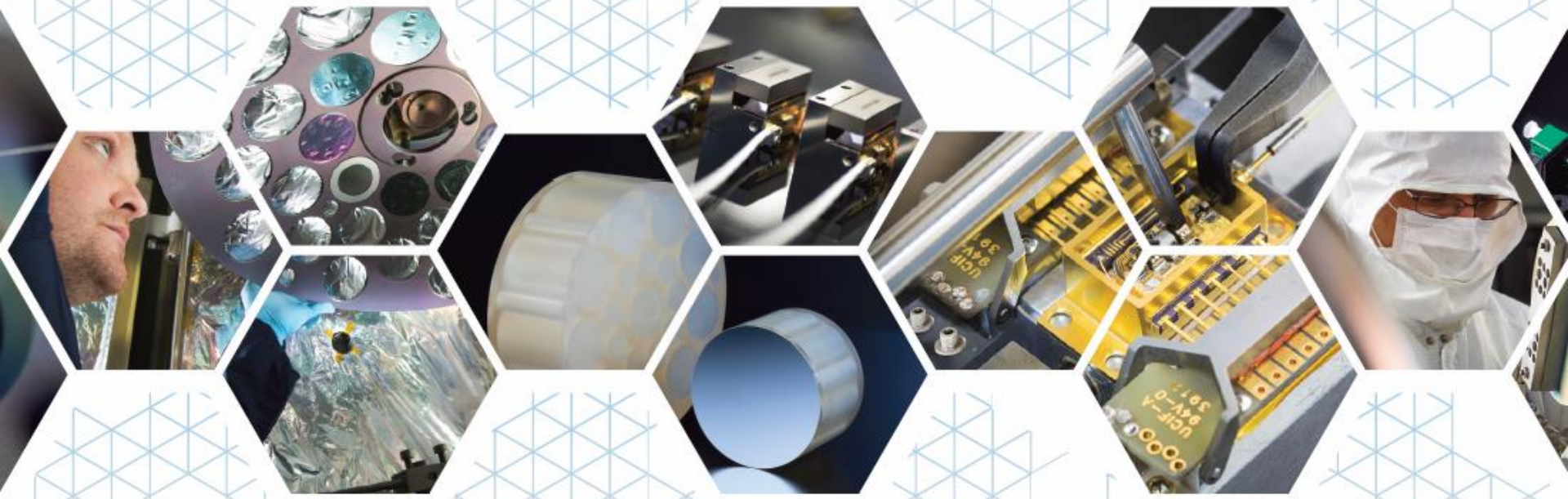


PRELIMINARY RESULTS

YEAR ENDED 30 SEPTEMBER 2015

CEO: Mark Webster / **CFO:** Andrew Boteler

Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

Highlights

Operational & Financial Highlights

- Strong performance from industrial laser & telecommunications products underpinned growth
- Increase in revenue by 12% to a record £78.7m for the financial year (2014: £70.1m)
- Adjusted profit before tax up 12% to £12.9m (2014: £11.5m)
- Net cash of £17.3m at year end (2014: £8.7m)
- Melbourne site closure completed and products transferred to other G&H sites
- Solid order book of £36.3m, up 10% from 30 September 2014
- Initiatives to drive performance improvement across G&H launched and progressing well
- Strong cash inflow and balance sheet supporting 13.9% increase in the full year dividend to 8.2 pence per share

"Gooch & Housego has made good progress in executing on its strategic objectives, met management's expectations for revenue & profit growth and has made a number of significant investments in line with our strategic vision for the business" Mark Webster, CEO

