

Cohort chief executive Andrew Thomis talks to Claire Apthorp about the evolving role of SMEs in the UK defence industry, and his priorities as he looks to grow the group's reach over the coming 12 months and beyond.

NO DOUBTING FROM THOMIS

With new contracts signed to support MoD weapons systems, the EU counter-piracy mission, and electronic warfare (EW) operations, Cohort's subsidiaries are a shining example of the value that small and medium-sized enterprises (SMEs) add to the UK defence supply chain.

The importance of SMEs to the UK cannot be overstated. These organisations make up a significant portion of the country's defence and security industry base, with at least 7,000 working as direct suppliers to the MoD in 2013/14, and many more actively participating in the supply chain.

Indeed, these companies bring a level of innovation, flexibility and agility so highly valued by the MoD that, under its SME action plan, the government is working to increase the amount of public procurement expenditure placed with them to 25% by the end of 2015.

However, being an SME in the UK's defence supply chain is not always plain sailing. There are a number of challenges facing companies at this level that can hamper their ability to access available opportunities. These include difficulty in engaging with MoD procurement processes, difficulty obtaining financing that can enable them to survive lengthy concept-to-programme procedures, and insufficient resources to sustain programme changes when customer priorities or requirements shift.

As the chief executive of Cohort, Andrew Thomis is more acutely aware than many of the value that SMEs can add when they are properly supported through a framework that allows them to prosper by being part of a larger group.

Cohort's model is based around the concept that, by allowing smaller businesses to benefit from the financial oversight, management support, wider market access and shared knowledge of a parent company, innovation, agility, and responsiveness

can flourish while high-growth potential is preserved.

"The basis of our business model is that we are innovative and agile, so we are able to make decisions quickly and provide what our customers need," said Thomis. "And we combine that with the larger company advantages of depth, resource, strong balance sheet and stability."

Cohort's operating subsidiaries include MASS, SEA, SCS and Marlborough Communications (MCL). The companies provide a range of technology-based systems and services primarily to defence and security customers.

MASS works in the area of EW operational support, carrying out the programming of systems and the provision of the UK's national EW database, while also working in secure networks and cyber.



SEA is strongly focused on maritime defence – weapons system support and communications, as well as providing training systems, simulation software and defence research.

SCS works in defence technology services, operating with customers in the UK, the EU and NATO; while Marlborough's strengths lie in EW, surveillance and communications.

Although operating as part of a larger group, the companies retain a significant amount of autonomy, allowing them to make business decisions by-and-large with only the lightest of guidance from HQ, while still acting within a proper governance framework for a public business (Cohort was floated in 2006).

Thomis has been at the helm of Cohort since 2009, although his work with the company reaches back to its origins in 2005, when he and Cohort chairman and chief executive, Nick Prest, left armoured vehicle manufacturer Alvis, following its acquisition by BAE Systems.

Thomis' time at Alvis, which encompassed the company's transformation into a major world player through the acquisition of Swedish armoured vehicle manufacturer Hägglunds, GKN's armoured vehicles business (including the Warrior vehicle), and Vickers Defence Systems (including Challenger II), offered a learning experience that has since informed the development of Cohort's business operating model of organic growth complemented by strategic acquisitions.

Cohort's current position in the UK defence industry is unique. With its October 2014 order book standing at £146.6 million, as a group it is much larger than the typical £5-£50 million SME making up the UK's supply chain, but some four to five times smaller than the next largest player in the defence sector, Chemring.

Its largest customers in the UK are the MoD and BAE Systems, with others including Babcock, Thales, QinetiQ, CGI and Ultra.

Cohort's offerings are centred on providing platform systems and the critical services the MoD needs to operate those platforms. Recent notable successes include a contract for SEA to provide the external communications system (ECS) for the Royal Navy's submarine fleet, and export wins for MASS in the EW operational support sector.

Over the course of the last 12 months the company has undergone significant change, divesting itself of SEA's space division as it looks to align itself with arising opportunities, while also continuing to grow, adding two important acquisitions in the form of J+S becoming part of SEA, and MCL coming on board as the newest member of the group.

"Acquisition is a core part of our strategy for growth and these two latest ones are good examples of the types of companies we are interested in," Thomis said.

"J+S is a perfect fit for SEA, bringing with it new export customers for its

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torpedo launch system (being provided to Malaysia and Thailand), support expertise through its work with a large number of Royal Navy projects, great technology in the form of its low-profile array sonar, and a strong manufacturing capability that SEA is going to need to fulfil its ECS contract.”

This £23 million contract, awarded by BAE Systems in October 2014, will see SEA provide the ECS for the whole of the Royal Navy’s submarine fleet, extending its previously awarded contract supplying ECS for five Astute Class submarines. And, with the current thinking that the communications system for the Vanguard Successor will emerge from spiral development of equipment going on to the Vanguard and Astute platforms, there is potential for the company’s work to expand significantly.

Similarly, the addition of MCL will enhance the group’s offerings in EW, communications and surveillance technology, as well as local engineering support, in-house software and electronic hardware design, and development and testing capabilities. The company’s business model is built around buying off-the-shelf equipment from international suppliers and integrating it into a comprehensive offering.

