For immediate release **28 November 2017**

Gooch & Housego PLC

("Gooch & Housego", "G&H", the "Company" or the "Group")

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

Gooch & Housego PLC (AIM: GHH), the specialist manufacturer of optical components and systems, today announces its preliminary results for the year ended 30 September 2017.

Year ended 30 September	**2017**	2016	Change
Revenue (£m)	**112.0**	86.1	30.2%
Adjusted profit before tax (£m)*	**16.1**	14.2	13.7%
Adjusted basic earnings per share (pence)*	**49.4**	42.5	16.2%
Statutory profit before tax (£m)	**12.6**	10.1	24.8%
Basic earnings per share (pence)	**36.4**	29.1	25.1%
Total dividend per share (pence)	**10.2**	9.0	13.3%
Net cash (£m)	**14.9**	11.7	27.9%

*adjusted figures exclude the amortisation of acquired intangible assets, impairment of goodwill, release of accrued contingent consideration, exceptional items being restructuring, provision for export compliance and transaction costs, interest on deferred consideration and gain on bargain purchase.

Operating & Strategic Highlights

- Strong financial performance set against a backdrop of favourable market conditions in our three main sectors of industrial, aerospace & defence and life sciences
- Demand was particularly high for critical components used in microelectronic manufacturing and hi- reliability fibre couplers used in undersea cable networks
- Significant progress was made towards our strategic goals of further diversification and moving up the value chain
- StingRay Optics, acquired in February 2017, has integrated well into the wider group and is performing above our expectations
- Investment in R&D up 16.2%, 22 new products introduced and 7 new patents granted.
- Substantial investments were made, enabling us to meet increased demand and laying the foundation for future growth

Financial Highlights

- Revenue for the year £112.0m, 30.2% higher than FY 2016, 18.7% on a constant currency basis. The acquisition contributed £5.3m in the year
- Adjusted profit before tax up 13.7%
- Adjusted basic earnings per share up 16.2%
- Strong cash performance delivering net cash of £14.9m at year end, an increase of 27.9%
- Record year end order book of £72.1m, up 36.5% from 30 September 2016

Mark Webster, Chief Executive Officer, commented

"G&H met its FY 2017 financial goals and was able to make strategically important investments in key skills, processes, systems and the latest capital equipment. Significant progress has been made towards meeting our strategic aims of diversifying the business and moving up the value chain.

"These strategic initiatives combined with a record year end order book mean the Board remains confident that G&H is well positioned to deliver further progress in FY 2018 and beyond."

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Expected Financial Calendar

Annual General Meeting	21 February 2018
Payment date for final dividend for the year ended 30 September 2017 to shareholders on the register at close of business 26 January 2018. Subject to approval by shareholders at the Annual General Meeting	2 March 2018
Interim Results announcement	June 2018
Financial Year End	30 September 2018
Preliminary announcement of results for the year ended 30 September 2018	November 2018

Chairman's Statement

Set against a backdrop of favourable market conditions, your company has delivered a strong financial performance in 2017. This has been delivered through a mix of organic and acquisitive growth.

Demand for certain of Gooch & Housego's products, particularly from the microelectronics and undersea fibre optic communications sectors, reached unprecedented levels during the year. The resulting record order book presented a significant challenge for some of the Company's manufacturing operations. Investments made in recent years in "lean manufacturing" and "continuous improvement" meant that G&H was in part able to respond to this demand through an enhanced ability to match capacity with demand across the Company's various manufacturing locations. Combined with significant investments during the year in people, and in the latest manufacturing equipment, these initiatives made it possible to satisfy the needs of our customers and begin to reduce lead times towards the year-end.

In February 2017 G&H acquired StingRay Optics LLC (StingRay), a USA based designer and manufacturer of specialist optical and opto-mechanical systems. StingRay was a particularly significant acquisition as it provides G&H with advanced optical systems design capabilities for harsh and demanding applications. These new capabilities support the Company's twin strategic objectives of moving up the value chain and achieving greater diversification by enabling G&H to provide systems-level solutions to Aerospace & Defence ("A&D") customers. In 2017 the StingRay acquisition helped sales into the A&D sector approach one third of total revenues. StingRay has delivered a consistently strong performance since acquisition. The acquisitions completed in the previous year (Alfalight and Kent Periscopes) also made valuable contributions in 2017.

The investment in people during 2017 represents an important enhancement of the skills-base of G&H, and bodes well for the future. In order to meet the challenges of greater scale and complexity G&H has chosen to focus on specific high growth products and markets. Recent recruitment has reflected the need for a higher level of specialisation across a wide range of business functions including manufacturing processes and systems, business development, human resources, supply-chain and research and development. These and planned future changes reflect a recent board review of the organisational structure of G&H that had the objective of ensuring that it be optimised for delivering sustainable growth over the long term, as G&H grows both organically and by acquisition.

In successfully responding to the challenges of 2017 an exceptional effort was required by many people. I would like to express my thanks to my fellow directors and to all employees of Gooch & Housego. I am pleased to welcome David Bauernfeind, who joined the board as a non-executive director and Chair of the Audit Committee on 1 May 2017.

Gooch & Housego is stronger today than at any time in its past. With a sound financial foundation, new talents and capabilities, a pipeline of exciting new products and a record order book to start the year the Company is well-positioned to continue to deliver in 2018 and beyond.

Gareth Jones
Chairman

Chief Executive Officer's Statement

Overview

FY2017 Performance

Gooch & Housego ("G&H") benefited from positive market conditions and strong demand across its main sectors of industrials, aerospace & defence ("A&D") and life sciences. Demand was particularly high for critical components used in microelectronic manufacturing and high reliability fibre couplers used in undersea cable networks.

FY 2017 has been a 'watershed' year for the company, as we passed through the £100 million sales barrier for the first time. Revenue of £112.0 million represents year on year growth of 30.2%, or on a constant currency basis 18.7%. Adjusted PBT, which is less affected by foreign exchange fluctuations due to the natural hedging within the business, was £16.1 million, equating to a year on year profit growth of 13.7%.