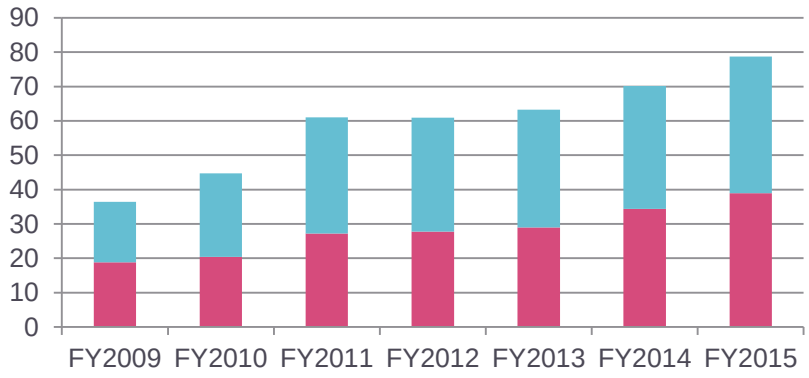
G&H
ENABLING PHOTONIC TECHNOLOGIES

Highlights

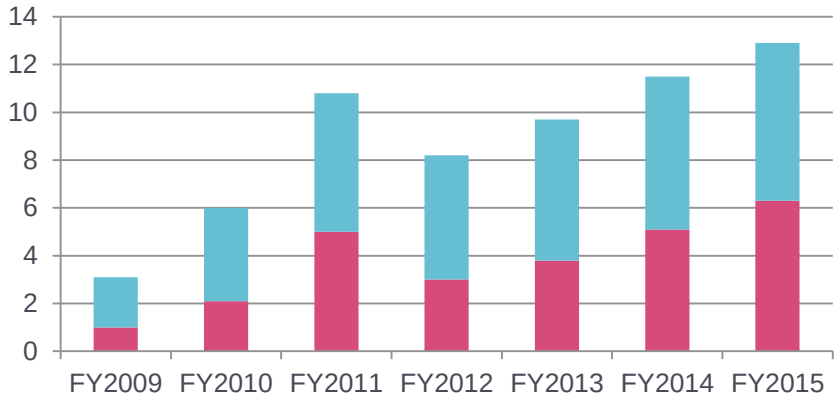
Results at a glance

Year Ended 30 September	FY 2015	FY 2014	Change
Revenue	**£78.7m**	**£70.1m**	12.3%
Adjusted profit before tax	**£12.9m**	**£11.5m**	12.2%
Adjusted basic earnings per share	**39.5p**	**35.6p**	11.0%
Total dividend per share (pence)	**8.2p**	**7.2p**	13.9%
Net cash	**£17.3m**	**£8.7m**	98.9%

Revenue £'m



Adjusted PBT £'m



"The business has delivered revenue & profit growth driven by a strong performance in our Industrial division" Andrew Boteler, CFO

H1 H2

G&H
ENABLING PHOTONIC TECHNOLOGIES

Financial Overview

Income Statement

Year Ended 30 September	2015 £'000	2014 £'000	% Change
Revenue	**78,702**	**70,056**	12.3%
Gross profit	**31,043**	**28,350**	9.5%
Operating expenses	**(17,941)**	**(16,376)**	9.6%
Adjusted operating profit	**13,102**	**11,974**	9.4%
Adjusted operating profit %	**16.6%**	**17.1%**	
Acquired intangible assets amortisation and exceptional items	**(2,808)**	**(3,579)**	
Operating profit	**10,294**	**8,395**	22.6%
Net finance costs	**(188)**	**(514)**	(63.4%)
Profit before tax	**10,106**	**7,881**	28.2%
Tax expense	**(2,647)**	**(2,482)**	(6.6%)
Profit for the period	**7,459**	**5,399**	38.2%
Basic earnings per share	**30.9p**	**22.5p**	37.3%
Adjusted profit before tax	**12,914**	11,460	12.7%
Adjusted basic earnings per share	**39.5p**	35.6p	11.0%

Key points:

- Group revenue for the year was a record £78.7m, 12% higher
- Excluding the impact of foreign exchange, revenue increased by 8%
- Adjusted profit before tax increased by 12%
- Adjusted operating profit increased by 9% although operating margins fell to 16.6% (2014: 17.1%), a result of slightly weaker gross margin and investment in improved infrastructure for delivering operational efficiency, R&D and business development
- G&H invested £6.4 million in R&D. This represents 8.1% of revenue and is 14.2% higher than FY14 (2014: £5.7m)
- Net finance costs reduced by 63% as a result of the company's continued strong cash generation and re-financing its debt
- Effective tax rate, after taking account of goodwill movements, was 26.2% (2014: 25.6%)

