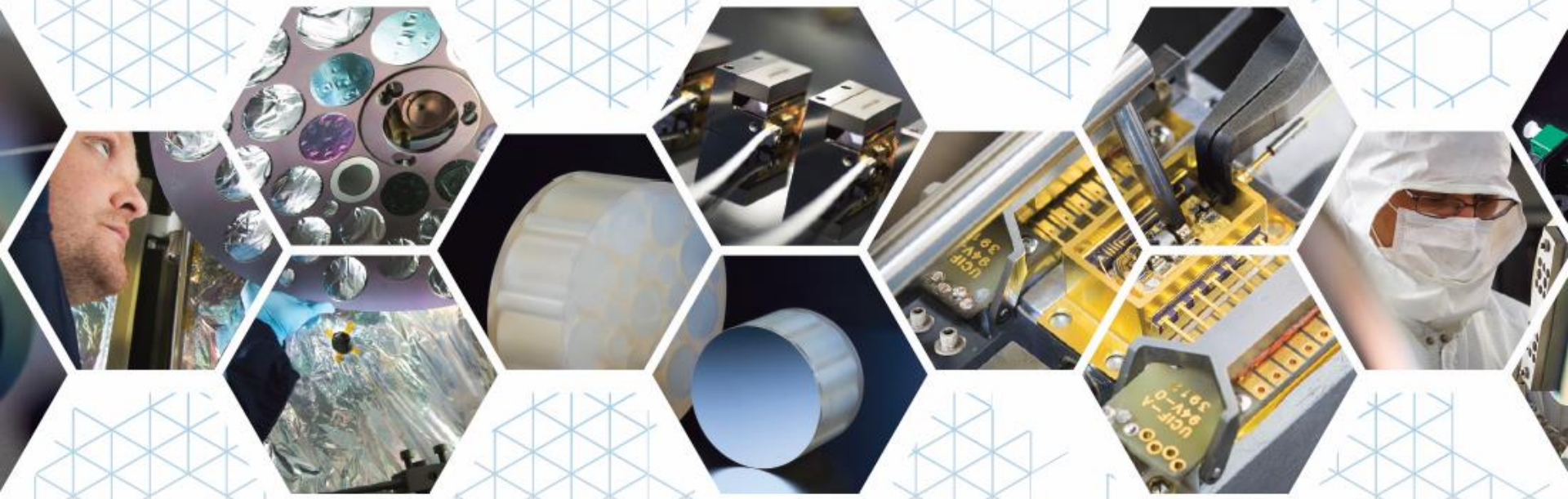

PRELIMINARY RESULTS

YEAR ENDED 30 SEPTEMBER 2018

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

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Key highlights – a record year

Operational & Financial

- Strong Group financial performance, in line with our expectations, against a back drop of generally favourable market conditions
- Demand for microelectronics manufacturing was high throughout year. Hi-reliability fibre couplers down overall, but came back strongly in the latter part of the year
- Strategically important investments were made in order to increase capacity in industrial and medical lasers, to exploit high growth R&D opportunities and acquire complementary technologies and customers through two acquisitions
- Adjusted profit before tax up 16.4% on previous year
- Record year-end order book of £96.1 million, up 33% from same time previous year, up 17% excluding foreign exchange, acquisitions/ disposals
- Andy Boteler to step down as CFO, in summer 2019, in managed succession

"The Board remains confident that the Group is well positioned to continue to deliver in FY 2019 and beyond."
Mark Webster, CEO

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Financial headlines

Summary Income Statement

Year Ended 30 September	2018 £'000	2017 £'000	% Change
Revenue	**124,883**	**112,016**	11.5%
Gross profit	**50,072**	**46,079**	8.7%
Adjusted operating profit	**19,100**	**16,406**	16.4%
Adjusted operating profit %	**15.3%**	**14.6%**	
Adjusted profit before tax	**18,757**	**16,111**	16.4%
Adjusted basic earnings per share	**57.2p**	**49.4p**	15.8%

"The business has once again delivered strong profitable growth with adjusted profit before tax increasing by 16.4% yoy"
Andy Boteler, CFO

- Revenue growth of 11.5% yoy, 15.5% excluding foreign exchange or 11.1% excluding foreign exchange and acquisitions/ disposals
- 45:55% H1/H2 revenue split, with strong last quarter
- Gross margin reduced to 40.1%, from 41.1% in the prior year due to lower Telecommunications margin
- Adjusted operating profit margin increased to 15.3%, from 14.6% in the prior year
- Invested £8.8 million in R&D (FY 2017 £8.6 million). This represented 7.0% of revenue
- Adjusted effective tax rate was 24.9% (FY 2017: 25.2%)
- Adjusted basic earnings per share up 15.8%

