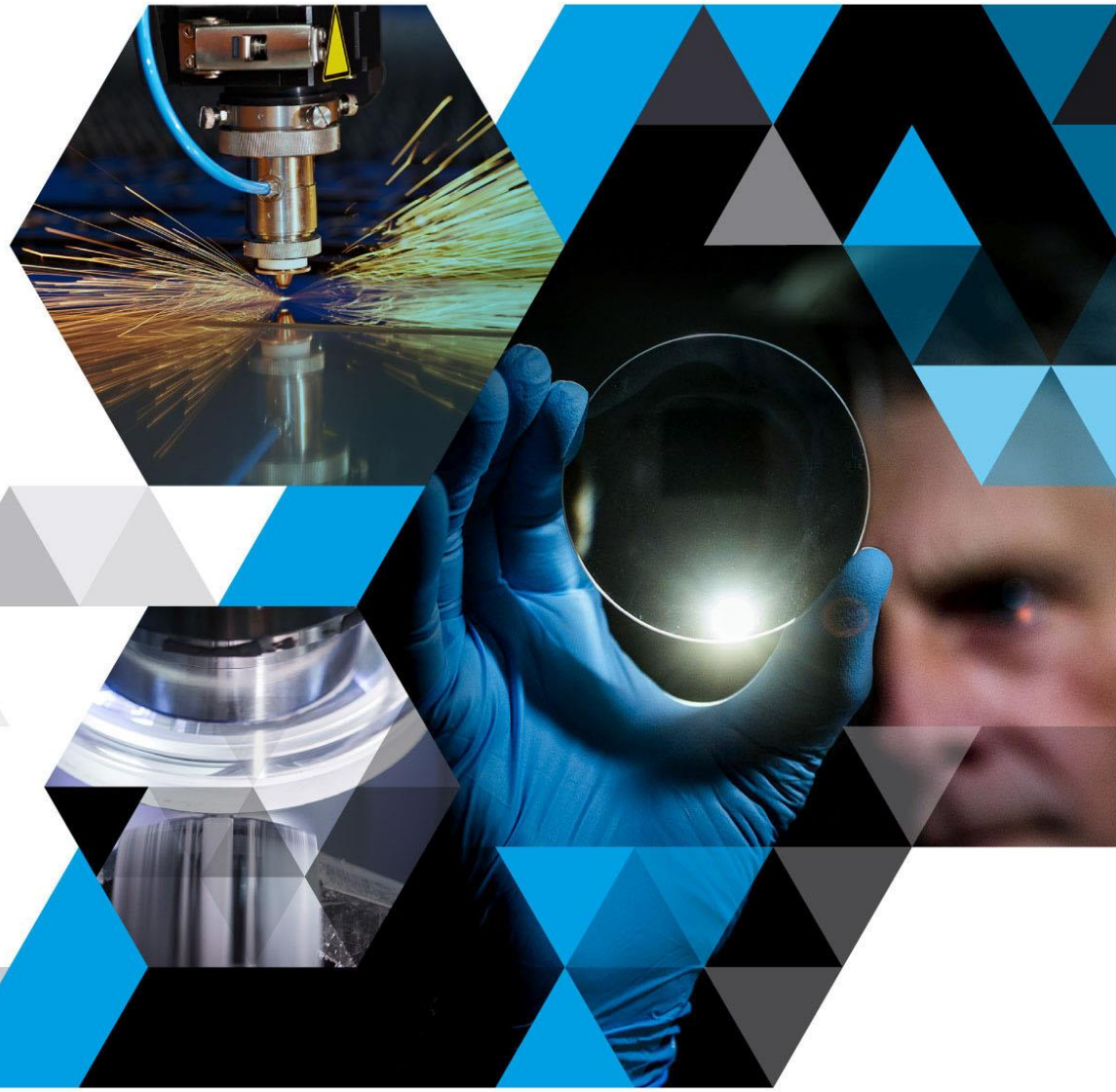
Interim results – half year ended 31 March 2021