G&H
ENABLING PHOTONIC TECHNOLOGIES

Financial Overview

Cash Flow

Year Ended 30 September	2015 £'000	2014 £'000
Cash flow from operating activities	**13,625**	**13,673**
Cash flow from investing activities		
Acquisition of subsidiary	-	(5,532)
Purchase of property, plant and equipment & intangibles	(3,846)	(2,761)
Sale of property plant and equipment	635	26
Interest received	26	8
	(3,185)	**(8,259)**
Cash flow from financing activities		
Movement in borrowings	(3,609)	1,636
Proceeds from issuance of share capital	115	105
Interest paid	(189)	(569)
Dividends paid to ordinary shareholders	(1,823)	(1,569)
	(5,506)	**(397)**
Net increase in cash and cash equivalents	**4,934**	**5,017**
Exchange gains / (losses)	528	(11)
Cash and cash equivalents	**22,556**	**17,094**

Key points:

- Net cash increased to a record £17.3m as at 30 September 2015 (2014: £8.7m)
- Net cash flows from operations generated £13.6m, compared with £13.7m in 2014
- £1.1m investment in inventory to satisfy customer demands during Fremont facility move
- Working capital as a percentage of revenue improved to 20.8% (2014: 22.0%)
- Maintained strong cash conversion. Operating cash flow : Adjusted operating profit 104% (2014: 114%)

G&H
ENABLING PHOTONIC TECHNOLOGIES

Financial Overview

Balance Sheet

As at 30 September		2015 £'000	2014 £'000
Non-current assets	Tangible assets	24,915	24,140
	Intangible assets	20,155	20,668
	Other	2,552	3,114
		47,622	**47,922**
Current assets	Inventories	16,013	14,663
	Trade & other receivables	15,248	13,492
	Cash & cash equivalents	22,556	17,094
		53,817	**45,249**
Current liabilities	Trade & other creditors	(14,059)	(11,829)
	Borrowings	(39)	(8,048)
	Other	(753)	(691)
		(14,851)	**(20,568)**
Non current assets	Borrowings	(5,189)	(360)
	Other	(3,032)	(2,306)
		(8,221)	**(2,666)**
Net assets		**78,367**	**69,937**

Key points:

- A strong balance sheet maintained
- £4.2m invested in property, plant & equipment
- £0.7m invested in capitalised R&D assets
- Inventory has increased by £1.4m y.o.y. Once the impact of currency and the planned inventory build are removed, the underlying inventory fell by £0.8 million, or 5.6% in the year
- Year end net cash position of £17.3m, up £8.6m from last year
- In November 2014 the business refinanced its debt facilities with the Royal Bank of Scotland

G&H
ENABLING PHOTONIC TECHNOLOGIES

Technology, Products & Markets

Markets & Applications

Industrial

Revenue:

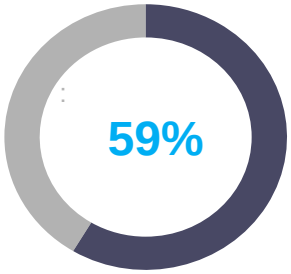
£46.1m

(2014: £39.8m)

Adjusted Operating Profit:

£9.6m

(2014: £8.1m)



- Strong demand for acousto-optic components for solid state and fibre lasers
- Some softening in latter part of the year in China microelectronics market
- Telecommunications business strong, driven by undersea fibre components and crystals for modulation systems

Markets	Applications
Micro-electronics & light manufacturing	• Fibre lasers • Solid state lasers • Other laser sources • Semi-conductor equipment • Inspection equipment
Fibre optic sensing	• Perimeter sensing • Laser scanners • Wind turbines
Telecommunications	• Undersea amplifiers • Specialist networks • 40G & 100G Modulation systems
Metrology	• Laser interferometers

G&H
ENABLING PHOTONIC TECHNOLOGIES

Technology, Products & Markets

Markets & Applications

Aerospace & Defence

Revenue:

