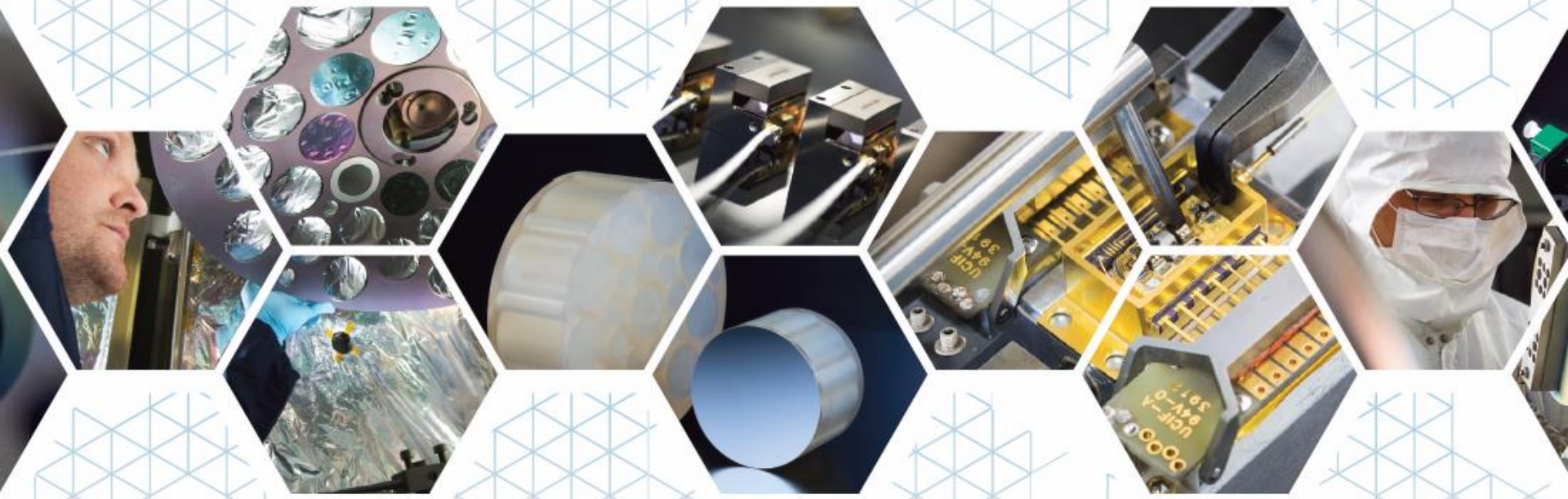

ANNUAL GENERAL MEETING

21 February 2018

Chairman: Gareth Jones / **CEO**: Mark Webster / **CFO**: Andrew Boteler

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Photonics and the future

Photonics is the study and design of systems that depend on the transmission, modulation or amplification of streams of photons, the basic unit of light.

- Photonics is increasingly providing better solutions than electronics alone
- Photonics is already transforming manufacturing, aerospace, communications and medicine
- Optics and electronics are becoming inextricably linked and we believe the application of photonics will become ubiquitous
- G&H has a world class photonics components and systems capability
- G&H is well placed to take advantage of and enable what will be a transformational shift in technology

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Highlights

Operational & Financial Highlights

- Strong financial performance set against a backdrop of favourable market conditions.
- Demand particularly high for critical components used in precision lasers for microelectronic manufacturing and hi-reliability fibre couplers used in undersea cable networks.
- 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, 7 new patents granted.
- Adjusted profit before tax up 13.7%.
- Strong cash performance delivering net cash of £14.9 million at year end (2016: £11.7m), after investing £5.7m in acquisitions and £5.8 million in property, plant & equipment.
- Record year-end order book of £72.1 million, up 36.5% from 30 September 2016.

