INTERIM RESULTS – HALF YEAR ENDED 31 MARCH 2020

CEO: MARK WEBSTER / CFO: CHRIS JEWELL

G&H

KEY HIGHLIGHTS – OPERATIONAL & FINANCIAL

- Reflecting previously reported trends and the COVID-19 emergency, revenue declined by 3.8% compared with the same period last year, or by 4.1% excluding the impact of foreign exchange.
- COVID-19 reduced our manufacturing capacity in H1, but a return to full manufacturing capacity is expected by year end FY2020.
- Demand for fibre optic modules, hi-reliability fibre couplers and our A&D and Life Science capabilities remains robust. Improved demand for medical diagnostics and ventilator systems. Industrial laser demand is at below 'normalised' levels.
- Order book of £91.7m as at 31 March 2020, a reduction of 1.7% compared with same time last year, or 4.9% excluding the impact of foreign exchange.
- Adjusted profit before tax of £2.7m as a result of reduced volumes and product mix.
- Measured cost reductions implemented towards the end of the period and good progress on streamlining of manufacturing sites expected to deliver significant future margin progression.
- Group's total committed bank facility increased to $50m with a further $20m uncommitted acquisition related facility.
- The Board does not recommend an interim dividend.
- Our outlook for the full year remains unchanged.

"The COVID- 19 emergency has validated our long term policy of diversification and moving up the value chain. We will continue to pursue this policy through investment in R&D and acquisitions."
Mark Webster, CEO

COVID – 19 EMERGENCY

- Primary concern has been the health and safety of our staff, customers and suppliers.
- Our teams have been responsive and agile, ensuring our sites complied with National and State COVID-19 laws and regulations and where possible supporting our customers' products and programmes.
- Two of our six US sites, Cleveland, OH and Fremont, CA, were temporarily closed due to State 'stay at home' orders. Most of our US product lines considered to be vital for essential services and national security. All six US sites are now open.
- In UK all five sites remained open. Torquay facility has had to operate at reduced capacity to comply with social distancing guidelines, but will be fully open by year end FY2020.
- Cost and cash control measures were implemented.
- We have accessed the UK Government's Coronavirus Job Protection Scheme and the US equivalent, the Paycheck Protection Programme.
- COVID-19 reduced customer demand and constrained our manufacturing capacity.

FINANCIAL HEADLINES – SUMMARY INCOME STATEMENT

Period Ended 31 March	2020 £m	2019 £m	% Change
Revenue	**57.5**	**59.7**	(3.8)%
Gross profit	**16.5**	**20.2**	(18.2)%
Adjusted operating profit	**3.4**	**6.1**	(43.2)%
Adjusted operating profit %	**6.0%**	**10.1%**	(410)bps
Adjusted profit before tax	**2.7**	**5.4**	(50.8)%
Adjusted basic earnings per share (p.p.s)	**8.2p**	**16.4p**	(50.0)%

"Measured cost reduction actions, along with a return to full capacity and an improving customer demand will deliver higher levels of profitability in the second half of the year."
Chris Jewell, CFO

- Revenue decline of 3.8% yoy or 4.1% excluding foreign exchange.
- H1 impacted by a 17.9% reduction in core industrial laser market, largely offset by growth in semiconductors, fibre optic telecoms, A&D and Life Sciences.
- Gross margin reduced to 28.8%, from 33.8% in the prior year due to a lower volumes in our higher margin industrial laser market and delayed recoveries on a US defence programme.
- Adjusted operating profit margin reduced to 6.0%, from 10.1% in the prior year.
- Invested £4.1 million in R&D (HY 2019 £4.0 million). This represented 7.1% of revenue.
- Adjusted effective tax rate was 23.4% (HY 2019: 24.4%).

FINANCIAL HEADLINES-CASHFLOW

Period Ended 31 March	2020 £m	2019 £m
Net cash flow from operating activities	**7.5**	**4.4**
Cash flow from investing activities		
Acquisition of subsidiary	(4.8)	(3.9)
Purchase of property, plant and equipment & intangibles	(3.5)	(3.7)
Sale of property plant and equipment	-	1.5
	(8.3)	**(6.1)**
Cash flow from financing activities		
Net borrowing and lease payments	(0.2)	-
Interest paid	(0.6)	(0.5)
Dividends paid to ordinary shareholders	(1.8)	(1.7)
	(2.6)	**(2.2)**
Net decrease in cash and cash equivalents	**(3.4)**	**(3.9)**
Exchange losses	(0.1)	-
Cash	**14.0**	**15.6**

- £0.8m reduction in working capital since September 2019.
- First instalment of the ITL acquisition earn-out of £4.75 million paid in cash from existing debt facilities in the period. This represents 100% of the maximum potential.
- Net debt excluding the impact of IFRS 16 - Leases of £18.5 million, up from £14.3 million, after £4.75 million on acquisitions and £3.5 million on capex.
- The adoption of IFRS 16 – Leases added a further £9.5m of lease borrowings within reported net debt of £28.0m.
- In early April the Group's total committed bank facility was increased to $50m with a further $20m uncommitted acquisition related facility.
- Long running litigation with the landlord of our Fremont facility concluded in our favour. Total award of $3.6m to be received in H2 FY2020.