“MCL’s business strategy is brilliantly tuned to the modern demands of the MoD, meeting requirements effectively off-the-shelf and adding value through service provision,” Thomis said. “In a world where there is so much investment going into the civil market, being able to make use of that rather than trying to create everything from scratch to meet a defence requirement is definitely the model of the future.”

The ability to adapt off-the-shelf technologies for military use is something Thomis sees as increasingly relevant for defence in areas such as communications, EW, and surveillance, where technologies originating from other sectors have a logical application.

“There’s still a strong demand for specialist defence equipment but in some areas there is good cross-over,” he said. “For example, when you look at the investment that has gone into the civil communications sector, you have to be able to make use of that for other applications.”



As it looks toward the future, Cohort is working to position itself to meet the requirements of the MoD in the post-Afghanistan era of military spending, which is likely to be characterised by a shift in acquisition policy and procedure.

“Even though public expenditure is under pressure, I certainly expect that the UK will want to continue to be a major global strategic player and not retreat into its shell,” Thomis said. “In support of that there are a number of potential growth areas that will help maintain strong armed forces and a strong defence industry.

“A significant prospect is in the areas of submarines, which are a huge part of the UK’s capability and one that really separates us from other nations. It is already a large part of what we

do and providing that capability to friendly nations would be a potential area of growth for us.”

At the same time, integration of command, control, communications, and computers plus intelligence, surveillance, and reconnaissance (C4ISR) and unmanned technologies are likely to offer great opportunities as British forces look to do more with less.

“Inevitably, we are going to have fewer fighting platforms and the cost of each will get higher, so the value of C4ISR as a supplementary investment – a force multiplier for that smaller number of platforms – will become clearer and clearer,” Thomis said. “At the same time, the time and financial investment required to train personnel makes it inevitable that, as technology improves, unmanned systems will become more and more common as the armed forces employ fewer people – that’s a certainty and investment in those areas is going to be very important.”

The coming 12 months and beyond will see Cohort’s businesses looking to target a number of specific opportunities. MCL is currently competing to provide the solution for the tactical hearing protection system for the dismounted close combat user (THPS DCCU) requirement.

This acquisition is intended to overcome challenges experienced by soldiers in Afghanistan by providing hearing protection while retaining full situational awareness. MCL is offering a system based on technology used successfully by an increasing number of armed forces worldwide, including the US Army.



Another strong prospect lies in the Royal Navy’s Type 23 Frigate as it approaches upgrade and overhaul. The company will be offering the technology it developed for the submarine communications system – enhanced for surface fleet application to include different communication methods and requirements – giving the MoD the opportunity to benefit from enhanced fleet commonality.

Other priorities include completing on delivery of ‘project shepherd’, which sees MASS work as part of Team Excalibur on the MoD’s UK Defence EW database; while SCS has recently won an extension to its work providing training support for the MoD’s Joint Forces Command at the Permanent Joint Headquarters at Northwood.

Export is also an important part of Cohort’s growth strategy, with a number of key markets – namely Asia and the Gulf region – offering a good match for its companies’ expertise.

“We already provide EW operational support services and software to a number of customers in the Arabian Gulf and South East Asia,” Thomis said. “Asia is facing a very challenging security situation with China becoming more aggressive in its territorial claims; we can help friendly countries through our national defence policy, and by allowing them to use the UK’s strong industrial base to equip themselves to deal with that situation – demand from that region is certainly growing.

“At the same time, the situation in the Gulf continues to be very tense for obvious reasons, and there are strong requirements for the type of equipment and services we can provide.”

Defence export in general is one area where Thomis sees the synergistic relationship between SMEs and large prime players working to great effect.

“Primes like BAE Systems are focused on the super system platform level – they don’t want to be in submarine communications but they do want to be in submarines, so they need companies like us and that works well,” he said.

“The same goes for Typhoon: they are focused on the platform and we add value in EW operational support services making the offering more attractive – the customer sees that they not only get the platform but also the ability to manage the EW in a way that they, perhaps, cannot with other suppliers.

“So it works both ways, we enhance the prime’s offering while, at the same time, gaining the benefit of their huge investment and overseas marketing.”



However, at the government level, Thomis believes there is room to shift the focus on to a wider spectrum of export opportunities than those offered by large platform acquisition programmes.

“It’s very focused on the big wins, such as Typhoon, and rightly so because those have a huge impact on the industry. But, there are some areas where we simply have not been successful in exporting platforms, either because the decision has been taken not to sell that equipment, as with submarines, or simply because it didn’t end up happening, as with Type 26 [Frigate].

“So, what is needed is not solely an emphasis on selling major platforms, but also on selling the systems that go into those platforms, and that means engaging not only with international customers but also international primes – for example getting our equipment into the supply chains of the French, German and Swedish companies that dominate submarine exports. It would be helpful to have more support from government for smaller businesses to do that sort of thing.”

Overall, Thomis is confident that Cohort will continue to generate value for its customers and shareholders as it looks to seize on opportunities and reinforce its position in key export markets.

“It’s an interesting time and place for the UK defence industry and there is a lot of healthy innovation going on at the SME level,” he said.

“As a group, we remain very much on the acquisition trail and I do see opportunities to bring more small and medium sized technology business under the Cohort wing because it’s good for them and for us – we can take them to the next level of their development without forcing them into a corporate straightjacket, allowing them to continue doing the same things that have made them successful so far.” ■