	**100**	60.0	100	137.8	100

The defence and security revenue is further analysed into the following:

	Six months ended 31 October 2022 Unaudited		Six months ended 31 October 2021 Unaudited		Year ended 30 April 2022 Audited	
	£m	**%**	£m	%	£m	%
By market segment						
Combat systems	**8.0**	**10**	7.8	13	19.0	14
C4ISTAR	**52.4**	**68**	30.7	51	75.0	54
Digital services	**4.9**	**6**	7.5	13	14.0	10
Training and simulation	**4.8**	**6**	5.0	8	9.6	7
Research, advice and support	**0.8**	**1**	3.0	5	7.5	6
Other	**1.6**	**2**	0.8	1	1.5	1
Total defence and security revenue	**72.5**	**93**	54.8	91	126.6	92

The Group's total revenue in terms of type of deliverable is analysed as follows:

	Six months ended 31 October 2022 Unaudited		Six months ended 31 October 2021 Unaudited		Year ended 30 April 2022 Audited	
	£m	**%**	£m	%	£m	%
Product	**57.4**	**74**	35.1	59	82.7	60
Services	**20.1**	**26**	24.9	41	55.1	40
Total revenue	**77.5**	**100**	60.0	100	137.8	100

Notes to the interim report continued
for the six months ended 31 October 2022

3. Income tax expense/(credit)

The income tax expense/(credit) comprises:

	Six months ended 31 October 2022 Unaudited £'000	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
UK corporation tax: in respect of this period	**556**	776	3,112
UK corporation tax: in respect of prior periods	**—**	—	(373)
German corporation tax: in respect of this period	**2**	370	(40)
German corporation tax: in respect of prior periods	**—**	—	82
Portugal corporation tax: in respect of this period	**(6)**	(613)	(491)
Portugal corporation tax: in respect of prior periods	**—**	—	(9)
Other foreign corporation tax: in respect of this period	**—**	—	(4)
	552	533	2,277
Deferred taxation: in respect of this period	**(368)**	(820)	(733)
Deferred taxation: in respect of prior periods	**—**	—	(3)
	(368)	(820)	(736)
	184	(287)	1,541

The income tax charge for the six months ended 31 October 2022 is based upon the anticipated charge for the full year ending 30 April 2023. As it is an estimate, the impact of research and development expenditure credits (RDEC) is not shown separately.

4. Earnings per share

The earnings per share are calculated as follows:

	Six months ended 31 October 2022 Unaudited £'000	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
Earnings			
Basic and diluted earnings/(loss) attributable to owners	**1,109**	(710)	9,202
Charge/(credit) on marking forward exchange contracts to market at the period end (net of income tax)	**1,660**	(80)	(580)
Exceptional items (net of income tax)	**—**	(273)	(710)
Group's share of amortisation of intangible assets (net of income tax)	**1,342**	2,304	4,772
Adjusted basic and diluted earnings	**4,111**	1,241	12,684

	Number	Number	Number
Weighted average number of shares			
For the purposes of basic earnings per share	**40,616,350**	40,894,983	40,813,569
Share options	**130,673**	345,522	230,101
For the purposes of diluted earnings per share	**40,747,023**	41,240,505	41,043,670

The weighted average number of ordinary shares for the six months ended 31 October 2022 excludes 602,590 ordinary shares held by the Cohort plc Employee Benefit Trust (which does not receive a dividend) for the purposes of calculating earnings per share (six months ended 31 October 2021: 172,669; year ended 30 April 2022: 663,845).

	Six months ended 31 October 2022 Unaudited Pence	Six months ended 31 October 2021 Unaudited Pence	Year ended 30 April 2022 Audited Pence
Earnings/(loss) per share			
Basic	**2.73**	(1.74)	22.55
Diluted	**2.72**	(1.74)	22.42
Adjusted earnings per share			
Basic	**10.12**	3.04	31.08
Diluted	**10.09**	3.01	30.90

Notes to the interim report continued
for the six months ended 31 October 2022

5. Dividends

	Six months ended 31 October 2022 Unaudited Pence	Six months ended 31 October 2021 Unaudited Pence	Year ended 30 April 2022 Audited Pence
Dividends per share proposed in respect of the period			
Interim	**4.25**	3.85	3.85
Final	**—**	—	8.35

The interim dividend for the six months ended 31 October 2022 is 4.25 pence (six months ended 31 October 2021: 3.85 pence) per ordinary share. This dividend will be payable on 14 February 2023 to shareholders on the register at 6 January 2023.

The final dividend paid during the year ended 30 April 2022 was 11.45 pence per ordinary share, comprising 3.85 pence of interim dividend for the six months ended 31 October 2021 and 7.60 pence of final dividend for the year ended 30 April 2021.

