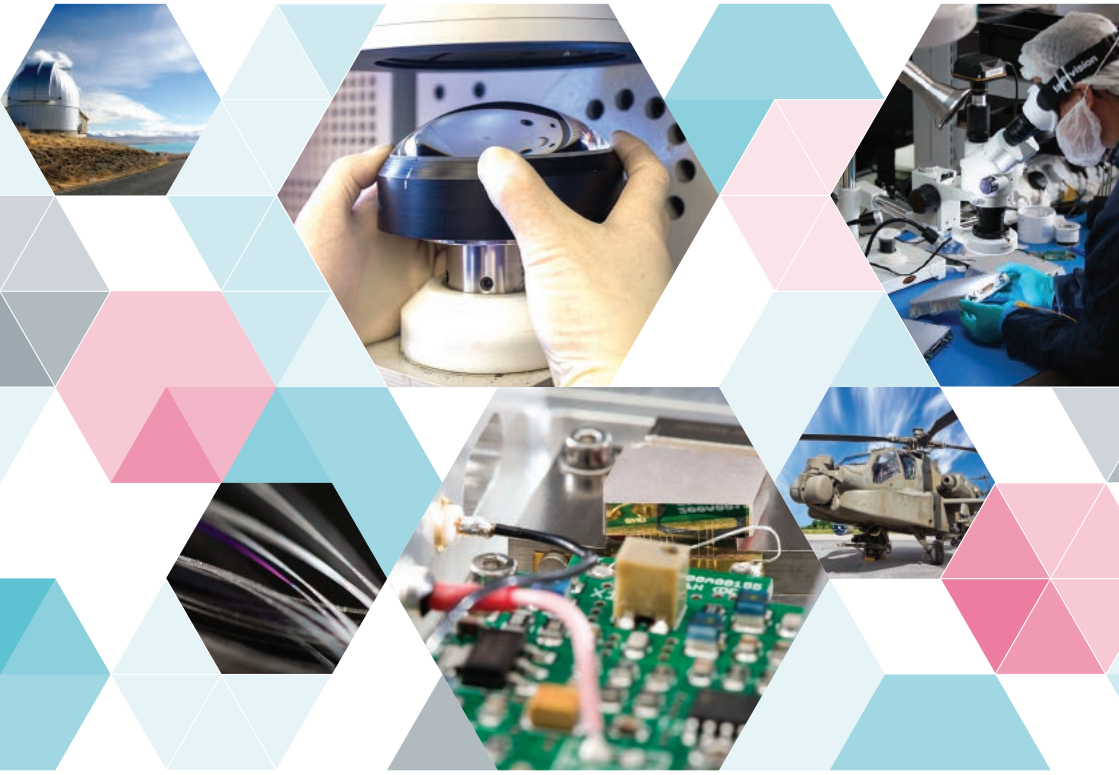
Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES



# INTERIM REPORT AND ACCOUNTS

MARCH 2019

the specialist manufacturer
of optical components and systems

NOTES TO EDITORS:

1. Gooch & Housego is a photonics technology business 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. It is headquartered in Ilminster, Somerset, UK.

2. This announcement contains certain forward-looking statements that are based on management's current expectations or beliefs as well as assumptions about future events. These are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which G&H operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results, and G&H's plans and objectives, to differ materially from those currently anticipated or implied in the forward-looking statements. Investors should not place undue reliance on any such statements. Nothing in this announcement should be construed as a profit forecast.

FOR FURTHER INFORMATION PLEASE CONTACT:


| | | |
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# INTERIM REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2019

Gooch & Housego PLC (AIM:GHH) ("Gooch & Housego", "G&H", the "Company" or the "Group"), the specialist manufacturer of optical components and systems, today announces its interim results for the six months ended 31 March 2019.