CEO Mark Webster/CFO Chris Jewell

KEY HIGHLIGHTS - SUSTAINED RECOVERY, PROFITABLE GROWTH

- Revenue growth of 1.8% compared with the same period last year, or 4.9% at constant currency.
- Sustained recovery in industrial laser markets, building on previously reported semiconductor growth.
- Demand for hi-reliability fibre couplers and A&D remains robust with the exception of our limited number of commercial aerospace customers. Life sciences has demonstrated strong growth, both medical diagnostics and recovery of medical lasers for elective surgery.
- Pandemic issues, such as self-isolating and travel restrictions, presented delivery hurdles. We expect these to ease with the vaccine roll out in UK and USA.
- Restructuring programmes are on track to deliver previously announced full year profit benefit (£1.75m) in FY2022.
- Order book of £92.8m as at 31 March 2021, an increase of 1.3% compared with same time last year, or 7.9% at constant currency.
- Adjusted profit before tax of £4.9m (H1 2020: £2.7m) as a result of volume growth and Group's site consolidation programmes.
- Interim dividend reinstated at 4.5p per share reflecting improved trading and positive outlook.
- Outlook for full year remains unchanged, despite the currency headwinds.
- There is substantial long term growth potential for our photonic technologies and system capabilities in all our target sectors.

"Trading in the first half of the financial year reflected generally improving end markets, in particular industrial lasers. We intend to vigorously pursue our strategic objectives through internal investment in our target sectors and where appropriate, acquisitions ."
Mark Webster, CEO

FINANCIAL HEADLINES – SUMMARY INCOME STATEMENT

Period Ended 31 March	2021 £m	2020 £m	Change
Revenue	**58.5**	**57.5**	1.8%
Gross profit	**18.9**	**16.5**	14.3%
Adjusted operating profit	**5.4**	**3.4**	57.1%
Adjusted operating profit %	**9.2%**	**6.0%**	320 bps
Adjusted profit before tax	**4.9**	**2.7**	83.7%
Adjusted basic earnings per share (p.p.s)	**15.7p**	**8.2p**	91.5%

"The recovery in our industrial laser markets, the continuing strong performance of our Life Sciences business and the benefits of our cost reductions programmes all contributed to improved profit margins in the period."
Chris Jewell, CFO

- Revenue growth of 1.8% yoy or 4.9% at constant currency.
- Sustained recovery in industrial lasers and semiconductors. Strong life science growth. Partially offset by lower commercial aerospace demand and phasing of some contracts in A&D and sensing.
- Gross margin increased to 32.3%, from 28.8% in the prior year, due to higher volumes and the benefits of the cost reduction programmes, including site consolidation.
- Adjusted operating profit margin grew to 9.2%, from 6.0% in the prior year.
- R&D of £3.9m (H1 2020: £3.8m). This represented 6.7% of revenue.
- Adjusted effective tax rate was 19.6% (H1 2020: 23.4%).
- Non underlying items - £4.2m of which £2.3m was cash.

G&H

FINANCIAL HEADLINES - CASHFLOW

Period Ended 31 March	2021 £m	2020 £m
Net cash flow from operating activities	**9.2**	**7.5**
Cash flow from investing activities		
Acquisition of subsidiary	(3.3)	(4.8)
Purchase of property, plant and equipment & intangibles	(3.9)	(3.5)
Cash flow from financing activities		
Debt repayments	(5.5)	(0.2)
Interest paid	(0.5)	(0.6)
Dividends paid	-	(1.8)
Net decrease in cash and cash equivalents	**(4.0)**	**(3.4)**
Exchange losses	(0.5)	(0.1)
Cash	**15.3**	**14.0**
Net Debt (excl. IFRS 16)	**4.7**	**18.5**
Net Debt (incl. IFRS 16)	**12.1**	**28.0**

- £3.4m reduction in working capital since September 2020, contributing to £9.2m from operating activities.
- Final instalment of the ITL acquisition earn-out of £3.25m paid, representing the maximum potential.
- Net debt (excluding the impact of IFRS 16 – Leases) of £4.7m
- Drawings on our US $ denominated facility reduced by $6.4m in the period.
- Leverage for bank reporting – 0.3x net debt/ EBITDA

INDUSTRIAL

Financials (45% of revenue)

	HY21	HY20	Reported growth
Revenue	£26.6m	£26.5m	0.1%
Adjusted operating profit	£2.9m	£0.6m	435.2%
% margin	11.1%	2.1%	900bp

- Overall revenues to our Industrial markets grew by 3.6%, compared to H1 2020, on a constant currency basis.
- Industrial lasers recovered strongly in the first half. The roll out of new technologies such as 5G, along with greater use of new stronger, more flexible materials in microelectronic manufacturing has fuelled demand. Semiconductor subsector has demonstrated further growth.
- Sensing modules fell below H1 2020 levels due to end customer programme phasing. Pipeline for this subsector remains good.
- Telecom sector fell marginally compared to H1 2020, due to disruption from the US/ China trade dispute. Order book remains robust.
- Profit margins recovered strongly thanks to the industrial laser volume growth, related improvement in overhead recovery and structural cost reduction measures.