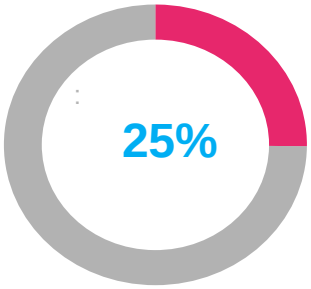
£19.8m

(2014: £18.8m)

Adjusted Operating Profit:

£2.1m

(2014: £2.7m)



- Despite the revenue growth there was a yoy drop in adjusted operating profit due to loss of one-off contract, price pressure in one market and investment in A&D business development
- Management remains optimistic for growth potential
- Move to fibre and Infra-red plays to G&H's strengths. Exciting potential for SatCom business

Markets	Applications
Target designation & range finding	• Aircraft platforms • Missile systems • Land based military platforms
Navigation systems	• Ring laser gyroscopes • Fibre gyroscopes
Space Photonics	• Telco satellites • GPS satellites • Research satellites • Space navigation
Countermeasures	• Infra-red countermeasures • RF countermeasures

G&H
ENABLING PHOTONIC TECHNOLOGIES

Technology, Products & Markets

Markets & Applications

Life Sciences

Revenue:

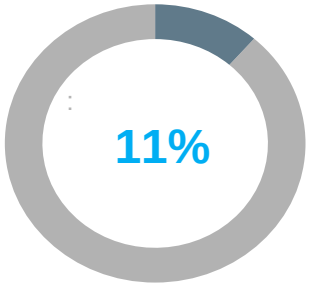
£9.0m

(2014: £7.3m)

Adjusted Operating Profit:

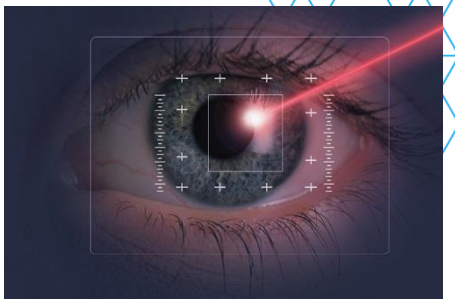
£1.6m

(2014: £1.0m)



- Strong growth driven by demand for components for laser surgery and laser treatment applications
- Opportunity for use of OCT outside of ophthalmology. Currently running a number of collaborations with medical diagnostic companies

Markets	Applications
Optical Coherence Tomography	• Ophthalmic imaging • Cardiovascular • Oesophageal imaging
Laser Surgery	• Prostate surgery • Ophthalmic surgery • Cosmetic surgery • Tattoo removal
Microscopy	• Confocal microscopes



G&H
ENABLING PHOTONIC TECHNOLOGIES

Technology, Products & Markets

Markets & Applications

Scientific Research

Revenue:

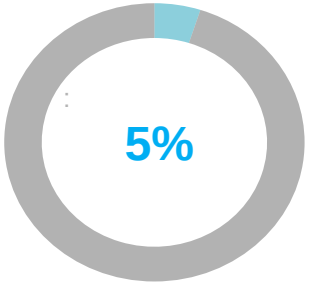
£3.9m

(2014: £4.1m)

Adjusted Operating Profit:

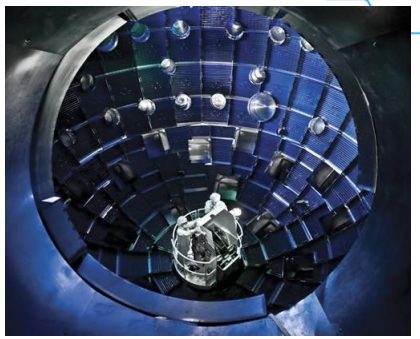
£0.7m

(2014: £0.4m)



- In general budgetary pressures suppressing Scientific Instrumentation market, however …
- Stronger performance from G&H's internal confinement fusion business in FY15 resulted in improved margin performance

Markets	Applications
▪ **Internal Confinement Fusion**	• National Ignition Facility • Laser Mega Joule
▪ **Scientific Instrumentation**	• Research institutes • Universities