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Financial headlines

Cash Flow

Year Ended 30 September	2018 £'000	2017 £'000
Net cash flow from operating activities	**9,169**	**17,569**
Cash flow from investing activities		
Acquisition of subsidiary	(24,029)	(5,658)
Purchase of property, plant and equipment & intangibles	(7,226)	(6,374)
Sale of property plant and equipment	385	-
Interest received	9	27
	(30,861)	**(12,005)**
Cash flow from financing activities		
Movement in borrowings	17,256	395
Proceeds from issuance of share capital	-	-
Interest paid	(304)	(326)
Dividends paid to ordinary shareholders	(2,647)	(2,289)
	14,305	**(2,220)**
Net increase in cash and cash equivalents	**(7,387)**	**3,344**
Exchange gains	395	(86)
Cash and cash equivalents	**19,433**	**26,425**

- £8.8 million growth in working capital to take advantage of record order book
- £11.6 million increase in receivables mainly due to strong last quarter shipments
- First instalment of the StingRay acquisition earn-out of $6.0 million in cash from existing debt facilities was paid in February after strong performance
- 10.8% growth in full year dividend at 11.3p per share (2017: 10.2p)
- Net debt position of £10.6 million, after £24.0 million on acquisitions and £7.2 million on capex. This represents 0.5x net debt/ EBITDA
- Re-financed banking facility with Natwest. Three year term with $40 million RCF and $20 million uncommitted accordion

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Industrial

Financials (58% of revenue)

	FY18	FY17	Reported growth
Revenue	£72.9m	£67.6m	7.8%
Adjusted operating profit	£12.3m	£12.2m	0.8%
% margin	16.9%	18.1%	(120bp)

- Revenue growth driven by demand for critical components in precision lasers which are used to deliver the latest technology for microelectronic manufacturing. Strategic investments made in our Ilminster and Fremont sites to meet unprecedented levels of demand in FY 2018 and to respond to the continued expansion of laser based manufacturing
- Underperformance of optical telecoms. In latter part of year, as undersea networks moved into deployment phase, demand came back strongly
- Profit margin was hit by lower overhead absorption due to telecoms
- Some recent gradual softening in demand growth for critical components used in microelectronic manufacturing. Offset by a return to strong demand growth for fibre optic products in general and hi- reliability fibre couplers in particular

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

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Aerospace & Defence

Financials (33% of revenue)

	FY18	FY17	Reported growth
Revenue	£40.8m	£34.9m	16.9%
Adjusted operating profit	£5.7m	£4.3m	33.5%
% margin	14.0%	12.3%	170bp

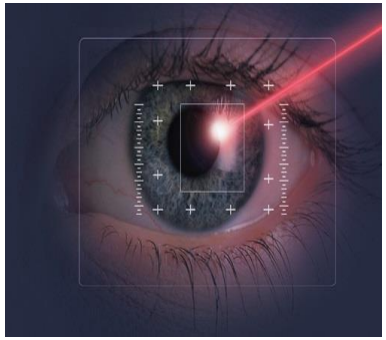
- Revenue growth driven by periscopes & sighting systems, IR optical sub systems for UAVs, space satellite communications, target designation and range finding
- Revenue growth, excluding foreign exchange and acquisitions, grew by 12%
- FY 2017 acquisition, StingRay, performed strongly, first year earn-out paid in full
- Profit and margin grew due to higher volume and mix
- Gould Fibre Optics (GFO) acquired in September 2018, performing as expected
- The company is well positioned to exploit the longer term aerospace & defence market dynamics which are favourable for our photonic technologies

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

Life Sciences/Biophotonics

Financials (9% of revenue)

	FY18	FY17	Reported growth
Revenue	£11.2m	£9.6m	17.2%
Adjusted operating profit	£1.6m	£1.0m	61.4%
% margin	14.6%	10.6%	400bp



- Revenue growth driven by acquisition of ITL in August 2018, excluding foreign exchange and acquisitions, was broadly flat
- Profits and margin grew significantly driven mainly by the acquisition
- ITL has potential to be transformative- the acquisition will effectively double Life Science revenues and their systems capability will enhance our product offering to medical diagnostic customers
- Further investments made in high return R&D programmes for OCT medical diagnostics and laser surgery