## KEY FINANCIAL HIGHLIGHTS:

| Period ended 31 March | H1 2019 | H1 2018 | Change (%) |
|---|---|---|---|
| Revenue | £59.7m | £55.6m | 7.4% |
| Adjusted profit before tax[1] | £5.4m | £7.0m | (22.8%) |
| Adjusted basic earnings per share[1] | 16.4p | 21.5p | (23.7%) |
| Net (debt) /cash | (£14.5m) | £5.0m | (£19.5m) |
| Statutory profit before tax | £1.5m | £5.2m | (71.8%) |
| Statutory basic earnings per share | 1.1p | 18.6p | (94.1%) |
| Interim dividend per share | 4.3p | 4.2p | 2.4% |

[1] Adjusted for amortisation of acquired intangible assets and non-recurring items.

## HIGHLIGHTS:

- Revenue growth of 7.4% compared with the same period last year. This was despite a challenging industrial laser market, due to cyclical downturn and continued US/ China trade dispute. Excluding the impact of foreign exchange, an increase of 4.1% over H1 last year.
- We anticipate non-industrial laser business will perform in line with our expectations. Industrial laser orders have increased since our last update, but we are now assuming that industrial laser business will not return to 'normal' levels in FY 2019 and instead we only supply known/high certainty orders.
- Given revised industrial laser outlook, Board's expectations for the Group's adjusted PBT for FY 2019 now reduced by circa £3.5-4.0 million.
- Hi-reliability fibre couplers to benefit from investment made in H1 and to show step change in H2. Anticipating a threefold increase in demand over the next three years, compared to FY 2018.
- Life science business has more than doubled in size compared to H1 last year, due to organic growth across all three main Life Science areas and successful acquisition of ITL.
- Record half year order book of £93.2 million, as at 31 March 2019, an increase of 10.0% compared with the same period last year. Excluding the impact of foreign exchange, an increase of 5.3%.
- Interim dividend increased to 4.3p (2018:4.2p), reflective of the Board's longer term confidence in the business, whilst acknowledging challenging industrial laser trading conditions.

## MARK WEBSTER, CHIEF EXECUTIVE OFFICER OF GOOCH & HOUSEGO, COMMENTED:

"Trading in the last six months has reflected trends previously reported. G&H has long been aware of the risks associated with the cyclical nature of the microelectronics sector and more recently the continued impact of the US/ China trade dispute. Our industrial laser order book has increased since our last update, but we now forecast the industrial laser business will not return to 'normal' levels in FY 2019.

"Technical innovation in microelectronic, semiconductor and industrial manufacturing, coupled with our market leading position means we expect supply of critical components to industrial lasers to be an important source of growth for G&H for the foreseeable future.

"The non-industrial laser business is expected to perform in line with management's expectations. Our fibre optics business generally is performing strongly and in particular we are investing in further capacity to take advantage of the multi-year strong demand growth for hi-reliability fibre couplers.

"We remain confident in the potential of the industrial laser sector and our other markets to provide attractive long term growth.

"G&H remains committed to further diversification and moving up the value chain. We will continue to invest in R&D and where appropriate make acquisitions in order to meet these strategic objectives."

“

# Our order book stood at £93.2 million as at 31 March 2019”

## PERFORMANCE OVERVIEW

In sharp contrast to 2018, trading conditions in the first six months of our 2019 financial year were challenging as adverse macro-economic factors including the US/China trade dispute and a downturn in the semiconductor equipment and microelectronics sectors created a difficult business environment. The effect was reduced demand for our critical components for industrial lasers used to manufacture semiconductor equipment and microelectronics. In contrast demand for fibre optic products and hi-reliability fibre couplers used in undersea networks exhibited strong growth. First half revenue growth was 7.4%; excluding the impact of foreign exchange, growth was 4.1%; and excluding the impact of foreign exchange and acquisitions revenue fell by 5.4%.

As previously stated, G&H has long been aware of the potential risks associated with the cyclical nature of the microelectronics sector and more recently the continued impact of the US/China trade dispute. Our industrial laser order book has improved since our last update, but we are now assuming that the industrial laser business will not return to more ‘normal’ levels in FY 2019 and we only supply orders that are known or where we have a high level of certainty.