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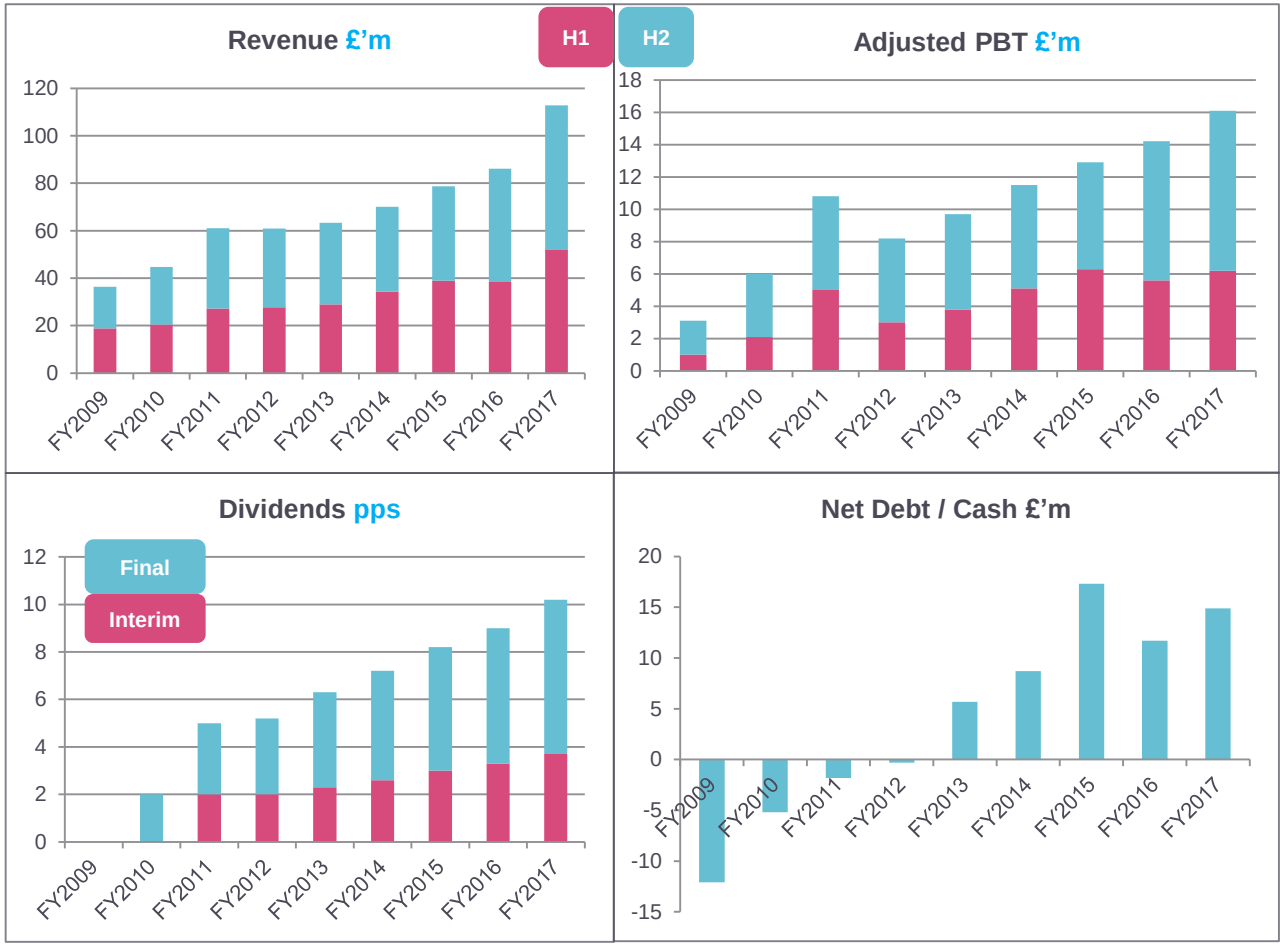
Financial Overview

Financial Track Record



Key points:

- The business has delivered profitable growth over an eight year period.
- 15% CAGR in revenues since FY2009.
- 23% CAGR in adjusted PBT since FY2009.
- 26% CAGR in dividends since FY2010.

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2018

- Overall market trends were positive during the first 4 months
- Demand for critical components for microelectronic manufacturing are at unprecedented levels
- Slow down in demand for hi- reliability fibre couplers for undersea cables, which we expect to come back during the second half the year
- Acquired Stingray Optics in February 2017, which has integrated well into G&H, performed above expectations and we will pay the first year earn out
- Order book, as at 31 January stands at an all time high of £89.7 million
- Full year trading is expected to be in line with management's expectations, with a typically higher H2 weighting
- Expect to get a net benefit from the US tax reforms this year of circa £0.5 million, the overall tax rate to fall by 3% to 24% and from FY 2019 onwards to 23%

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Performance improvement programme

- Building on the good work done in integrating the core manufacturing functions, we have folded the ten manufacturing sites in to three manufacturing centres, based on technological capabilities, namely Acousto Optic/ Electro Optic, Precision Optic and Fibre Optic. The aim is to enhance technical capabilities, standard and harmonise best practice and optimally allocate resource.

- Built on the success with the A&D business development executives, now at four, to support our growing A&D business. One microelectronic and one life science business development executive, both based in the USA.

- Focusing our R&D resource on fewer higher return projects delivered 22 new products, 7 patents and £11 million of new product sales in FY 2017.