G&H
ENABLING PHOTONIC TECHNOLOGIES

Our Strategy

Remains consistent

Diversify

Exploit high-growth opportunities for photonics technology across multiple sectors to provide balance and reduce cyclicality

- **Aerospace & Defence**
- **Satellite communications**
- **Laser surgery**
- **Diagnostics**
- **Remote sensing ... etc.**

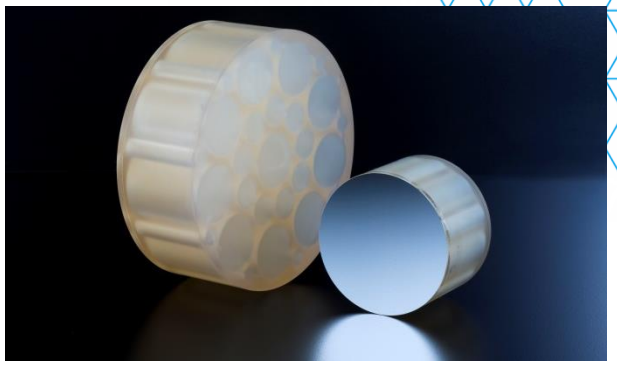
Move up the value chain

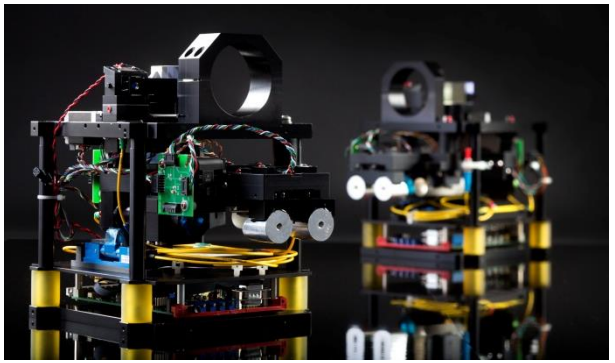
- Generate growth by adding value
- Leverage excellence in components to become a solutions provider
- Transitioning from component supplier to critical partner

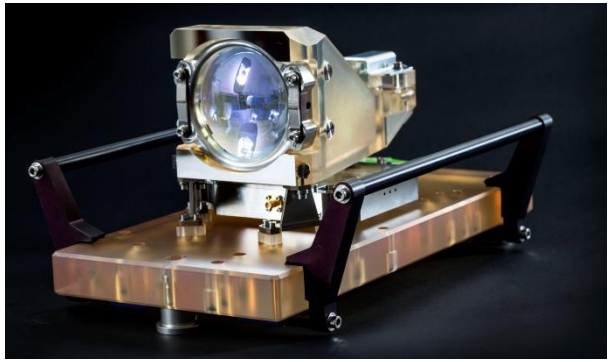
Optics + electronics + software + mechanics = *added value*

Vertically integrate where valuable

- **Many materials and processes are either unique or have been optimised by G&H and are not generally available on the open market**
- **As a consequence, G&H aims to control critical aspects of manufacture that affect quality, performance, price, lead time**







G&H
ENABLING PHOTONIC TECHNOLOGIES

Performance Improvement Plan - Progress

- **Operational excellence** - established a number of globally focused teams representing the key manufacturing disciplines. Introducing Lean Manufacturing to all sites as our performance improvement programme is implemented company wide

- **Investment in facilities** -
  - Completed planned closure of Melbourne site
  - Completed upgrade and extension of Torquay facility
  - Will complete move from Palo Alto to nearby Fremont (a much improved and larger site) by the end of the calendar year
  - Cleveland site upgrade commenced

- **Business Development** - recruited experienced A&D executives on both sides of Atlantic. Two of current R&D projects would not be possible without them. 2016 will hire experienced Life Science executives

- **Targeted R&D approach** - Fewer better resourced projects, selected on basis of highest return on investment are now run by a global R&D group

- Strengthened **System Technology Group**, increasing the number of engineers and scientists to 24, as we continue to grow & invest in this division