We expect the non-industrial laser business will be in line with management expectations. Fibre optics is strong in general and we believe that hi-reliability fibre couplers in particular are about to experience a multi-year growth phase. As a result we are investing in further capacity to take advantage of our market leading position in this area. The benefits of the first phase of this growth should become apparent in the second half of the current financial year.

While there has been necessary investment in extra capacity in the fibre optics business, cost reduction measures will deliver an overall reduction in our cost base for FY 2019. These measures include structural changes which will deliver a leaner, more efficient organisation going forward.

Our order book stood at £93.2 million as at 31 March 2019, a record for the half year period and which represents an increase of 10.0% compared with the same time last year. Trading conditions improved in the second quarter as microelectronic customer inventory levels began to improve and order activity picked up in the Aerospace & Defense and Telecommunications sectors. Order intake in the second quarter was 38% higher than in the first quarter, though down overall in H1 compared with an historically high comparative.

The increase in our interim dividend by 2.4% reflects a balance between our longer term confidence in the business going forward and our strong balance sheet, whilst acknowledging the challenging trading conditions in our industrial laser market.

### Revenue

| Six months ended 31 March | 2019 | | 2018 | |
|---|---|---|---|---|
| | £'000 | % of total | £'000 | % of total |
| Industrial | 29,603 | 50% | 32,457 | 58% |
| Aerospace & Defence | 18,447 | 31% | 18,130 | 33% |
| Life Sciences | 11,658 | 19% | 5,021 | 9% |
| Group Revenue | 59,708 | 100% | 55,608 | 100% |

### Products and Markets – Industrial

Gooch & Housego’s principal industrial markets are industrial lasers, telecommunications, metrology, sensing and semiconductor manufacturing. Industrial lasers are used in a diverse range of precision material processing applications ranging from microelectronics to automotive.

Business in our industrial market was polarised between subsectors in the first six months of the year. Overall, sales of products into our industrial markets in the six months to 31 March 2019 were 8.8% lower compared with the equivalent period last year; excluding foreign exchange this represented a 10.9% decrease.

The industrial laser and semi-conductor markets were 14.4% lower, albeit against historically high comparators, due to adverse cyclical macro-economic factors and the continuing US/China trade dispute.

In telecommunications, we believe there will be continued strong demand for fibre optic components used in under-sea telecommunications applications, ultimately from Silicon Valley based companies entering this market and looking to lay their own undersea networks. Significant orders have been placed, ramp plans are well progressed and we expect a strong performance from this business in the second half of this year and into FY 2020 and FY 2021.

### Products and Markets – Aerospace & Defence ("A&D")

Product quality, reliability and performance are paramount in this sector, playing to G&H's strengths, along with our commitment to provide value. We have solid, well established positions in target designation and range finding, ring laser and fibre optic gyroscope navigational systems, infrared and RF countermeasures, periscopes and sighting systems, opto-mechanical subsystems used in unmanned aerial vehicles ("UAVs") and space satellite communications.

The A&D market for G&H is characterised by high-value, long-term programmes involving the main US and European defence contractors. Over the past three years, G&H has strengthened its position in this market with the acquisition of four businesses (Kent Periscopes, Alfalight, StingRay & Gould Fiber Optics) whose focus is either entirely or mainly A&D. This reflects G&H's commitment to this market which continues to represent an attractive growth area as more applications seek photonics solutions in a sector with high regulatory and compliance hurdles and challenging expectations of its equipment.

Our Aerospace & Defence revenue grew by 1.7% during the first six months of FY2019, compared to the equivalent period last year. Aerospace & Defence reduced organically by 1.6% compared with the same period last year. This was primarily driven by programme delays at our Boston site which will come on stream in H2 and should deliver a significantly improved H2 performance.