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

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FY 2018 acquisitions

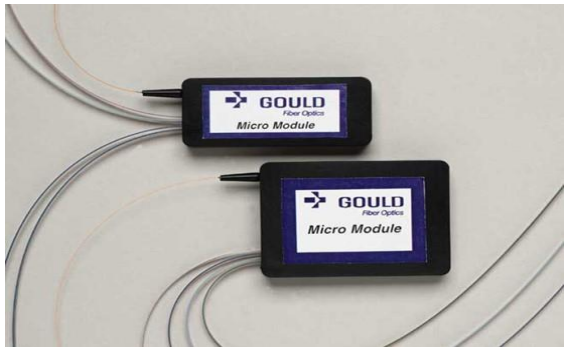
Broadening our offering

ITL

- Acquired on 8th August 2018
- Purchased for £14.0 million upfront plus earnout of up to £8.0 million
- Founded in 1977, HQ in Ashford, Kent
- Designs, develops, manufactures and services high quality medical diagnostic devices
- Effectively doubles our Life Science revenue, with 100% system based products
- ITL's core group of engineers provide a substantive platform for 'wrapping up' our photonic technologies in a systems package

Gould Fiber Optics (GFO)

- Acquired on 6th September 2018
- Purchased for $13.0 million upfront plus earnout of up to $3.4 million
- Founded in 1978, based in Baltimore, MA, USA
- High margin business with good growth prospects
- Combination with G&H creates an unrivalled global leader in fused fibre optics
- Provides enhanced access to tier one US Aerospace & Defence customers



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Our Strategy

Remains the twin pillars of diversification & moving up the value chain

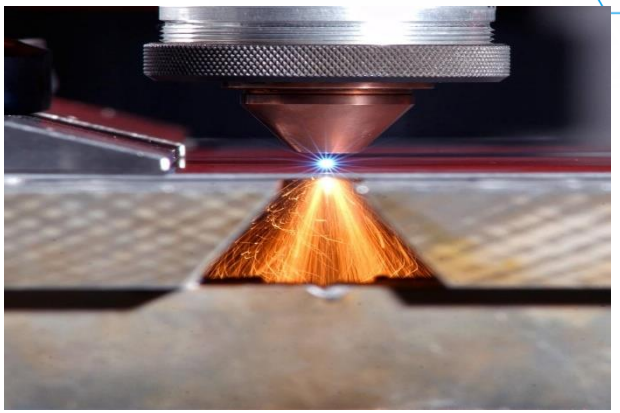
Diversify

Exploit high-growth opportunities for our photonics technologies across our three key market sectors to provide balance and reduce exposure to cyclicality

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

Exploit near/ medium term opportunities in:

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



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
- Transition from component supplier to critical partner

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Performance improvement programme

On track, delivering sustainable benefits

- During FY 2018 eight sites were organised into three manufacturing centres, based on our sites' areas of technical excellence, namely Acousto Optic/ Electro Optic, Precision Optics and Fibre Optics. The aims are to ensure best practice is shared, there is process harmonisation and optimal allocation of resources

- Kent Periscopes and StingRay Optics will form a fourth manufacturing centre in FY 2019. This will represent the next stage of assimilation of these two relatively recent acquisitions

- The two most recent acquisitions, ITL and GFO, will, in time, slot into the Systems and Fibre Optic manufacturing centres, respectively

- In FY 2019 three customer facing business units will be introduced in our traditional market sectors, Industrials, A&D and Life Sciences/ Biophotonics

- Each of the business unit leaders will be responsible for the sector's strategy and longer term planning. They will work closely with the four manufacturing heads to ensure our production resources match the strategy and longer term planning

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Key messages & Outlook

- G&H has had another strong year and full year trading was in line with our expectations
- Record year-end order book, which has strengthened since 30 September 2018
- We have continued to make substantial investments in capacity, on high return R&D projects, which delivered a record 29 new products and revenue of £12.0 million (FY 2017: £11.1 million) and have brought on board complementary technologies and customers through acquisitions
- Continued to execute on performance improvement programme with aim of driving operational efficiency, customer service and putting in place a scalable organisational model that will provide the platform for future growth
- Made significant progress towards our strategic goals of diversification and moving up the value chain. Aerospace & Defence now 33% of revenue and Life Sciences/ Biophotonics will effectively double revenue, post acquisition of ITL. Sub- systems and systems now represent 25.6%, compared to 22.1% in FY 2017
- Well positioned to make strategic acquisitions as and when the right opportunities become available, supported by a strong balance sheet
- Aware of potential macroeconomic and political risks but, based on a robust order book combined with greater diversification, the Board remains confident that the group is well positioned to deliver further progress. Group outlook unchanged