6. Net cash (used by)/generated from operating activities

	Six months ended 31 October 2022 Unaudited £'000	Six months ended 31 October 2021 Unaudited £'000	Year ended 30 April 2022 Audited £'000
Profit/(loss) for the period	**901**	(1,420)	8,687
Adjustments for:			
Tax expense/(credit)	**184**	(287)	1,541
Depreciation of property, plant and equipment	**1,171**	1,095	2,209
Depreciation of right of use assets	**898**	807	1,684
Amortisation of intangible assets	**1,836**	3,389	6,865
Net finance expense	**523**	389	862
Share-based payment	**310**	276	572
Derivative financial instruments and other non-trading exchange movements	**1,567**	(80)	(716)
Increase in provisions	**278**	698	102
Operating cash flow before movements in working capital	**7,668**	4,867	21,806
Decrease/(increase) in inventories	**223**	(3,320)	(9,885)
(Increase)/decrease in receivables	**(4,090)**	13,206	10,530
(Decrease)/increase in payables	**(8,726)**	(5,605)	22
	(12,593)	4,281	667
Cash (used by)/generated from operations	**(4,925)**	9,148	22,473
Income taxes (paid)/received	**(500)**	93	(2,081)
Interest paid	**(421)**	(394)	(867)
Net cash (used by)/generated from operating activities	**(5,846)**	8,847	19,525

Notes to the interim report continued
for the six months ended 31 October 2022

7. Acquisition of Chess Technologies Limited (Chess)

As announced on 12 December 2018, Cohort plc acquired 81.84% of Chess for an initial cash consideration of just over £20.0m. The Group has recognised 100% of Chess's results and net assets from that date as it has effective control.

Under the sale and purchase agreement, up to a further £12.7m is payable to the shareholders of Chess as an earn-out based upon its trading performance over the three years ended 30 April 2021. Based upon the actual performance to 30 April 2021 this earn-out estimate is £nil as at 31 October 2022 (30 April 2022: £nil; 31 October 2021: £438,000).

The sale and purchase agreement for the acquisition of Chess includes a put and call option for the purchase of the remaining shares (18.16%) in Chess, the non-controlling interest.

This option is capped at £9.1m. The amount payable is dependent upon the performance of the Chess business for the three years ended 30 April 2021.

The non-controlling interest was entitled to participate in any dividends payable by Chess in the period to 30 April 2021.

In accordance with IFRS 3, the Group has ascribed a value to the option to acquire the non-controlling interest of Chess. At 31 October 2022, this value is £1,016,000 (30 April 2022: £1,400,000; 31 October 2021: £2,362,000) and the option is shown as a current liability and, as the non-controlling interest has a right to dividends, in the other reserves as "option for acquiring non-controlling interest in Chess".

The Group has applied the present-access method to the acquisition of Chess and thus the non-controlling interest is deemed not to be part of the acquisition transaction and the liability arising from the option is not included in the consideration transferred but is accounted for separately.

The option for the purchase of the minority shares in Chess was completed on 30 November 2022.

Independent review report to Cohort plc

Conclusion

We have been engaged by Cohort plc (the "Company") to review the condensed set of financial statements of the Company and its subsidiaries (the "Group") in the interim financial report for the six months ended 31 October 2022 which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of financial position, Consolidated cash flow statement and accompanying notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent material misstatements of fact or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 October 2022 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of UK-adopted International Accounting Standards and the AIM Rules for Companies.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ('ISRE (UK) 2410') issued for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK-adopted International Accounting Standards. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the presentation, recognition and measurement criteria of UK-adopted International Accounting Standards.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the Group and the Company to cease to continue as a going concern.

Responsibilities of Directors

The interim financial report is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim financial report in accordance with the presentation, recognition and measurement criteria of UK-adopted International Accounting Standards and the AIM Rules for Companies.

In preparing the interim financial report, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Independent review report to Cohort plc continued

Auditor's responsibilities for the review of the financial information

In reviewing the interim financial report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the interim financial report. Our conclusion, including our Conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

RSM UK Audit LLP
Chartered Accountants
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
MK9 1BP
14 December 2022

Shareholder information, financial calendar and advisers

Advisers

Nominated adviser and broker

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Auditor

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30 Gresham Street
London EC2V 7PG

Shareholders' enquiries

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the registrars), you should contact the Company Secretary by letter to the Company's registered office or by email to info@cohortplc.com.

Share register

Equiniti maintains the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact:

Equiniti

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Telephone: 0371 384 2030 (calls are charged at the standard geographic rate and will vary by provider). From outside the UK: +44 371 384 2030 (calls are charged at the applicable international rate). Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. Please quote your 11-digit shareholder reference number when calling us; this can be found on your share certificate, share statement, recent dividend information or correspondence.

For more information visit: shareview.co.uk.

Daily share price listings

- The Financial Times – AIM, Aerospace and Defence
- The Times – Engineering
- The Daily Telegraph – AIM section
- London Evening Standard – AIM section

Shareholder information, financial calendar and advisers continued

Financial calendar

Annual General Meeting

26 September 2023

Final dividend payable

3 October 2023

Expected announcements of results for the year ending 30 April 2023

Preliminary full year announcement

July 2023

Half year announcement

December 2023

Registered office

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Reading RG7 4SW

Registered company number of Cohort plc

05684823

Cohort plc is a company registered in England and Wales.

Notes

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Cohort plc's commitment to environmental issues is reflected in this Interim Report, which has been printed on Symbol Freelife Satin, an FSC® certified material. This document was printed by Park Communications using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

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designportfolio

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