Industrial Lasers	Optical Comms	Metrology	Remote Sensing	Semi-conductor	Scientific Research

AEROSPACE & DEFENCE

Financials (32% of revenue)

	HY21	HY20	Reported growth
Revenue	£18.4m	£18.7m	(1.2)%
Adjusted operating profit	£0.2m	£0.3m	(33.7%)
% margin	1.0%	1.6%	(60bp)

- Revenue growth of 2.6% compared to H1 2020, on a constant currency basis.
- US order book remains strong and UK Precision Optics hub secured new A&D business. Our Boston facility transitioned two significant programmes from the development to volume production phase. This facility is now capable of accepting high level US military contracts.
- Offset by order book phasing issues on some UAV and armoured vehicle programmes and a drop in volume for our commercial aerospace business.
- Second half performance in UAVs and armoured vehicles is expected to show good improvement. No recovery is expected in commercial aerospace until FY2023 and planned adjustments to our Moorpark, CA facility's cost base reflect this assessment.
- Second half profitability expected.
- A&D remains an area of significant long term potential growth for G&H.

Target Designation & Range Finding	Guidance & Navigation	Counter-measures	Space Photonics	Periscopes & Sighting Systems	Opto-mechanical sub systems

G&H

LIFE SCIENCES/BIOPHOTONICS

Financials (23% of revenue)

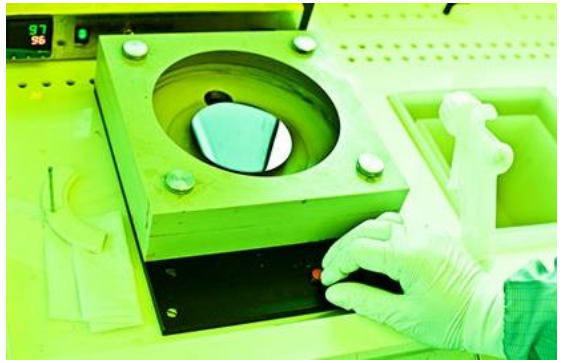
	HY21	HY20	Reported growth
Revenue	£13.5m	£12.2m	9.9%
Adjusted operating profit	£2.5m	£2.4m	4.3%
% margin	18.9%	19.9%	(100)bp

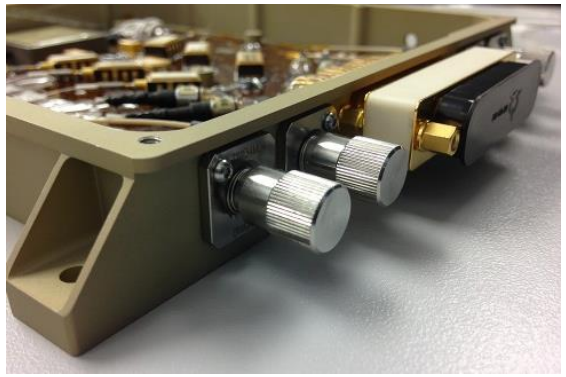
- Revenue grew 11.3% compared to H1 2020, on a constant currency basis.
- Medical diagnostic demand remained at a high level. In particular a product designed to improve respiratory function as part of a ventilator system.
- Medical lasers have started to show strong recovery from the pandemic induced reduction in global elective surgery. Our OCT critical components and systems have also shown good recovery. These two subsectors were up 12% compared to same period previous year, on a constant currency basis.
- Margins remain strong.
- We see further opportunity for our photonic and fibre optic technologies in new areas such as robotic surgery, minimally invasive surgery and OCT related endoscopy and will continue to disproportionately invest in this sector.