### Products and Markets – Life Sciences / Biophotonics

G&H's three principal Life Sciences / Biophotonics revenue streams are derived from diagnostics (fibre-optic modules for optical coherence tomography ("OCT") applications, surgery / treatments (electro-optics and acousto-optics for lasers) and biomedical research (acousto-optics for microscopy applications). In each application area the Company is making steady progress in moving up the value chain and is currently selling sub-systems as well as components to several larger customers. All areas demonstrated good year on year organic growth.

Our Life Sciences / Biophotonics revenue grew by 132.2% in the six months to 31 March 2019, compared with the equivalent period last year. This was driven by the acquisition of VITL Ltd ("ITL") in August 2018. On an organic basis, excluding acquisitions the Life Sciences / Biophotonics sector grew by 4.2%.

### Strategy

G&H's strategy is built around the twin pillars of diversification and moving up the value chain. In order to ensure its strategic goals are met management actively looks to invest in R&D, acquisitions and strategic partnerships.

**R&D:** In the first six months of the current financial year, G&H invested £4.0 million in targeted research & development. Our main target areas are a new generation of precision lasers and laser systems, optical sensing for harsh environments, OCT medical diagnostics, laser surgery, space satellite communications, opto-mechanical systems for UAVs and armoured vehicles and laser directed energy weapons. This represents 6.8% of revenue and is 2.2% lower than the same period last year (2018: £4.1m), albeit this is impacted by the strength of Sterling against the US Dollar. G&H's continued commitment to investing in targeted R&D programmes is bearing fruit, with 24 new products launched in the period ended 31 March 2019.

**Diversification:** G&H seeks to develop, through R&D and acquisition, a presence in new markets that offer the potential for significant growth as a result of their adoption of photonic technology, whilst also reducing exposure to cyclicality in any particular sector. We will continue to invest in our key sectors in order to ensure we maintain a

balanced portfolio and over time achieve critical mass in Life Sciences and further strengthen our position in A&D. Our recent acquisitions have greatly improved our position in Life Sciences / Biophotonics, which now represents 19.5% of our business (2018: 9.0%).

Moving up the Value Chain: G&H seeks to move up the value chain to more complex sub-assemblies and systems through leveraging its excellence in materials and components, and by providing photonic design and engineering solutions for our customers. This will enable G&H to transition from a components supplier to a solutions provider. A significant proportion of our business in the Aerospace & Defence market now comes from the sale of sub-systems rather than discrete components. Our recent acquisitions, particularly that of VITL Ltd ("ITL"), are design and sub-assembly businesses and have helped to increase the proportion of our business derived from sub-system or system revenues from 22.4% in H1 2018 to 31.7%, for H1 2019. G&H has a world class capability in opto-mechanical design and this substantially enhances our ability to offer "end to end" design and manufacturing solutions to our customers.

As well as continuing to develop a leadership position in space photonics, the global R&D team is actively engaged in near-market developments in OCT, fibre lasers and fibre optic sensing as the Company leverages its components expertise to move up the value chain in these important areas.

## Operations

As previously reported, Gooch & Housego's manufacturing sites have been re-organised into three technical groups, namely Acousto Optic/Electro Optic, Precision Optics/Systems and Fibre Optics. This is part of becoming a more scalable organisation able to accommodate anticipated growth rates. There have already been benefits, as we upgrade capacity and performance at Fibre Optic and Acousto Optic sites.

## Principal Risks and Uncertainties

The principal risks and uncertainties to which the Group is exposed and our approach to managing those risks are unchanged from those identified on page 27 of our 2018 Annual Report.

## Acquisitions

G&H continues to evaluate various 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 August 2018 G&H acquired VITL Ltd ("ITL"). This acquisition expanded the Company's presence in the life sciences sector and further enables G&H's move into system based products.

ITL is a UK based specialist in the design, development and manufacture of high quality medical and in vitro diagnostic (IVD) devices. ITL is a market leading supplier with an established group of long standing multi-national customers. It provides full product development, design, manufacturing and after sale service for the commercialisation of medical diagnostic, analytical, precision electro-mechanical and laboratory instruments. ITL has continued to exceed our expectations.