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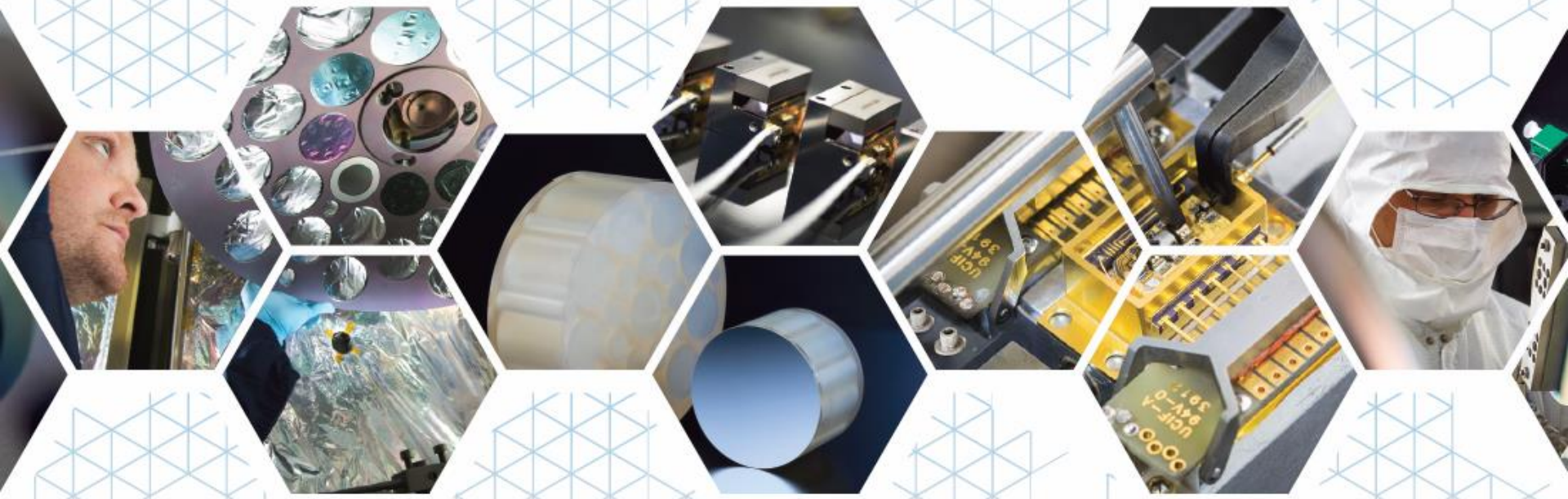

Appendices

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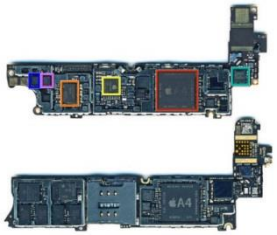
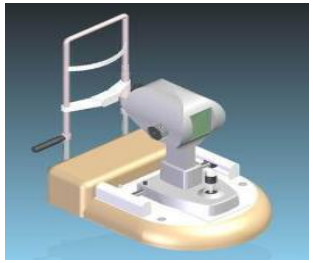
G&H photonics – part of our everyday lives

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

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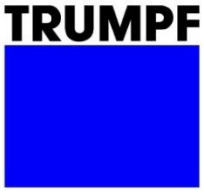
Key Customers



Targeted R&D

New products	Precision Optics	Acousto/ Electro Optics	Fibre Optics	Systems & Instrumentation
Aerospace & Defence	5	1	4	6
Industrial		9	3	
Life Sciences		1		

- 29 new products launched in FY 2018 compared with 22 in prior year
- £8.8m of spend compared with £8.6m in prior year, a 2.4% increase
- £0.6m capitalised, £0.7m in FY 2017

"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 29 product releases in 2018."
Mark Webster - CEO

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Investor Timetable

- 9th January 2019 - Site visit to ITL
- 20th February 2019 - AGM Trading Update
- 8th April 2019 – Half Year Trading Update
- April 2019 – Capital Markets Event in London
- June 2019 – Interim Announcement
- October 2019 – Full Year Trading Update
- November 2019 – Preliminary Announcement

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