INDUSTRIAL

Financials (46% of revenue)

	HY20	HY19	Reported growth
Revenue	£26.5m	£29.6m	(10.3)%
Adjusted operating profit	£0.6m	£2.2m	(74.7)%
% margin	2.1%	7.3%	(520)bps

- Demand in the industrial laser market was below normalised levels in H1, due to continuing cyclical downturn and impact of the COVID-19 emergency.
- Overall industrial laser revenues were down by 17.9%, compared with H1 FY2019. In contrast the semiconductor sub-sector grew by 3.9% despite COVID-19 manufacturing constraints at our Fremont facility.
- New precision laser based manufacturing techniques and the widespread adoption of 5G technology will drive growth in this sector.
- Made good progress with fibre optic ‘laser engine’ module contracts for pipeline security and wind farm directional sensing.
- Our order book for hi-reliability fibre couplers for undersea cables remains at record levels for FY2020 and FY2021. Telecommunication revenues grew 7.6% despite COVID-19 manufacturing constraints experienced by customers and our Torquay facility. We believe the market need for data transmission through undersea cables will be an area of significant growth for G&H into the foreseeable future.
- Profit margin was impacted by lower revenue due to COVID-19 and an adverse product mix.

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

AEROSPACE & DEFENCE

Financials (33% of revenue)

	HY20	HY19	Reported growth
Revenue	£18.7m	£18.4m	1.2%
Adjusted operating profit	£0.3m	£1.2m	(75.7)%
% margin	1.6%	6.5%	(490)bps

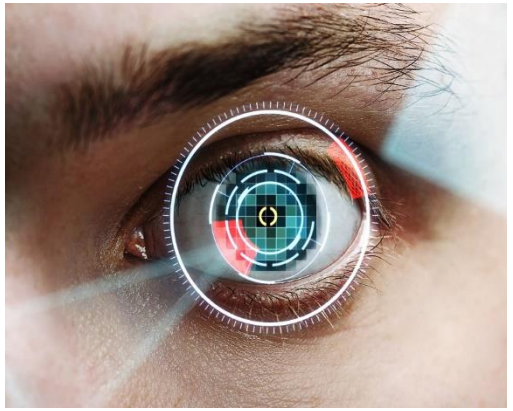
- Revenue grew 1.2% during the first six months of FY2020, compared with same period last year.
- Important development milestones on US defence contracts completed at our Boston site will allow transition to higher volume production revenues in H2. Additional orders and revenue will be recognised in H2 for work completed and expensed in the H1 reporting period. Success in these programmes will be basis for ongoing high level US defence business.
- Space satellite laser based communication system passed critical flight tests. This technology and 'know how' will form basis of large satellite, constellation satellite and near space UAV laser communication system business.
- The company is well positioned to exploit the longer term aerospace & defence market dynamics which are favourable for our photonic and fibre optic technologies.
- Substantive programmes in space communication, complex optical arrays for UAVs, laser based targeting and range finding, optics for direct energy units and optical systems for armoured vehicles.

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

LIFE SCIENCES/BIOPHOTONICS

Financials (21% of revenue)

S	HY20	HY19	Reported growth
Revenue	£12.2m	£11.7m	5.0%
Adjusted operating profit	£2.4m	£2.0m	21.0%
% margin	19.9%	17.2%	270bps