In September 2018 G&H acquired the trade and assets of Gould Technology LLC, trading as Gould Fiber Optics ("GFO"). This acquisition strengthened G&H's position as the world leader in fused fibre optic technology and provides enhanced access to strategic US aerospace and defence customers. As anticipated action is required to improve GFO's manufacturing capability before we can take full advantage. GFO is performing below our expectations as programme delays have impacted order intake, this will be reflected in the earn out payments.

In November 2018, £2.1 million was paid in respect of the final tranche of the 2016 Kent Periscopes acquisition. This represented 84% of the maximum potential.

In February 2019, $3.3 million was paid in respect of the final tranche of the 2017 StingRay acquisition. This represented 83% of the maximum potential.

As part of its bi-annual review of the carrying value of goodwill, the Board has taken the decision to impair the

goodwill relating to the Boston cash generating unit. This goodwill arose on the acquisition of EM4, now referred to as Gooch & Housego Boston, in January 2011 for consideration of $11.6 million and, prior to the impairment, the carrying value of the associated goodwill was £5.1m. Over the last eight years this acquisition has played a vital role in Gooch & Housego's diversification strategy, by providing the systems and critical mass needed for the Company to become a credible player in the Aerospace & Defence market. The duplication of Boston's technology in our Torquay facility has also been a key factor in allowing Gooch & Housego to address the European space market. However, on a stand-alone basis, Boston has struggled to grow its engineering services business. Whilst recent contract awards for this business are encouraging signs for the future, nevertheless, the Board feels it is appropriate to make an impairment of £2.6m to the carrying value of Boston.

### Reconciliation of adjusted performance measures

| | Operating Profit | | Net finance costs | | Taxation | | Profit after tax | | Earnings per share | |
|---|---|---|---|---|---|---|---|---|---|---|
| Half year to 31 March | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 | 2019 pence | 2018 pence |
| Reported | 2,976 | 5,692 | (1,494) | (444) | (1,211) | (668) | 271 | 4,580 | 1.1 | 18.6 |
| Amortisation of acquired intangible assets | 1,829 | 954 | – | – | (74) | (62) | 1,755 | 892 | 7.0 | 3.6 |
| Restructuring costs | 639 | 502 | – | – | (135) | (103) | 504 | 399 | 2.0 | 1.6 |
| Site closure costs | (521) | – | – | – | 99 | – | (422) | – | (1.7) | – |
| Impairment of goodwill | 2,576 | – | – | – | – | – | 2,576 | – | 10.3 | – |
| Interest on discounted deferred consideration | – | – | 850 | 305 | – | – | 850 | 305 | 3.5 | 1.2 |
| Adjustment to accrued contingent consideration | (1,445) | – | – | – | – | – | (1,445) | – | (5.8) | – |
| Impact of US tax rate change on deferred tax balances | – | – | – | – | – | (864) | – | (864) | – | (3.5) |
| Adjusted | 6,054 | 7,148 | (644) | (139) | (1,321) | (1,697) | 4,089 | 5,312 | 16.4 | 21.5 |

Adjusted profit before tax was £5.4 million, a reduction of 22.8% on the prior year (H1 2018: £7.0 million). This reduction in profit reflects a combination of lower volumes in our micro-electronics market, delays in placing a number of A&D contracts and investment in the capacity expansion to address the surge in demand for undersea telecommunications products.

### Cash Flow and Financing

In the six months to 31 March 2019, G&H generated cash from operations of £5.0 million, compared with £1.2 million in the same period of 2018. Inventory has increased by £3.1 million since the year end with the business investing in selected finished goods inventory to both reduce customer lead times and to prepare for the undersea telecommunications demand surge. As expected the year end receivables position has largely unwound and is £5.8 million lower as at 31 March 2019.