Strategically important investments in people, processes, systems and the latest capital equipment were made during the year, enabling us to address high levels of demand in FY2017 and provide an important platform for G&H's future growth.

Strategic goals

Considerable progress has been made towards our strategic goals of further diversification and moving up the value chain.

A&D and life sciences both provide a counter balance to the exposure that the industrial laser sector has to the global economic cycle. These business areas have customer bases which include tier one A&D and medical diagnostic companies, who often prefer G&H to provide sub systems or systems rather than solely critical components, providing a strong impetus to move up the value chain. When coupled with the regulatory hurdles inherent in both A&D and life sciences, these markets provide a defensible business model with a high barrier to entry.

Our aim is to establish a 'critical mass' of business in both the A&D and life science sectors.

This has in large part been achieved in A&D, which now represents 31.1% of G&H's FY2017 revenue (2016: 23.2%); this was made possible due to a combination of organic growth and by the three acquisitions made in FY 2016 and FY 2017. Life sciences has undergone good organic revenue growth, in particular with products utilising our optical coherence tomography technology and laser surgery, but the sector still needs further acquisitions to achieve the desired 'critical mass'.

Sub systems and systems now represent 22.1% of our business (2016: 15.1%), with the growth again helped by the recent acquisitions, most notably Kent Periscopes and StingRay. Kent Periscopes, acquired in FY 2016, moved to a larger custom fitted facility in St. Asaph, North Wales, during FY 2017. This was funded in large part by the Welsh Government. As well as being required for the growth of the existing Kent Periscopes business the facility is earmarked to become a hub for assembly of sub systems and systems across the group.

Acquisitions

Strategic acquisitions remain an important part of G&H's business model and in February 2017 we acquired StingRay Optics LLC ("StingRay").

StingRay is a USA based specialist designer and manufacturer of high performance optical and opto-mechanical sub systems for demanding defence and commercial applications. Their product range is focused on laboratory, ground based, airborne, unmanned aerial vehicles ('UAVs") and space applications for key US defence customers. Synergies include leveraging G&H's greater reach through our global sales teams and our expertise in manufacturing infrared precision optics and specialist coatings. The partnership has proven to be very successful so far, with StingRay's performance exceeding our expectations and their talented workforce integrating well into the wider company.

Research and Development ("R&D")

There has been continued benefit from concentrating our R&D efforts on fewer higher return projects. During FY 2017 we introduced a record 22 new products and we expect the full value of these products to peak over the next three years. Revenue generated from new products this year was £11.1 million.

Good progress has been achieved in our key R&D areas of interest, notable among which are the following:

Microelectronics is entering a new phase of nano technology and the UV lithography and via drilling techniques required to achieve this need a new generation of precision lasers and laser systems which are being developed with our laser manufacturer and laser system partners.

OCT technology dominates the retinal scanning and imaging arena, but the longer term development partnerships we have with medical diagnostic companies in the areas of cardiovascular disease and cancer detection are now moving to the prototype and early commercial model stage, with the prospect of new product launches in the near future.

Our space communication group has gone from strength to strength with European Space Agency and UK Space agency funded work in satellite communications and is now attracting commercial interest from the USA and elsewhere. In addition to the grant funded work we have enhanced our $4 million commercial contract to provide communication systems for near term satellite launches. We are also developing similar technology for the adjacent market of UAVs.

Various aspects of our R&D defence programmes in the US and Europe are classified, but we are able to say that we are making good headway in developing key parts of Kent Periscopes' product portfolio, so they are compatible with USA military standards.

We have recently moved some of our R&D effort into sensing technology, focusing on use in harsh environments with ruggedised photonics technology. We have been able to bring some of our space communications experience to problem solving in this arena.

In order to accommodate the need for more system based projects, the Systems Technology Group ("STG"), primarily based at our Torquay site, has been expanded. The group consists of scientists and engineers who bring a wide range of skills such as electronic, software and mechanical engineering, which are required in order to present a complete sub system or system to our customers.

Performance improvement programme

In addition to the enhanced R&D performance outlined above, we have continued to expand our business development group, adding a microelectronic business development executive to the existing life science and A&D executives. The established business development executives have brought enhanced access to tier 1 A&D companies and multi- national medical diagnostic organisations and have been instrumental in the development of some of our most notable R&D projects. Our expectation is that with the addition of the new microelectronics business development executive we will be able to enhance our contribution to the new industrial laser systems that are currently in development.

G&H's ongoing operational performance improvement programme was instrumental in enabling us to meet the challenge of this year's high growth rate. The major infrastructure projects in Fremont, CA and Cleveland, OH are now substantially complete. Investment in key skills, lean processes and systems and the latest capital equipment was accelerated in sites that provide critical components for precision lasers used in microelectronic manufacturing, namely Ilminster, Fremont, CA and Torquay.

We have built on the good work done in previous years to further improve efficiency, customer service and to establish a more scalable organisational model for future growth. Our ten manufacturing sites have been organised into three manufacturing centres. They are based on our sites' areas of technical expertise, namely Acousto Optic / Electro Optic, Precision Optics and Fibre Optics. Each manufacturing area has a leader and their role is to ensure best practice is shared; there is process harmonisation and optimal allocation of resource.

G&H is in a strong position financially and is well positioned to make further investment in the business.

Market and Applications

Industrial

The industrial sector represents 57.4% of G&H's revenue and is composed of a diverse range of industrial applications aligned to our world class photonic technologies, including microelectronic manufacturing, semiconductor manufacturing and test, remote sensing, metrology and optical communications.

Our industrials division grew by £10.0 million or 18.4% compared to the previous year, reflecting a positive performance across the range of industrial products.