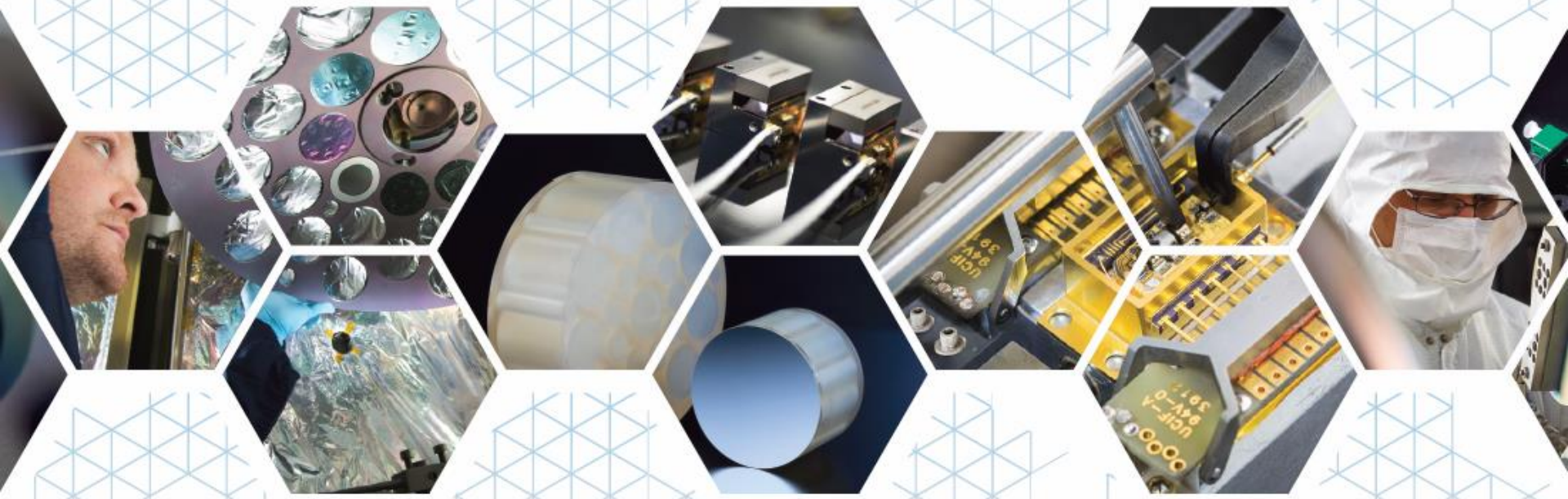
G&H
ENABLING PHOTONIC TECHNOLOGIES

Summary & Outlook

- G&H has made good progress in executing its strategy in 2015 and in doing so has met financial expectations
- The business is more diversified, better balanced and well positioned to deliver sustained growth
- Investment in property, plant and equipment to drive continued organic growth
- R&D investment is creating a strong pipeline of new products for launch in 2016 and beyond
- Initiatives to embed a culture of continuous improvement are expected to deliver progressive margin improvement and help reduce working capital in the coming years
- Well positioned to make strategic acquisitions as and when the right opportunities become available
- A strong balance sheet and net cash provide a solid foundation for future acquisitions

"Our strategic initiatives, combined with a solid year end order book, mean the Board believes G&H remains well positioned to deliver further progress in 2016 and beyond." Mark Webster, CEO

G&H
ENABLING PHOTONIC TECHNOLOGIES



Appendices

Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

About us

Gooch & Housego is a photonics technology business headquartered in Ilminster, Somerset, UK with operations in the USA and Europe.

A world leader in its field, the company researches, designs, engineers and manufactures advanced photonic systems, components and instrumentation for applications in the aerospace & defence, industrial, life sciences and scientific research sectors.

