Chairman's statement

Strong order cover for the coming year

Nick Prest CBE
Chairman

"Performance in line with revised expectations, robust cash, and a record closing order book with strong cover for the coming financial year."

Performance

The Group's trading performance was in line with our revised expectations at the time we announced our half year results on 14 December 2021, achieving an adjusted operating profit of £15.5m (2021: £18.6m) on revenue of £137.8m (2021: £143.3m). The reduction in performance compared to last year was primarily the result of a disappointing performance at Chess, along with an expected drop in profit from EID. MASS, MCL and SEA all posted increases in profit, and we benefited from a full year contribution from ELAC Sonar.

The Group had another strong year of order intake, winning £186.4m (2021: £180.3m) of orders, driving us to a record closing order book of £291.0m (2021: £242.4m). This order book gives us a strong start to 2022/23. The Group's net funds also finished at a higher level than we expected at the start of the year, £11.0m compared with £2.5m in 2021.

Following strong order intake in 2020/21, SEA had an improved year, driven by export deliveries, including a first contract with the Royal New Zealand Navy. MCL delivered another year of growth and, importantly, ended the year with an unusually strong order book, providing good underpinning for 2022/23. MASS, despite slightly lower revenue and continued challenges in its EWOS and Training divisions from COVID-19 restrictions, delivered an improved net margin, with better mix and flat overhead. ELAC, having secured a large Italian sonar order early in the year, delivered a better than expected result. In line with our expectations, EID's performance was much weaker, having benefited from a large export delivery in 2020/21 that was not repeated this year. Chess's performance was disappointing. Order intake was lower than expected, as were customer deliveries, and a small number of problem contracts had a negative impact on margin. We have made progress in resolving these problems, and we saw an uptick in performance at Chess towards the end of the year.

We continued to see some negative impact from COVID-19 in the first half of our financial year, particularly at MASS. This started to alleviate in the second half and at the same time, as some normality returned to our business activities, we saw a return to more face-to-face business engagement, especially trade shows and exhibitions across the world. Despite two years of challenging business conditions the Group won over £365m of orders during that period. Our order book now stretches out to 2030 and we expect to extend that further in the coming year.

The Group's operating profit of £11.1m (2021: £7.8m) is stated after recognising amortisation of intangible assets of £6.9m (2021: £10.1m), exceptional income of £0.7m (2021: £1.3m charge) and research and development expenditure credits of £1.0m (2021: £1.0m). Profit before tax was £10.2m (2021: £7.1m) and profit after tax was £8.7m (2021: £5.5m).

The closing net funds of £11.0m (2021: £2.5m) was better than our expectation, due to an improved operating cash flow, particularly at ELAC, MASS, and SEA. The cash flow also benefited from slippage of some items of capital expenditure and the final Chess acquisition payment into 2022/23.

International conflict

The Russian invasion of Ukraine has had a notable impact on public and government perceptions worldwide of the importance of an effective defence capability. Media reporting has reflected a sense of shock that a nascent European democracy can be the target of state-on-state violence of an intensity not seen on the continent since 1945. Many have had to re-learn that the stability of democracy and maintenance of our freedoms and values requires strong defence to deter, and if necessary, repel an aggressive invader. It is also clearer than ever that strong defence means a strong defence industry as well as capable armed forces. That is something that Cohort's leadership and employees understand well, and for many of us it is a large part of our motivation at work. We therefore believe that an activity that generates social value as well as business success such as the UK's defence sector, is worthy of investor consideration.

Our customers' response to the situation in Ukraine had some positive business impact in 2021/22 and we expect this to increase in 2022/23. There is also the potential for a negative effect as increased operational readiness makes it harder for us to provide maintenance services, upgrades and training. On balance, we believe that the long-term change in defence stance that has been catalysed by these events, especially among NATO countries, will be of benefit to the Group.

Strategic initiatives

Cohort's subsidiary, SEA, acquired the remaining 50% of its joint venture JSK in August 2021 for a net consideration of £0.4m. JSK is based in Montreal, Canada and provides SEA, and the Group, with a local presence to provide the Royal Canadian Navy with ongoing support to existing and new naval platforms. The latter include the new Canadian frigate programme for which SEA is providing certain important systems.

Chairman’s statement continued

Strategic initiatives continued

When we acquired Chess in December 2018, we agreed to pay further consideration depending on the performance of the business over the three years ended 30 April 2021. Our current best estimate is that the additional consideration payable, including earn-out, to take control of the whole of Chess in 2022 will now be £1.4m (2021: £2.8m), and we expect to pay this on or before 31 October 2022.

The Group continues to review acquisition opportunities as they arise, in line with our criteria.

Shareholder returns

Adjusted earnings per share (EPS) were 31.08 pence (2021: 33.63 pence). The adjusted EPS figure was based on profit after tax, excluding amortisation of other intangible assets, net foreign exchange movements and exceptional items. Basic EPS were 22.55 pence (2021: 13.38 pence). The adjusted EPS were 8% lower primarily due to the weaker adjusted operating profit (down 17%), partly offset by a lower tax charge of 13.5% (2021: 17.4%) and a change in mix from which the Group’s profits were derived, with the 100% owned businesses (ELAC and MCL) performing most strongly.