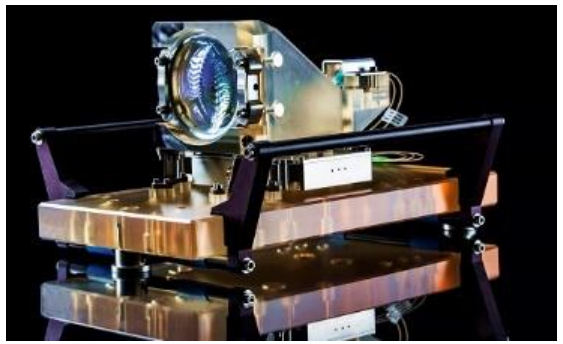
Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

OPERATIONS - STREAMLINING

- Fremont is becoming our global design authority and lead for the Group's AO technological roadmap.
- Outsourcing of manufacturing of a large proportion of the AO product from our ILM facility to a contract manufacturer in Asia is well advanced.
- Ilminster established as UK hub for Precision Optic (PO) capabilities: Glenrothes site closed.
- Production is being transferred from our St Asaph facility to Ilminster. An optical systems engineering and design facility has been established in St. Asaph to house our world leading optical systems engineers, who will continue to develop a pipeline of innovative new products.
- Production from our Baltimore facility is being transferred to our Boston and Torquay facilities and the site will close.
- All these programmes are expected to be substantially complete by the financial year end despite the impact of the pandemic.
- The total cost of the three projects is expected to be circa £7.5m. Full year savings of £1.75m per annum expected to be delivered for FY2022.
- Going forward we will continue to review further improvements to the manufacturing base.







STRATEGY – remains diversification and moving up the value chain

Diversify

- Aim to establish ‘critical mass’ in Life Sciences and further strengthen our position in A&D, through investment in R&D and strategic acquisitions. A&D represents 32% of H1 FY2021 revenue and Life Sciences 23%.
- Trends in both markets support the increased use of photonics to solve complex problems

Target subsectors include:

- Precision lasers and laser systems
- Optical sensing in harsh environments
- Space satellite communications
- Opto-mechanical systems for UAVs and armoured vehicles
- Laser surgery
- OCT medical diagnostics
- Laser Microscopy
- Medical diagnostic systems

Move up the value chain

- New investments in UK Precision Optics (PO) centre and our PO Engineering and Design hub in St Asaph allow us to tender for more complex PO systems.
- Revenues from Systems and Sub Systems represented approx. 30% of Group revenues in H1 2021.

KEY MESSAGES AND OUTLOOK

- Trading in the first half of the financial year reflected generally improving end markets, particularly industrial and medical lasers.
- Despite the pandemic the Group's restructuring programmes are on track to be substantially complete by financial year end and deliver full year profit benefit from FY 2022.
- R&D investment in H1 FY2021 of £3.9 million (H1 FY2020: £3.8 million). Record new product revenues in H1 FY2021 of £8.9 million (H1 FY2020: £7.6 million).
- Strong profit growth reflecting volume growth and site consolidation.
- Robust financial position.
- Outlook for the full year remains unchanged, despite the currency headwinds.
- Interim dividend reinstated at 4.5p, reflecting improved trading and positive outlook. Intend to pursue a progressive dividend policy.

- Key strategic objectives of diversification and moving up the value chain have been validated by the pandemic. We intend to vigorously pursue these goals with internal investment and where appropriate, acquisitions.
- There is substantial long term growth potential for our photonic technologies and system capabilities in all our target sectors.

APPENDICES

G&H

R&D ENABLING NEW APPLICATIONS

Space

- Amplifiers for satellite to satellite and satellite to ground links
- Credit-card size fibre-optic systems for communications
- Acousto-optic devices for space exploration

Aerospace & Defence

- Multi-band imaging systems for armoured vehicles
- Fibre-optic laser modules for navigation systems
- High-Definition Mid-Wave Infra-Red Zoom lenses

Sensing

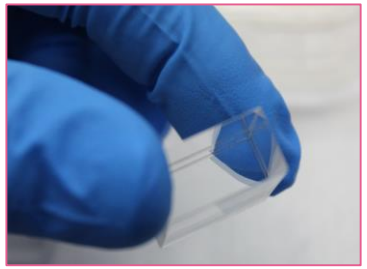
- Next-gen Fibre-Q for security & wind sensing applications
- High efficiency Acousto-optic drivers for sensing applications
- Mid-Infrared Pockels Cells for heat & carbon signature sensing

Industrial & Telecoms

- Acousto-optic deflectors for micro-electronics
- Photonic modules for photolithographic systems
- New fibre-optic couplers for undersea networks

Bio-photonics

- Photonic devices for cardiovascular Optical Coherence Tomography
- Non-invasive Nitric Oxide delivery systems
- “At-home” point of care for detecting respiratory pathogens



INVESTOR TIMETABLE

- **7 October 2021 – Full Year Trading Update**
- **30 November 2021 – Preliminary Announcement**