Critical components for precision lasers used in microelectronic manufacturing were in particular demand. This was driven by the next generation of smart phones and tablets and the consequent change in manufacturing technology required to produce them. The aforementioned 'cutting edge' technology is primarily dependent on the latest solid state lasers and we worked closely with the laser manufacturers and laser system suppliers to meet these demands.

Precision inspection equipment for real time calibration in smart phone and tablet production continued to deliver significant revenue for us during FY 2017.

The ongoing need for ever more data capacity from government, industry and the consumer continues to drive a strong optical telecommunications performance. G&H provides some of the more technically challenging elements to both land and undersea optical communications. Our ultra hi-reliability fibre couplers are used in amplifiers that are a key part of undersea cable networks. Over the last couple of years there has been a positive step change in the requirement for these products, driven by technology firms laying their own cable networks in order to control the process of data delivery. This new level of demand has continued unabated throughout FY 2017.

Aerospace & Defence

A&D represented 31.1% of our revenue and grew year on year by £14.9 million or 74.5%. This was due to a combination of organic growth and acquisition, as highlighted earlier. G&H is now able to bring a wide range of photonic capabilities that very much represent the “direction of travel” in this sector. These include target designation, range finding, ring laser and fibre optic gyroscope navigational systems, infra-red and RF counter measures, periscopes and sighting systems for armoured vehicles and opto-mechanical sub systems for unmanned aerial vehicles.

Delivering product quality, reliability and performance in challenging environments is essential in the A&D arena and this very much plays to G&H’s strengths. Our customers encompass the major European and USA A&D companies.

Space satellite communication is undergoing a technology revolution. The use of fibre optic lasers to transmit information means the satellite communication systems are more efficient and robust, as well being significantly lighter. This has changed the economics of the sector and has led to smaller satellites and encouraged the move towards the use of satellite constellations as part of a communications network. The investment we have made in this area means we are at the forefront of some of these developments.

Life Sciences

Life Sciences represents 8.5% of G&H’s revenue and grew year on year by £1.7 million or 21.1%. Despite the increase in revenue the profit did decline year on year, which is primarily due to the investments made into future capabilities. Though life sciences is a relatively small sector for G&H, we see this as a strategically important one going forward.

The principal applications are in optical coherence tomography (“OCT”), laser surgery and microscopy. OCT is widely used in ophthalmology for 3D retinal scanning and G&H has a dominant position in supplying critical components and sub systems to the main equipment suppliers. We also have a number of R&D collaborations with medical diagnostic companies in cardiovascular and cancer detection.

Laser surgery is a fast growing area particularly in ophthalmology, prostate and cosmetic surgery and has significant potential to be exploited beyond these current areas of use.

There is potential for photonic technology to be used in minimally invasive surgery, endoscopy and robotic surgery and this sector remains an area where G&H will continue to invest in R&D and look for strategic acquisitions.

Scientific Research

G&H’s research market is dominated by a small number of “big science” projects in the fields of nuclear fusion research and synchrotron radiation sources. It provides 3.0% of our revenue. The year on year decline was due to phasing of one of the projects. This is a profitable and prestigious sector for G&H, where we have some unique capabilities, that has the capacity to deliver growth and we will continue to selectively invest in this area.

Outlook

G&H met its FY 2017 financial goals and was able to make strategically important investments in key skills, processes, systems and the latest capital equipment. Significant progress has been made towards meeting our strategic aims of diversifying the business and moving up the value chain, with A&D now representing 31.1% of our business by revenue. We acquired USA based StingRay Optics LLC in February 2017, which has integrated well into the wider organisation and performed strongly.

G&H will continue with an active policy of making further progress towards a more diverse and balanced business by building “critical mass” in A&D and life sciences, through a mix of investment in R&D and acquisitions.

We are committed to making further investment in R&D in our targeted high growth areas. These include fibre and solid state laser systems, precision inspection equipment for microelectronic manufacturing, OCT medical diagnostics, laser surgery, space satellite communications, A&D sub systems and fibre optic sensing systems.

G&H intends to take the performance improvement programme to the next level, by further investment in business development activity, focusing our global resources on a few high return R&D projects and continuing to improve operational efficiency. We believe the introduction of three well defined and focused manufacturing centres will provide a scalable platform for enhanced lean manufacturing practice.

These strategic initiatives combined with a record year end order book mean the Board remains confident that G&H is well positioned to deliver further progress in FY 2018 and beyond.

Mark Webster
Chief Executive Officer

Performance Overview

The business has once again delivered strong profitable growth.

Group revenue for the year was a record £112.0million. This represents an increase of £25.9 million, or 30.2% over the previous year of £86.1 million. During the year Gooch & Housego acquired StingRay Optics LLC, which contributed £5.3 million to group revenue in the year, so organic revenue was up by 23.9%. On a constant currency basis revenue was 18.7% higher than the previous year.

During 2017, Gooch & Housego invested £5.8 million in property, plant and equipment and £5.7 million in acquisitions. Despite this the business has increased its net cash position to £14.9 million at 30 September 2017 (2016: £11.7 million), through sustained strong operating cash flows.

In the financial year under review, adjusted operating margins increased by £2.1 million in absolute terms to £16.4 million (2016: £14.3 million). At a percentage margin level, adjusted operating margins were 14.6%, compared to 16.6% in 2016, as a result of foreign exchange and planned investment in people and systems to support the growth.

REVENUE

	2017		2016	
Year ended 30 September	**£'000**	**%**	£'000	%
Industrial	**64,261**	**57.4%**	54,296	63.1%
Aerospace & Defence (A&D)	**34,860**	**31.1%**	19,977	23.2%
Life Sciences	**9,570**	**8.5%**	7,904	9.2%
Scientific Research	**3,325**	**3.0%**	3,874	4.5%
Group Revenue	**112,016**	**100%**	86,051	100%

In our Industrial segment, revenue grew by 18.4% from £54.3 million last year to £64.3 million this year. Revenue in our Aerospace & Defence business increased by 74.5% from £20.0m to £34.9m. Excluding the acquisition in the year, A&D revenue increased by 48.0%. Life Sciences revenue increased by 21.1% whilst sales in our smallest segment, Scientific Research, reduced by 14.2%.