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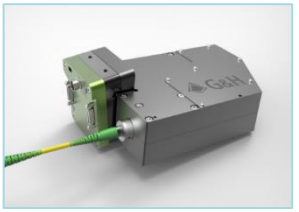
G&H's 6 Major R&D Programs

Major R&D Program	Sites	New Product Development
Space Comms	Torquay Boston	Low Noise & High Power Optical Amplifiers Laser Transmitter
OCT	Torquay Boston	Small Form Factor Delay Line Compact Optical Spectrometer
AO Devices & Drivers	Ilminster Torquay Fremont	Variants of the Next Gen Smart AOD Driver Cost-Down, General Purpose AOM Driver
BBO EOMs & Drivers	Cleveland Fremont	Improved BBO Pockels Cells High Voltage, Medium Voltage & Special Waveform Pockels Cell Drivers
A&D Optics	St Asaph Ilminster Glenrothes Keene	Enhanced Imaging Periscope System Periscopes for the US market
Sensing	Torquay	Optical amplifier for harsh environments



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Our Strategy

Remains “Diversify” & “Move up the Value Chain”

Diversify

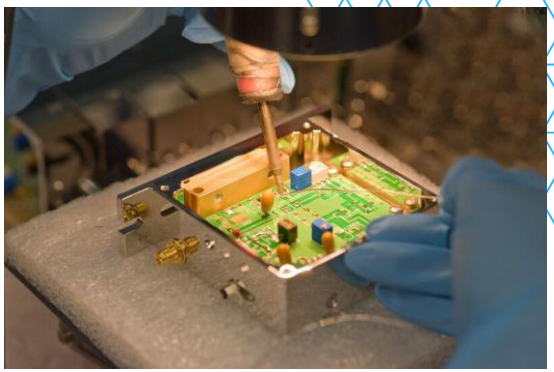
Exploit high-growth opportunities for photonics technology in targeted sectors to provide balance and reduce cyclicality.
Establish critical mass in the A&D and Life Sciences sectors through a combination of investment in R&D and further acquisitions.

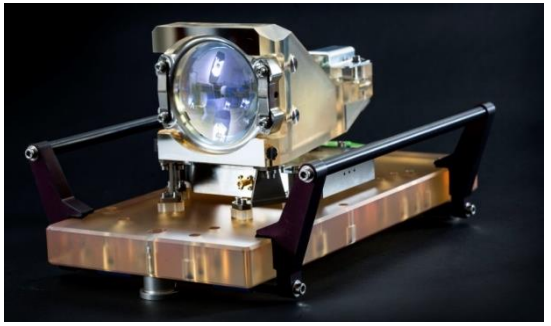
Targeted High Growth areas include:

- New generation of precision lasers and laser systems
- Precision inspection equipment for microelectronic manufacturing
- OCT medical diagnostics
- Laser surgery
- Space satellite communications
- Opto-mechanical systems for UAVs
- Optical systems for armoured vehicles compatible with USA military standards
- Optical sensing for use in harsh environments

Move up the value chain

- Expansion of the Systems Technology Group, providing electronic, software and mechanical engineering expertise required for advanced systems development in Torquay and in the USA.





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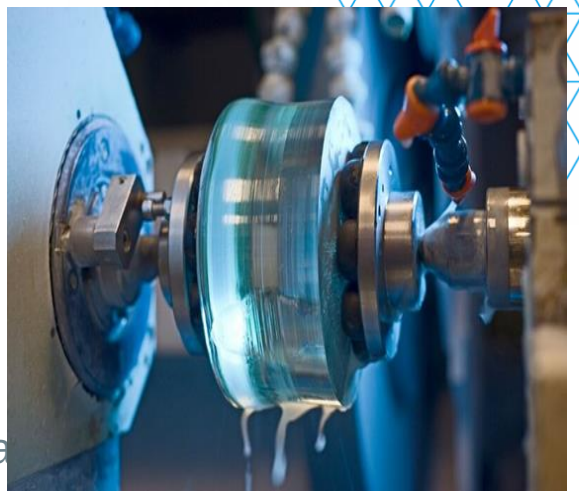
Summary & Outlook

- Photonics is transforming manufacturing, aerospace, communications and medicine
- G&H has a world class photonics capability and is well placed take advantage
- We will continue with an active policy of progressing 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 a acquisitions.
- G&H intend to take the performance improvement programme the next level by further investment in business development activity, focusing our global R&D resources on a few high retur projects and continuing to improve operational activity.
- We believe the introduction of three manufacturing centres will provide a scalable platform for enhanced lean manufacturing



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