World leading design, development and manufacturing expertise is offered across a broad range of complementary technologies: acousto-optics, crystal optics, electro-optics, fibre optics and precision optics

G&H
ENABLING PHOTONIC TECHNOLOGIES

Market Analysis

Industrial

Revenue:

£46.1m

(2014: £39.8m)

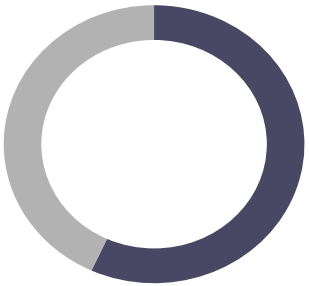
Adjusted Operating Profit:

£9.6m

(2014: £8.1m)

Percentage of Revenue:

59%



Aerospace & Defence

Revenue:

£19.8m

(2014: £18.8m)

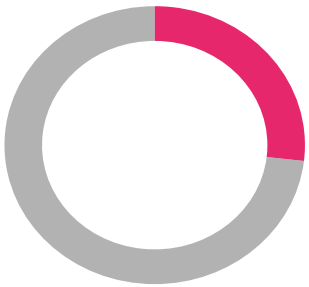
Adjusted Operating Profit:

£2.1m

(2014: £2.7m)

Percentage of Revenue:

25%



Life Sciences

Revenue:

£9.0m

(2014: £7.3m)

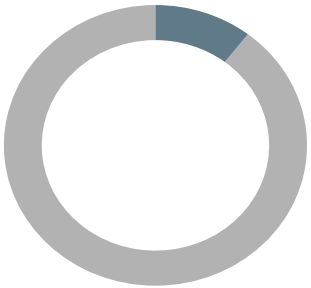
Adjusted Operating Profit:

£1.6m

(2014: £1.0m)

Percentage of Revenue:

11%



Scientific Research

Revenue:

£3.9m

(2014: £4.1m)

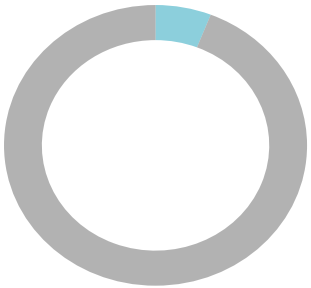
Adjusted Operating Profit:

£0.7m

(2014: £0.4m)

Percentage of Revenue:

5%



G&H
ENABLING PHOTONIC TECHNOLOGIES

Market Analysis

Industrial

- Revenue growth of £6.2 million, 15.7% higher than the previous year
- Traditional Q-Switch now represents only 9.9% of revenue
- Strong growth in components for fibre lasers
- Telecommunications business increased significantly due to demand for undersea, hi-reliability products

Aerospace & Defence

- Sales of components for navigation applications were again strong in FY15, albeit with some price pressure
- Some positive signs that US Government spending constraints easing for engineering service contracts
- Sales of precision optics sub-systems and components for existing programmes remained strong in FY15
- Additional Aerospace & Defence business development experts recruited
- Exciting potential of our space photonics business

Life Sciences

- Revenue growth of £1.7 million, 23% higher than the previous year
- Component sales for laser surgery applications were strong in FY15
- Optical Coherence Tomography applications broadening out from the traditional ophthalmological uses

Scientific Research

- Market dominated by small number of long term “Big Science” programmes
- In general budgetary pressures suppressing this market, however …
- A stronger performance from G&H’s internal confinement fusion business in FY15 results in an improved margin performance in this market sector

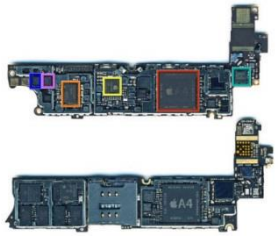
G&H
ENABLING PHOTONIC TECHNOLOGIES

G&H photonics – part of our everyday lives

You probably use G&H photonics every time you use the internet or make a transatlantic phone call

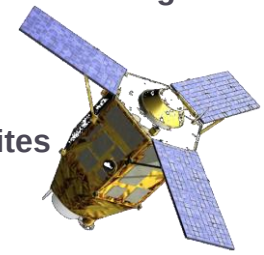
Your smartphone or tablet was manufactured and tested using G&H photonic components: -