GROUP EARNINGS PERFORMANCE

All amounts in £'000	**Adjusted**		**Reported**	
Year ended 30 September	**2017**	2016	**2017**	2016
Operating profit	**16,406**	14,258	**13,278**	10,184
Net finance costs	**(295)**	(88)	**(676)**	(88)
Profit before taxation	**16,111**	14,170	**12,602**	10,096
Taxation	**(4,059)**	(3,865)	**(3,710)**	(3,048)
Profit for the year	**12,052**	10,305	**8,892**	7,048
Basic earnings per share (p)	**49.4p**	42.5p	**36.4p**	29.1p

The Group adjusted profit before tax amounted to £16.1 million (2016: £14.2 million) and represented a net margin of 14.4%. Statutory profit before tax was £12.6 million compared with £10.1 million last year.

The adjusted effective rate of tax was 25.2% (2016: 27.3%), the reduction caused by a number of factors including a lower applicable corporate tax rate in the UK, tax deductions being available on intangibles on recent US acquisitions and certain one off effects in the prior year. The effective rate of tax of 29.4% (2016: 30.2%) was higher than the adjusted effective rate because of the effect of the interest charge on deferred consideration which is not subject to tax, and the restructuring and acquisition costs being incurred in the UK which has a lower tax rate than the overall rate for the Group. The rate reflects a combination of the varying tax rates applicable throughout the countries in which the Group operates, principally the UK and the USA.

The effective rate of tax should benefit in the future from further reductions in the UK tax rate, although the proportion of profit generated in the USA, where tax rates are higher, will affect this.

Adjusted earnings per share (EPS) increased from 42.5p to 49.4p. Reported basic EPS was 36.4p compared with 29.1p last year.

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating Profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 pence**	2016 pence
Reported	**13,278**	10,184	**(676)**	(88)	**(3,710)**	(3,048)	**36.4p**	29.1p
Amortisation of acquired intangible assets	**2,202**	1,263	**-**	-	**(168)**	(333)	**8.3p**	3.8p
Gain on bargain purchase	**-**	(578)	**-**	-	**-**	-	**-**	(2.4p)
Impairment of goodwill	**615**	771	**-**	-	**-**	-	**2.5p**	3.2p
Release of accrued contingent consideration	**(615)**	-	**-**	-	**-**	-	**(2.5p)**	-
Provision for regulatory compliance risk	**-**	500	**-**	-	**-**	-	**-**	2.1p
Restructuring costs	**536**	1,652	**-**	-	**(105)**	(391)	**1.8p**	5.2p
Transaction fees	**390**	466	**-**	-	**(76)**	(93)	**1.3p**	1.5p
Interest on deferred consideration	**-**	-	**381**	-	**-**	-	**1.6p**	-
Adjusted	**16,406**	14,258	**(295)**	(88)	**(4,059)**	(3,865)	**49.4p**	42.5p

NON GAAP MEASURES

The Company uses a number of non GAAP measures which are shown in the table above and in the segmental analysis. These measures are used to illustrate the impact of non-recurring and non-trading items on the Company's financial results. These are the impact of the amortisation of acquired intangible assets, costs associated with restructuring activities, interest on deferred consideration, impairment of goodwill and release of accrued contingent consideration. In 2016 they also included the provision for regulatory risk compliance and the gain on bargain purchase of Alfalight.

SEGMENTAL ANALYSIS

Industrial
Our Industrial business grew strongly during the year, with revenues of £64.3 million, compared with £54.3 million last year. This growth was largely driven by a combination of our industrial laser and telecommunications businesses. Revenue from the Group's industrial laser business segment grew strongly, driven by high demand for precision lasers used in microelectronic manufacturing. Demand for the traditional Q Switch grew in 2017 and represented 14.0% of total group revenue (2016: 10.2%).

Adjusted operating profit for the Industrial sector as a whole was 10.1% higher at £11.8 million, compared with £10.8 million last year.

Aerospace & Defence (A&D)
A&D revenue was £34.9 million, up 74.5% on last year, benefitting from the full year effect of the two acquisitions in FY16 and the acquisition of StingRay in FY17. These results reinforce our belief that this sector represents a growth opportunity for Gooch & Housego, as optical technologies continue to be increasingly deployed in this market. Operating margins in this sector increased reflecting the higher volume and strong margins achieved by StingRay in particular.

Life Sciences
In 2017 Life Sciences revenue was up by 21.1% compared to the prior year. The majority of this growth was driven by a strong performance in our Optical Coherence Tomography ("OCT") market driven largely by our customers' development cycles. Despite this, adjusted operating margins in this sector were down on the previous year due to the competitive nature of the OCT market and the investment in this relatively small sector.

Scientific Research
Our activities in the Scientific Research market are dominated by a small number of large, long-term programmes. This market was down in 2017 due to demand phasing.

RESEARCH & DEVELOPMENT (R&D)

Gooch & Housego continues to invest in R&D in all areas of the business and regards this as fundamental to the continued growth of the company. There were a record 22 product releases in 2017, together with 7 new patents granted.

Expenditure on R&D in the year to 30 September 2017 increased by 16.2% from £7.4 million to £8.6 million. A proportion of this increase was funded through UK and European grant funding. R&D expenditure represented 7.7% of revenue (2016: 8.6%). The Group capitalised £0.7m (2016: £0.7 million) of development expenditure.

OPERATIONS

As reported in our Interim Statement, the Company has committed to upgrading its Cleveland, Ohio facility. This facility, which houses G&H's world leading crystal growth capabilities, is a key contributor to current and future profitability and will benefit from the modernisation that has been taking place. The upgrade is substantially complete and we will have invested in the region of $5 million. The refurbishment will help drive much needed operational efficiency, provide greater capacity, as well as a more compelling showcase of our capabilities for customers.