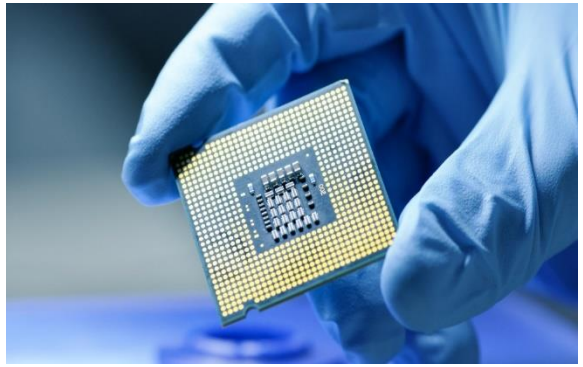


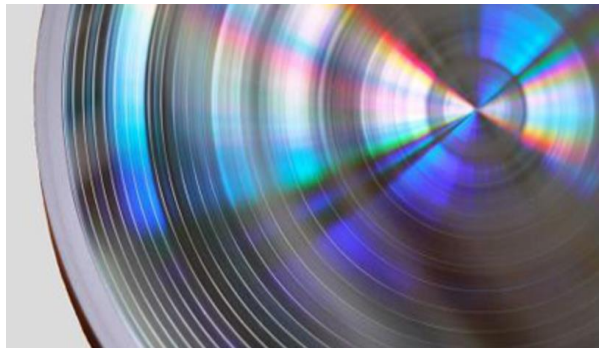
- Revenue grew by 5% compared with H1 last year.
- Increased demand for medical diagnostics systems, in particular a unit which improves respiratory function and oxygen supply as part of a ventilator system in critical care and with COVID-19 patients. ITL, our recently acquired medical diagnostic business, has been operating close to capacity.
- Medical lasers were down primarily due to decreased demand for cosmetic surgery during the COVID-19 emergency.
- OCT technology in retinal scanning, glaucoma detection, cardiovascular and cancer disease detection remains a key area.
- Margin growth due to improved overhead recovery.
- In addition to our traditional areas we see further opportunity for our photonic and fibre optic technologies in robotic surgery, minimally invasive surgery and OCT related endoscopy.

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

OPERATIONS

- Streamlining of our manufacturing sites is progressing well.
- Acousto Optic (AO) hub will be created at our Fremont, CA, site combining the AO capabilities of Fremont and Ilminster.
- Fremont will be the global design authority and lead the Group's AO technological roadmap.
- Outsourced manufacturing of certain AO components to be transferred to established contract manufacturers in South East Asia.
- Ilminster will become the UK hub for our Precision Optic (PO) capabilities and our Glenrothes site will close.
- Our PO products have strong growth potential selling into A&D and semiconductors.
- In order to fully exploit these opportunities, as previously disclosed, the total project investment over FY2020 and FY2021 is expected to be circa £5m.
- Full year savings of £1.25m per annum expected to be delivered for FY2022.





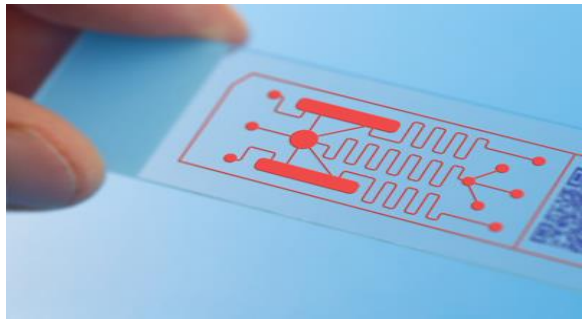
STRATEGY– remains diversification and moving up the value chain

Diversify

Aim to establish ‘critical mass’ in Life Sciences and further strengthen our position in A&D, through investment in R&D and further strategic acquisitions. A&D represents 33% of H1 FY2020 revenue and Life Sciences 21%.

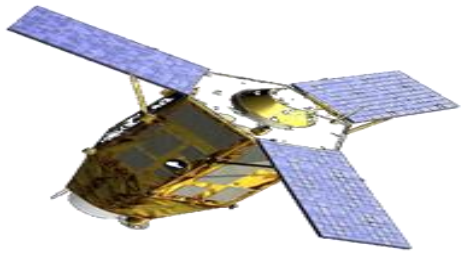
Exploit near/ medium term opportunities in:

- 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

- Generate growth by adding value for our customers through enhanced design, engineering, systems and service capability.
- Leverage excellence in components to become a systems or solutions provider.
- Systems and subsystems represent 42.1% of H1 FY2020 revenue, compared to 31.7% same period last year.



KEY MESSAGES AND OUTLOOK

- Trading reflected previously reported trends and impact of the COVID-19 emergency
- Robust order book for fibre optic modules, hi-reliability fibre couplers and A&D and Life Sciences.
- Industrial laser demand is below ‘normalised’ levels. New precision laser manufacturing techniques and adoption of 5G will drive demand.
- We responded quickly to the COVID-19 emergency in order to keep our facilities open.
- Measured cost control actions along with progress on streamlining of manufacturing facilities will deliver future margin improvements.
- Balance sheet remains robust and have extended our main credit facility until April 2023
- R&D investment of £4.1 million in H1 FY2020 (£4.0 million: H1 FY2019) has been protected. New product revenues of £7.6 million in H1 FY2020 (£5.0 million: H1FY2019).
- Further progress on key strategic objectives of diversification and moving up the value chain
- Outlook for the Full Year remains unchanged.
- There is substantial growth potential for our photonics technologies and enhanced system capabilities in all of our target sectors. As such the long term prospects of the Company remain very strong.
- The Company remains committed to further investment in R&D and where appropriate to make acquisitions in line with our strategic objectives.

APPENDICES

INVESTOR TIMETABLE

- 2 June 2020 – Interim Announcement
- 6 October 2020 – Full Year Trading Update
- 1 December 2020 – Preliminary Announcement