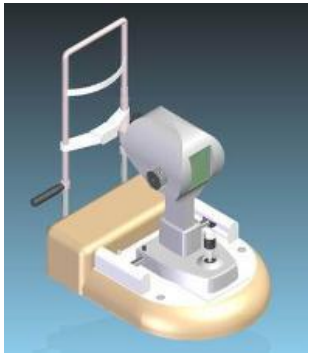
- Lasers containing G&H acousto- and electro-optics are used in virtually every step in the manufacturing process
- Lithography systems containing G&H precision optics and acousto-optics are used in semiconductor and PCB manufacture
- Wafers, masks and boards are inspected with laser scanners incorporating G&H acousto-optics
- Displays are measured using G&H instruments



When you travel on holiday or business the airliner you are flying in will be guided by a ring laser gyroscope that probably incorporates G&H optical components

When you use a sat nav in your car you are relying on GPS satellites that incorporate G&H lasers and fibre-optic components





When you have your eyes tested you will be examined with instruments made possible by G&H fibre-optic modules and precision optical components

If you have laser surgery it is likely that G&H photonics are an integral part of the surgical system

G&H
ENABLING PHOTONIC TECHNOLOGIES

Our Vision

Our vision is of a world in which photonics becomes ubiquitous

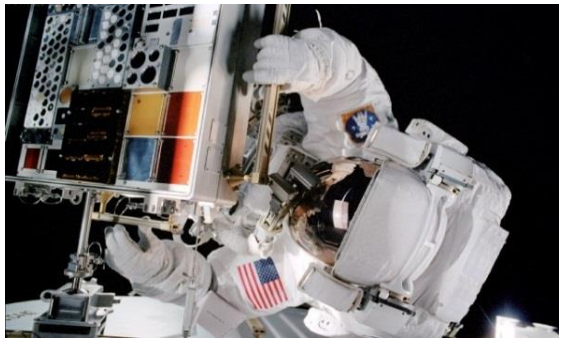
Photonics is already transforming manufacturing, aerospace, communications and medicine

Photonics provides the human interface for digital information

In a future where optics and electronics become inextricably linked all systems become Photonic Systems

Opportunities exist for businesses that have both the vision and capability to enable such transformational shifts in technology

G&H is such a company



G&H
ENABLING PHOTONIC TECHNOLOGIES

New Products & Capabilities introduced in 2015

Key: 18 New products introduced in FY2015 (2014 : 14)	Technology	Precision Optics	Acousto/Electro Optics	Fibre Optics	Systems & Instrumentation
Markets					
Aerospace & Defence				7	
Industrial		1	5	2	1
Life Sciences				2	
Scientific Research					

"G&H sees the continued investment in R&D, in all areas of our business, as fundamental to the continued growth of the company. There were 18 product releases in 2015." Murray Reed - CTO

G&H
ENABLING PHOTONIC TECHNOLOGIES

Growth through diversification

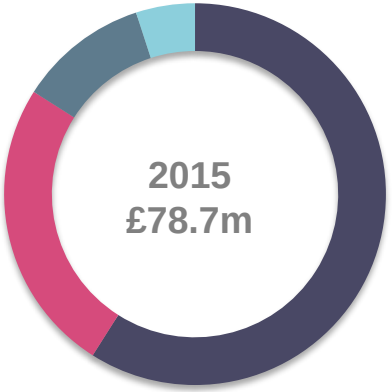
The newer markets of Aerospace & Defence and Life Sciences, together with new application areas within our Industrial market, offer the potential for significant growth through their rapid adoption of photonic technologies

INDUSTRIAL

AEROSPACE & DEFENCE

LIFE SCIENCES

SCIENTIFIC RESEARCH



Seven Year CAGR By Market

9%

39%

32%

(1%)

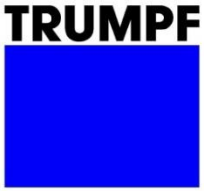
G&H
ENABLING PHOTONIC TECHNOLOGIES

SWIR – Case Study

- Target designation
- Laser Range Finding
- Fast-Jet HUD Displays
- Helicopter HUD Displays
- Hand-held Equipment
- Surveillance
- Threat detection
- Imaging

HELICOPTER HUDs / FLIGHT AID

UAV SYSTEMS / DRONES

G&H
ENABLING PHOTONIC TECHNOLOGIES

Key Customers