The Company has concluded a legal dispute with the landlord of its Fremont facility. As a result of this, a Californian court has awarded G&H in the region of $2 million in damages arising from the landlord's non-performance in respect of the lease. This will be accounted for in FY18.

Investment in key skills, lean processes, systems and the latest capital equipment was accelerated in sites that provide critical components for precision lasers used in microelectronic manufacturing, namely Ilminster, Fremont, CA and Torquay.

We have built on the good work done in previous years to further improve efficiency, customer service and to establish a more scalable organisational model for future growth. Our ten manufacturing sites have been organised into three manufacturing areas. They are based on our sites' areas of technical expertise, namely Acousto Optic / Electro Optic, Precision Optics and Fibre Optics. Each manufacturing area has a leader and their role is to ensure best practice is shared, there is process harmonisation and optimal allocation of resources.

ACQUISITIONS

G&H will continue to evaluate acquisition opportunities that have the potential to accelerate delivery of the Company's strategic objectives. Having established a presence in its target markets, G&H is now focussing on moving up the value chain in each of those markets. Whilst the business will continue to evaluate bolt on businesses in our core component technologies, continued strong focus is being placed on acquisition opportunities that enhance the Company's ability to wrap electronics and software around core photonic products to yield system-level solutions.

In February 2017 G&H acquired StingRay Optics LLC, a US based specialist designer and manufacturer of high performance optical and opto-mechanical subsystems for demanding defence and commercial applications.

StingRay was founded in 2004 and has established itself as a market leading designer, manufacturer and supplier of world class custom optical assemblies. The business has a proven capability in providing system level optical products for use in harsh environments to key US defence customers. StingRay's product range covers laboratory, ground based, airborne, unmanned aerial vehicles and space applications.

The acquisition of StingRay is aligned with G&H's strategic objectives of moving up the value chain and further diversification into the Aerospace & Defence sector. Potential synergies include leveraging G&H's greater reach through our global sales teams and our expertise in manufacturing infrared precision optics and specialist coatings.

StingRay has performed very well since acquisition, contributing £5.3 million to group revenue and £1.6 million in profit before tax in the year.

As a result of two key customers delaying the delivery of product from existing orders, Kent Periscopes did not reach its threshold for the first tranche of its earn-out to be triggered. Consequently, the provision for a proportion of this payment (approximately £0.6m), made under IFRS accounting rules, has been released to the income statement for the current year. Whilst the delay in delivery of these contracts has affected the anticipated results of Kent Periscopes for the earn-out period, the outlook for the business remains positive. The order book for the next two years remains very strong at approximately £12.5 million. Whilst the core value of this business remains strong, as part of its bi-annual review of the carrying value of goodwill, the Board has taken the decision to impair the goodwill of the Kent Periscopes acquisition to the sum of £0.6 million.

NON TRADING ITEMS

Restructuring costs of £0.5 million (2016: £1.7 million) related to the re-location of our Palo Alto facility to Fremont and to restructuring costs arising from the efficiency savings the business has put in place.

BALANCE SHEET

The Group's total equity at the end of the year was £98.1 million, an increase of £8.0 million over the prior year. This increase comprised £6.6m from retained earnings, £2.0m from issues of share capital and a net reduction of £0.6m from foreign exchange and other movements.

Additions to property, plant and equipment totalled £5.8m (excluding acquisitions). The main additions related to investment in plant and machinery, the expansion of our Torquay facility, and the refurbishment of our Cleveland facility.

Working capital was 19.2% of revenue in the current year compared to 24.5% in 2016. This metric has benefitted from the year end GBP:USD exchange rate being higher than the average for the year, but also reflects management efforts to reduce working capital as a percentage of sales.

Inventory at the year end was £21.1 million, an increase of £2.1 million over the prior year. Excluding the impact of currency and the inventory attributable to the acquisition, the underlying inventory increased by £1.6m, or 8.5%, in the year. This increase is reflective of the increased activity in the year.

Trade receivables were unchanged at £20.5m. The effect of a strong shipment profile towards the end of the year and the acquisition of StingRay were largely offset by movements in the dollar exchange rate.

Cash balances at 30 September 2017 were £26.4 million, compared with £23.2 million at 30 September 2016. Net cash flows from operating activities totalled £17.6 million, compared with £12.6 million last year, reflecting a cash generated from operations to adjusted operating profit rate of 119% (2016: 96%). During the year the business increased its net cash position from £11.7m to £14.9 million, despite investing £5.7m in the acquisition of StingRay and £5.8m in property, plant and equipment.

MOVEMENT IN NET CASH

All amounts in £m	Gross Cash	Gross Debt	Net Cash
At 1 October 2016	**23.2**	**(11.5)**	**11.7**
Operating cash flows	19.8	-	19.8
Debt repayment (net of drawdown)	0.4	(0.4)	-
Acquisitions	(5.7)	-	(5.7)
Net capital expenditure	(6.4)	-	(6.4)
Working capital	(0.3)	-	(0.3)
Interest, tax and dividends	(4.5)	-	(4.5)
Exchange movement	(0.1)	0.4	0.3
At 30 September 2017	**26.4**	**(11.5)**	**14.9**

ORDER BOOK

As at 30 September 2017, the Group order book stood at £72.1 million, compared to £52.8 million at the end of the 2016 financial year, a 36.5% increase. The acquisition of StingRay added £3.5 million to the order book. On a constant currency basis the order book was 39.1% higher. The book to bill ratio for the business as a whole was 1.08 (six month rolling average) as at 30 September 2017 (2016: 1.01).

STAFF

The Group workforce increased from 755 at 30 September 2016 to 823 at the end of September 2017, an increase of 68. This is a net position and therefore reflects both the work the business has done in driving efficiency improvements and the additional headcount that has come from the recent acquisitions and investment in capacity.