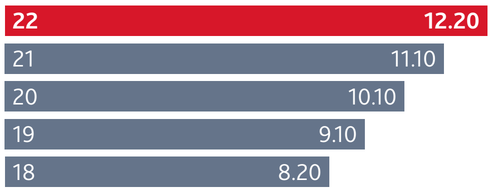
The Board is recommending a final dividend of 8.35 pence per ordinary share (2021: 7.60 pence), making a total dividend of 12.20 pence per ordinary share (2021: 11.10 pence) for the year, a 10% increase. The dividend has been increased every year since the Group’s IPO in 2006. It will be payable on 4 October 2022 to shareholders on the register at 26 August 2022, subject to approval at the Annual General Meeting on 27 September 2022.

Over the medium term, the Group plans to maintain a policy of growing its dividend each year broadly consistent with the growth in adjusted earnings per share growth.

DIVIDEND (PENCE PER ORDINARY SHARE)

12.20p

+10%



Our people

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

As already highlighted, the direct impact of COVID-19 has diminished over the year, and we have in most instances returned to normal work and travel practices. Where appropriate we continue to offer flexibility to our employees as to their location of work, including hybrid working in some cases. As of June 2022, 75% of our employees are mostly based on our or our customers’ sites which compares with 50% at this time last year.

We have seen a return to face-to-face customer meetings and in the last few months alone we have attended trade shows in Australia, Europe, Asia and the United States. We could not easily assess the direct impact of the various COVID-19 lock-downs on our long-term business prospects but the strong order intake in the last two years suggests this may not be as deep as we first feared. Andy Thomis, Simon Walther and their senior executive colleagues have continued their dedicated and skillful work which has helped the Group to progress in the face of continuing challenging conditions.

Governance and Board

As separately announced, Stanley Carter has decided not to stand for re-election as a Non-executive Director at Cohort’s forthcoming Annual General Meeting to be held in September 2022. Stanley has made an immense contribution to the development and success of Cohort since co-founding it with me in 2006, initially as Chief Executive, then as Co-Chairman and since 2015 as a Non-executive Director. The Board and all Cohort staff are grateful to him for his leadership and support during different phases of the Company’s development, and we look forward to continuing the relationship with him as a major shareholder.

We formally welcomed Beatrice Nicholas onto the Board as a Non-executive Director on 1 September 2021. Beatrice has had a long and successful career in the defence industry and brings a wealth of experience in engineering, project management and general management to Cohort.

I also take this opportunity to welcome David Tuddenham as the new Managing Director of Chess. David had worked for Chess for over ten years in senior positions before stepping up to this role in June 2021. David replaces Graham Beall who will lead Chess’s business development in the USA. At ELAC, we have adjusted the senior roles, with Bernd Szukay appointed Managing Director and Ole Schneider as Finance Director.

Outlook

The new year has started in line with our expectations and with an encouraging outlook for Cohort, despite the challenging external environment.

Geo-political and macro-economic trends

The recent sad events in Ukraine have impacted on a world economy still recovering from the COVID pandemic. The invasion has seen a higher level of focus amongst governments, particularly European NATO members, on their defence stance. In some instances, notably the UK and Germany, this has already led to an increase in defence spending.

It is hard to predict the duration of the conflict in Ukraine and its direct impact upon the Group’s trading. In the longer term, after the taboo over armed invasion of peaceful neighbours has so clearly been broken, we expect to see a more sustained growth in defence budgets, both in NATO but also in other parts of the world where security threats remain.

To set against this, we expect to see economic fallout from the war in Ukraine as well as the lingering impacts of COVID-19. These include higher inflation and rising interest rates and therefore pressure on governments to mitigate these effects on their populations.

The Group is not currently facing any direct restrictions on business activity arising from COVID-19, though we cannot rule out some re-introduction of restrictions if a new variant should cause severe health problems. We still face indirect fall out in the form of cost increases and delays to supplies. These are not currently having any significant impact on performance, but we are seeing delivery schedules for certain components lengthen markedly and may see some impacts in the short term.

Encouraging outlook for Cohort

Our order intake for the year was strong and as a result of this success, the Group has entered the new financial year with a record order book of £291.0m. As we have indicated in the last few years, our order book is not only growing in value, but its longevity continues to increase. We now have orders across the Group stretching out to 2030. We have good prospects in the coming year to secure further long-term orders for our naval systems and support work, including from the UK MOD, Portugal and in export markets.

The order book underpins nearly £128m (2021: £100m) of current financial year revenue, representing 78% of expected consensus revenue for the year. Following order wins since the start of the financial year of just over £20m, that cover now stands at 90%.

Overall, we continue to expect that our trading performance for 2022/23 will be ahead of that achieved for the year ended 30 April 2022. As a result of planned capital expenditure and expansion in working capital we expect that our net cash balance will decrease, but that we will maintain positive net funds at the year end.

We are optimistic that the Group will make further progress in 2023/24, based on current orders for long-term delivery and on our pipeline of opportunities.

Nick Prest CBE
Chairman