Capital expenditure on property, plant and equipment was £2.8 million in the period (2018: £2.7 million). The main fixed asset additions were in relation to increasing capacity in our sites. Expenditure on upgrading our ERP system of £0.4m is included in intangible capital expenditure.

The Company's net debt position remains comfortable at £14.5 million, up from £10.6 million at 30 September 2018, following the payment of the StingRay & Kent Periscopes earn outs and the investment in working capital.

### Staff

The Company workforce reduced from 1,007 at 30 September 2018 to 990 at the end of March 2019.

### Board Changes

As previously announced our Chief Financial Officer, Andrew Boteler, will leave G&H in June 2019. His successor, Chris

“

## We remain confident in the potential of the industrial laser sector and our other target markets to provide attractive long term growth.”

Jewell, is expected to join in September 2019, and we look forward to welcoming Chris to G&H. In the interim period between Andy leaving and Chris' start date our Group Financial Controller Gareth Crowe will lead the finance function.

Alex Warnock, our Chief Operating Officer, has decided to step down from the Board, and will leave the Group after the end of the current financial year. He has put in place a strong and experienced management team based around three manufacturing centres, which has been successfully operating in its current structure for the best part of two years. We currently do not intend to replace Alex and the three manufacturing heads will report directly to the CEO.

Both Andy and Alex have been an important part of G&H's success, and their hard work, commitment and experience will be missed. We wish them both well for their future endeavours.

### Dividends

The Directors have declared an interim dividend of 4.3p per share (2018 : 4.2p per share), a 2.4% increase on the prior period, which is reflective of the Directors' confidence in the business going forward and is underpinned by our strong balance sheet, whilst acknowledging challenging industrial laser trading conditions. This dividend will be payable on 26 July 2019 to shareholders on the register as at 21 June 2019.

### Prospects and outlook

Trading in the last six months has reflected trends we have previously reported. The business has seen a downturn in demand for critical components used in industrial lasers for microelectronic manufacturing, particularly from China. In contrast demand for fibre optic products and hi-reliability fibre couplers used in undersea networks is strong.

As previously stated, G&H has long been aware of the potential risks associated with the cyclical nature of the microelectronics sector and more recently the continued impact of the US/China trade dispute. Our industrial laser order book has improved since our last update, but we are now assuming the industrial laser market will not return to more 'normal' levels in FY 2019 and instead we only supply known or high certainty orders. This has resulted in a reduction in the Board's expectations for the Group's adjusted PBT for FY2019 of circa £3.5-£4.0 million.

That said, significant technological innovation in 5G, folding phones and the greater use of industrial lasers in manufacturing, coupled with our market leading position means supply of critical components to industrial lasers will be an important source of growth for G&H into the foreseeable future.

During FY 2019 we have prepared for significant capacity growth in fibre optics generally and hi-reliability fibre couplers specifically, as they undergo a multi year growth phase.

We remain confident in the potential of the industrial laser sector and our other target markets to provide attractive long term growth.

G&H remains committed to the twin pillars of our strategy, namely diversification and moving up the value chain. As demonstrated by the acquisition of ITL, our acquisition strategy is targeting opportunities that enhance the Company's ability to wrap electronics and software around core photonic products to yield system-level solutions and to deliver 'critical mass' in Life Sciences and further strengthen our position in A&D.

**Mark Webster**
Chief Executive Officer

**Andrew Boteler**
Chief Financial Officer

4 June 2019

# GROUP INCOME STATEMENT

Unaudited interim results for the 6 months ended 31 March 2019

| | Note | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|---|
| **Revenue** | 5 | 59,708 | 55,608 | 124,883 |
| Cost of revenue | | (39,512) | (33,886) | (74,811) |
| **Gross profit** | | 20,196 | 21,722 | 50,072 |
| Research and Development | | (3,552) | (3,739) | (8,229) |
| Sales and Marketing | | (4,554) | (4,551) | (9,237) |
| Administration | | (10,378) | (8,507) | (22,317) |
| Other income and expenses | | 1,264 | 767 | 507 |
| **Operating profit** | 5 | 2,976 | 5,692 | 10,796 |
| Net finance costs | | (1,494) | (444) | (683) |
| **Profit before income tax expense** | | 1,482 | 5,248 | 10,113 |
| Income tax expense | 6 | (1,211) | (668) | (2,893) |
| **Profit for the period** | | 271 | 4,580 | 7,220 |
| **Basic earnings per share** | 7 | 1.1p | 18.6p | 29.3p |