DIVIDENDS

The Directors propose a final dividend of 6.5p per share making a total dividend per share for the year of 10.2p (2016: 9.0p), an increase of 13.3%. The final dividend, if approved, will be payable on 2 March 2018 to shareholders on the Company's share register as at the close of business on 26 January 2018.

KEY PERFORMANCE INDICATORS (KPIs)

The Group objective is to deliver sustainable, long-term growth in revenue and profits. This is to be achieved through the execution of the Board's strategies.

In striving to achieve these strategic objectives, the main financial performance measures monitored by the Board are:

Total revenue growth	**2017**	**2016**	**2015**
At actual exchange rates	30%	9%	12%
At constant exchange rates	19%	3%	8%

The Board is focused on driving revenue growth by investing both organically and through acquisitions. The Group business has delivered strong underlying growth.

Target market revenue	**2017**	**2016**	**2015**
Aerospace & Defence (£m)	34.9	20.0	19.8
Life Sciences (£m)	9.6	7.9	9.0

The Group targeted markets of Aerospace & Defence and Life Sciences provide a route to sustainable growth, and a more diversified revenue base. These markets also provide significant opportunities for Gooch & Housego to migrate up the value chain from materials and components to higher value sub-assemblies, modules and systems in response to the trend for our larger customers to outsource increasingly complex parts of their business. The increase in A&D revenue includes the full year effect of last year's acquisitions, combined with the acquisition of StingRay in FY17.

Net cash analysis	**2017**	**2016**	**2015**
Net cash (£m)	14.9	11.7	17.3

In order to balance business risk with the investment needs of the Company, management closely monitors and manages net cash. This year, following the acquisition of StingRay and the investment in capital assets the net cash position increased from £11.7 million to £14.9m.

Earnings per share (EPS)	**2017**	**2016**	**2015**
Adjusted diluted EPS (pence)	48.5p	41.7p	38.9p

As a result of a strong trading performance, the business has been able to deliver growth in adjusted diluted EPS of 16.3%, from 41.7p to 48.5p in 2017.

The revenue, cash and earnings per share targets for the year were met.

Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

Group Income Statement

For the year ended 30 September 2017 (unaudited)

	Note	2017 £000	2016 £000
Revenue	2	**112,016**	86,051
Cost of revenue		**(65,937)**	(53,752)
Gross profit		**46,079**	32,299
Research and Development		**(8,119)**	(6,697)
Sales and Marketing		**(9,459)**	(6,469)
Administration		**(16,937)**	(11,425)
Other income and expenses		**1,714**	2,476
Operating profit	2	**13,278**	10,184
Finance income		**27**	39
Finance costs		**(703)**	(127)
Profit before income tax expense		**12,602**	10,096
Income tax expense	3	**(3,710)**	(3,048)
Profit for the year		**8,892**	7,048
Basic earnings per share	4	**36.4p**	29.1p
Diluted earnings per share	4	**35.8p**	28.6p

Reconciliation of profit before tax to adjusted profit before tax:

	2017 £000	2016 £000
Profit before tax	**12,602**	10,096
Amortisation of acquired intangible assets	**2,202**	1,263
Gain on bargain purchase	**-**	(578)
Release of accrued contingent consideration	**(615)**	-
Impairment of goodwill	**615**	771
Provision for regulatory compliance risk	**-**	500
Restructuring costs	**536**	1,652
Transaction fees	**390**	466
Interest on discounted deferred consideration	**381**	-
Adjusted profit before tax	**16,111**	14,170

Gooch & Housego
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Group Balance Sheet
For the year ended 30 September 2017 (unaudited)

	2017	2016
	£000	£000
Non-current assets		
Property, plant and equipment	**33,890**	32,384
Intangible assets	**40,250**	29,916
Deferred income tax assets	**2,703**	2,674
	76,843	64,974
Current assets		
Inventories	**21,078**	18,973
Income tax assets	**267**	394
Trade and other receivables	**24,723**	22,679
Cash and cash equivalents	**26,425**	23,167
	72,493	65,213
Current liabilities		
Trade and other payables	**(23,758)**	(19,624)
Borrowings	**(6)**	(4)
Income tax liabilities	**(579)**	(891)
Provision for other liabilities and charges	**(888)**	(940)
Deferred consideration	**(4,286)**	-
	(29,517)	(21,459)
Net current assets	**42,976**	43,754
Non-current liabilities		
Borrowings	**(11,492)**	(11,494)
Deferred income tax liabilities	**(5,938)**	(4,806)
Deferred consideration	**(4,253)**	(2,256)
	(21,683)	(18,556)
Net assets	**98,136**	90,172
Shareholders' equity		
Called up share capital	**4,903**	4,852
Share premium account	**15,530**	15,530
Merger reserve	**4,640**	2,671
Cumulative translation reserve	**5,574**	6,984
Retained earnings	**67,489**	60,135
Total equity	**98,136**	90,172

Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

Group Statement of Changes in Shareholders' Equity
For the year ended 30 September 2017 (unaudited)

	Note	Called up share capital £000	Share premium account £000	Merger reserve £000	Retained earnings £000	Cumulative translation reserves £'000	**Total equity £000**
At 1 October 2015		4,818	15,530	2,671	54,318	1,030	**78,367**
Profit for the financial year		-	-	-	7,048	-	**7,048**
Other comprehensive income for the year		-	-	-	-	5,954	**5,954**
Total comprehensive income for the year		**-**	**-**	**-**	**7,048**	**5,954**	**13,002**
Dividends	5	-	-	-	(2,055)	-	**(2,055)**
Shares issued		34	-	-	(34)	-	**-**
Fair value of employee services		-	-	-	638	-	**638**
Tax credit relating to share option schemes		-	-	-	220	-	**220**
Total contributions by and distributions to owners of the parent recognised directly in equity		**34**	**-**	**-**	**(1,231)**	**-**	**(1,197)**
At 30 September 2016		**4,852**	**15,530**	**2,671**	**60,135**	**6,984**	**90,172**
At 1 October 2016		4,852	15,530	2,671	60,135	6,984	**90,172**
Profit for the financial year		-	-	-	8,892	-	**8,892**
Other comprehensive expense for the year		-	-	-	-	(1,410)	**(1,410)**
Total comprehensive income / (expense) for the year		**-**	**-**	**-**	**8,892**	**(1,410)**	**7,482**
Dividends	5	-	-	-	(2,289)	-	**(2,289)**
Shares issued		51	-	1,969	(15)	-	**2,005**
Fair value of employee services		-	-	-	587	-	**587**
Tax credit relating to share option schemes		-	-	-	179	-	**179**
Total contributions by and distributions to owners of the parent recognised directly in equity		**51**	**-**	**1,969**	**(1,538)**	**-**	**482**
At 30 September 2017		**4,903**	**15,530**	**4,640**	**67,489**	**5,574**	**98,136**

Group Statement of Comprehensive Income
For the year ended 30 September 2017 (unaudited)

	2017 £000	2016 £000
Profit for the year	**8,892**	7,048
Other comprehensive (expense) / income – items that may be reclassified subsequently to profit or loss		
Currency translation differences	**(1,410)**	5,954
Other comprehensive (expense) / income for the year net of tax	**(1,410)**	5,954
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC	**7,482**	13,002

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Group Cash Flow Statement
For the year ended 30 September 2017 (unaudited)

	Note	**2017 £000**	2016 £000
Cash flows from operating activities			
Cash generated from operations	6	**19,526**	13,897
Income tax paid		**(1,957)**	(1,324)
Net cash generated from operating activities		**17,569**	12,573
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(5,658)**	(5,687)
Purchase of property, plant and equipment		**(5,799)**	(9,710)
Sale of property, plant and equipment		**29**	-
Purchase of intangible assets		**(604)**	(629)
Interest received		**27**	39
Interest paid		**(326)**	(111)
Net cash used in investing activities		**(12,331)**	(16,098)
Cash flows from financing activities			
Drawdown of borrowings		**5,918**	5,426
Repayment of borrowings		**(5,523)**	(39)
Dividends paid to ordinary shareholders		**(2,289)**	(2,055)
Net cash (used in) / generated from financing activities		**(1,894)**	3,332
Net increase / (decrease) in cash		**3,344**	(193)
Cash at beginning of the year		**23,167**	22,556
Exchange (losses) / gains on cash		**(86)**	804
Cash at the end of the year		**26,425**	23,167

Analysis of net cash

	At 1 Oct 2016 £000	Cash flow £000	Exchange movement £000	**At 30 Sep 2017 £000**
Cash at bank and in hand	23,167	3,344	(86)	**26,425**
Debt due after 1 year	(11,474)	(402)	396	**(11,480)**
Finance leases	(25)	7	-	**(18)**
Net cash	11,668	2,949	310	**14,927**

Notes to the preliminary report

1. Basis of preparation

The unaudited Preliminary Report has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations in issue at 30 September 2017.

The Preliminary Report does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006 and has not been audited.

Comparative figures in the Preliminary Report for the year ended 30 September 2016 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2016, as described in those financial statements. New standards or interpretations which came into effect for the current reporting period did not have a material impact on the net assets or results of the Group.

The Preliminary Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 28 November 2017. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

2. Segmental analysis

The Company's segmental reporting reflects the information that management uses within the business. The business is divided into four market sectors, being Aerospace & Defence, Life Sciences, Industrial and Scientific Research, together with the Corporate cost centre.

The industrial business segment primarily comprises the industrial laser market for use in the semiconductor and microelectronic industries, but also includes other industrial applications such as metrology and telecommunications. Scientific Research covers academic and government funded research including major multi-national projects.

For year ended 30 September 2017	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	34,860	9,570	71,336	3,325	-	119,091
Inter and intra-division	-	-	(7,075)	-	-	(7,075)
External revenue	34,860	9,570	64,261	3,325	-	112,016
Divisional expenses	(29,880)	(8,165)	(50,417)	(2,821)	(1,389)	(92,672)
EBITDA[1]	4,980	1,405	13,844	504	(1,389)	19,344
EBITDA %	14.3%	14.7%	21.5%	15.2%	-	17.3%
Depreciation and amortisation	(715)	(388)	(2,000)	(136)	(625)	(3,864)
Operating profit before amortisation of acquired intangible assets, goodwill impairment and release of contingent consideration	4,265	1,017	11,844	368	(2,014)	15,480
Amortisation of acquired intangible assets, goodwill impairment and release of contingent consideration	-	-	-	-	(2,202)	(2,202)
Operating profit	4,265	1,017	11,844	368	(4,216)	13,278
Operating profit margin %	12.2%	10.6%	18.4%	11.1%	-	11.9%
Add back non-recurring items and amortisation of acquired intangibles, goodwill impairment and release of contingent consideration	-	-	-	-	3,128	3,128
Adjusted operating profit	4,265	1,017	11,844	368	(1,088)	16,406
Adjusted profit margin %	12.2%	10.6%	18.4%	11.1%	-	14.6%
Finance costs	-	-	-	-	(676)	(676)
Profit before income tax expense	**4,265**	**1,017**	**11,844**	**368**	**(4,892)**	**12,602**