Reconciliation of profit before tax to adjusted profit before tax:

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| **Profit before tax** | 1,482 | 5,248 | 10,113 |
| Amortisation of acquired intangible assets | 1,829 | 954 | 2,141 |
| Adjustment to accrued contingent consideration | (1,445) | - | 417 |
| Impairment of goodwill | 2,576 | - | 2,708 |
| Site closure costs | (521) | - | 1,569 |
| Restructuring costs | 639 | 502 | 864 |
| Transaction fees | - | - | 605 |
| Interest on discounted deferred consideration | 850 | 305 | 340 |
| **Adjusted profit before tax** | 5,410 | 7,009 | 18,757 |

# GROUP STATEMENT OF COMPREHENSIVE INCOME

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| **Profit for the period** | 271 | 4,580 | 7,220 |
| **Other comprehensive income** | | | |
| Currency translation differences | 11 | (1,496) | 1,657 |
| Other comprehensive income / (expense) for the period | 11 | (1,496) | 1,657 |
| **Total comprehensive income for the period** | **282** | **3,084** | **8,877** |

# GROUP BALANCE SHEET

Unaudited interim results for the 6 months ended 31 March 2019

| | 31 Mar 2019 (Unaudited) £'000 | 31 Mar 2018 (Unaudited) £'000 | 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 37,942 | 34,445 | 38,320 |
| Intangible assets | 62,146 | 38,926 | 65,734 |
| Deferred income tax assets | 1,725 | 1,502 | 1,944 |
| | **101,813** | **74,873** | **105,998** |
| **Current assets** | | | |
| Inventories | 27,570 | 23,968 | 24,445 |
| Income tax assets | – | 638 | – |
| Trade and other receivables | 29,205 | 26,691 | 35,028 |
| Cash and cash equivalents | 15,566 | 16,053 | 19,433 |
| | **72,341** | **67,350** | **78,906** |
| **Current liabilities** | | | |
| Trade and other payables | (19,778) | (21,747) | (25,262) |
| Borrowings | (76) | (6) | (75) |
| Income tax liabilities | (491) | – | (309) |
| Provision for other liabilities and charges | (1,445) | (884) | (988) |
| Deferred consideration | (6,059) | (4,256) | (5,774) |
| | **(27,849)** | **(26,893)** | **(32,408)** |
| **Net current assets** | **44,492** | **40,457** | **46,498** |
| **Non-current liabilities** | | | |
| Borrowings | (30,009) | (11,002) | (29,964) |
| Deferred income tax liabilities | (6,602) | (4,438) | (6,322) |
| Deferred consideration | (2,806) | – | (8,363) |
| | **(39,417)** | **(15,440)** | **(44,649)** |
| **Net assets** | **106,888** | **99,890** | **107,847** |
| **Shareholders' equity** | | | |
| Called up share capital | 5,008 | 4,950 | 4,982 |
| Share premium account | 16,000 | 15,530 | 15,530 |
| Merger reserve | 7,262 | 4,640 | 7,262 |
| Cumulative translation reserve | 7,242 | 4,078 | 7,231 |
| Retained earnings | 71,376 | 70,692 | 72,842 |
| **Equity Shareholders' Funds** | **106,888** | **99,890** | **107,847** |