For year ended 30 September 2016	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	19,977	7,904	59,875	3,874	-	91,630
Inter and intra-division	-	-	(5,579)	-	-	(5,579)
External revenue	19,977	7,904	54,296	3,874	-	86,051
Divisional expenses	(18,055)	(6,017)	(42,719)	(2,881)	(1,342)	(71,014)
EBITDA[1]	1,922	1,887	11,577	993	(1,342)	15,037
EBITDA %	9.6%	23.9%	21.3%	25.6%	-	17.5%
Depreciation and amortisation	(545)	(335)	(1,776)	(310)	(431)	(3,397)
Operating profit before amortisation of acquired intangible assets	1,377	1,552	9,801	683	(1,773)	11,640
Amortisation of acquired intangible assets, gain on bargain purchase and goodwill impairment	-	-	-	-	(1,456)	(1,456)
Operating profit	1,377	1,552	9,801	683	(3,229)	10,184
Operating profit margin %	6.9%	19.6%	18.1%	17.6%	-	11.8%
Add back amortisation of intangibles, impairment of goodwill, gain on bargain purchase and non-recurring items	108	53	960	37	2,916	4,074
Adjusted operating profit	1,485	1,605	10,761	720	(313)	14,258
Adjusted profit margin %	7.4%	20.3%	19.8%	18.6%	-	16.6%
Finance costs	-	-	-	-	(88)	(88)
Profit before income tax expense	**1,377**	**1,552**	**9,801**	**683**	**(3,317)**	**10,096**

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation

Management have added back the amortisation of intangibles, gain on bargain purchase, impairment of goodwill, restructuring costs, provision for export compliance risk and transaction fees in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of this non-recurring expense.

2. Segmental analysis (continued)

Management have added back the restructuring costs in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of this non-recurring expense.

All of the amounts recorded are in respect of continuing operations.

Analysis of net assets by location:

	2017 Assets £000	**2017 Liabilities £000**	**2017 Net Assets £000**	2016 Assets £000	2016 Liabilities £000	2016 Net Assets £000
United Kingdom	75,104	(32,612)	42,492	70,336	(30,580)	39,756
USA	73,641	(18,477)	55,164	59,077	(9,112)	49,965
Continental Europe	545	(98)	447	726	(318)	408
Asia Pacific	46	(13)	33	48	(5)	43
	149,336	**(51,200)**	**98,136**	**130,187**	**(40,015)**	**90,172**

Analysis of revenue by destination:

	2017 £000	2016 £000
United Kingdom	**18,624**	17,247
North America	**45,485**	34,918
Continental Europe	**24,233**	19,189
Asia Pacific and Other	**23,674**	14,697
Total revenue	**112,016**	86,051

3. Income tax expense

Analysis of tax charge in the year

	2017 £000	2016 £000
Current taxation		
UK Corporation tax	**1,318**	1,760
Overseas tax	**2,165**	887
Adjustments in respect of prior year tax charge	**(1,315)**	(77)
Total current tax	**2,168**	2,570
Deferred tax		
Origination and reversal of temporary differences	**227**	218
Adjustments in respect of prior year deferred tax	**1,315**	290
Impact of change in the UK tax rate	**-**	(30)
Total deferred tax	**1,542**	478
Income tax expense per income statement	**3,710**	3,048

4. Earnings per share

The calculation of earnings per 20p Ordinary Share is based on the profit for the year using as a divisor the weighted average number of Ordinary Shares in issue during the year. The weighted average number of shares for the year ended 30 September is given below:

	2017	2016
Number of shares used for basic earnings per share	**24,457,701**	24,248,471
Dilutive shares	**412,901**	436,112
Number of shares used for dilutive earnings per share	**24,870,602**	24,684,583

A reconciliation of the earnings used in the earnings per share calculation is set out below:

	2017		2016	
	£000	**pence per share**	£000	pence per share
Basic earnings per share	**8,892**	**36.4p**	7,048	29.1p
Amortisation of acquired intangible assets (net of tax)	**2,034**	**8.3p**	930	3.8p
Goodwill impairment	**615**	**2.5p**	771	3.2p
Release of accrued contingent consideration	**(615)**	**(2.5p)**	-	-
Gain on bargain purchase of Alfalight	**-**	**-**	(578)	(2.4p)
Provision for regulatory compliance	**-**	**-**	500	2.1p
Restructuring costs (net of tax)	**431**	**1.8p**	1,261	5.2p
Transaction fees (net of tax)	**314**	**1.3p**	373	1.5p
Interest on deferred consideration	**381**	**1.6p**	-	-
Total adjustments net of income tax expense	**3,160**	**13.0p**	3,257	13.4p
Adjusted basic earnings per share	**12,052**	**49.4p**	10,305	42.5p
Basic diluted earnings per share	**8,892**	**35.8p**	7,048	28.6p
Adjusted diluted earnings per share	**12,052**	**48.5p**	10,305	41.7p

Basic and diluted earnings per share before amortisation and other adjustments has been shown because, in the opinion of the Directors, it provides a useful measure of the trading performance of the Group.

5. Dividends

	2017 £000	2016 £000
Final 2016 dividend paid in 2017: 5.7p per share (Final 2015 dividend paid in 2016: 5.2p per share)	**1,383**	1,254
2017 Interim dividend paid: 3.7p per share (2016: 3.3p)	**906**	801
	2,289	2,055

The Directors propose a final dividend of 6.5p per share making the total dividend paid and proposed in respect of the 2017 financial year 10.2p (2016: 9.0p).

6. Cash generated from operating activities

Reconciliation of cash generated from operations

	2017 £000	2016 £000
Profit before income tax	**12,602**	10,096
Adjustments for:		
- Amortisation of acquired intangible assets	**2,202**	1,263
- Amortisation of other intangible assets	**199**	355
- Gain on bargain purchase of Alfalight	**-**	(578)
- Impairment of goodwill	**615**	771
- Release of accrued contingent consideration	**(615)**	-
- Depreciation	**3,664**	3,042
- Share based payment charge	**587**	638
- Amounts claimed under the RDEC	**(370)**	(270)
- Finance income	**(27)**	(39)
- Finance costs	**703**	127
Total	**6,958**	5,309
Changes in working capital		
- Inventories	**(1,442)**	223
- Trade and other receivables	**(1,465)**	(4,436)
- Trade and other payables	**2,873**	2,705
Total	**(34)**	(1,508)
Cash generated from operating activities	**19,526**	13,897