# STATEMENT OF CHANGES IN EQUITY

Unaudited interim results for the 6 months ended 31 March 2019

| | Share capital account £'000 | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Cumulative translation reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| At 1 October 2017 | 4,903 | 15,530 | 4,640 | 67,489 | 5,574 | 98,136 |
| Profit for the period | – | – | – | 4,580 | – | 4,580 |
| Other comprehensive expense for the period | – | – | – | – | (1,496) | (1,496) |
| Total comprehensive income / (expense) for the period | – | – | – | 4,580 | (1,496) | 3,084 |
| Dividends | – | – | – | (1,608) | – | (1,608) |
| Proceeds from shares issued | 47 | – | – | (47) | – | – |
| Fair value of employee services | – | – | – | 338 | – | 338 |
| Tax credit relating to share option schemes | – | – | – | (60) | – | (60) |
| At 31 March 2018 (unaudited) | 4,950 | 15,530 | 4,640 | 70,692 | 4,078 | 99,890 |
| At 1 October 2018 | 4,982 | 15,530 | 7,262 | 72,842 | 7,231 | 107,847 |
| Profit for the period | – | – | – | 271 | – | 271 |
| Other comprehensive income for the period | – | – | – | – | 11 | 11 |
| Total comprehensive income for the period | – | – | – | 271 | 11 | 282 |
| Dividends | – | – | – | (1,767) | – | (1,767) |
| Proceeds from shares issued | 26 | 470 | – | (19) | – | 477 |
| Fair value of employee services | – | – | – | 338 | – | 338 |
| Tax debit relating to share option schemes | – | – | – | (289) | – | (289) |
| At 31 March 2019 (unaudited) | 5,008 | 16,000 | 7,262 | 71,376 | 7,242 | 106,888 |

# GROUP CASH FLOW STATEMENT

Unaudited interim results for the 6 months ended 31 March 2019

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 5,029 | 1,151 | 11,949 |
| Income tax paid | (628) | (1,646) | (2,779) |
| **Net cash generated from / (used by) operating activities** | **4,401** | **(495)** | **9,170** |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | (3,906) | (4,414) | (24,029) |
| Disposal of trade and assets | – | – | 384 |
| Purchase of property, plant and equipment | (2,799) | (2,739) | (5,849) |
| Sale of property, plant and equipment | 1,480 | – | – |
| Purchase of intangible assets | (791) | (922) | (1,377) |
| Interest received | 9 | 7 | 9 |
| Interest paid | (518) | (111) | (304) |
| Net cash used in investing activities | **(6,525)** | **(8,179)** | **(31,166)** |
| **Cash flows from financing activities** | | | |
| Drawdown of acquisition borrowing facility | – | – | 17,272 |
| Repayment of borrowings | (37) | (3) | (16) |
| Dividends paid to ordinary shareholders | (1,733) | (1,608) | (2,647) |
| Net cash (used in) / generated from financing activities | **(1,770)** | **(1,611)** | **14,609** |
| **Net decrease in cash** | **(3,894)** | **(10,285)** | **(7,387)** |
| **Cash at beginning of the period** | **19,433** | **26,425** | **26,425** |
| Exchange gains / (losses) on cash | 27 | (87) | 395 |
| **Cash at the end of the period** | **15,566** | **16,053** | **19,433** |

# NOTES TO THE GROUP CASH FLOW STATEMENT

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| **Profit before income tax** | **1,482** | 5,248 | 10,113 |
| Adjustments for: | | | |
| - Amortisation of acquired intangible assets | 1,829 | 954 | 2,141 |
| - Amortisation of other intangible assets | 54 | 67 | 683 |
| - Profit on disposal of the Orlando building | (902) | – | – |
| - Proceeds from sale of trade and assets | – | – | (384) |
| - Impairment of goodwill | 2,576 | – | 2,708 |
| - Adjustment to accrued contingent consideration | (1,445) | – | 417 |
| - Depreciation | 2,224 | 1,933 | 4,009 |
| - Share based payment obligations | 338 | 338 | 675 |
| - Amounts claimed under the RDEC | (195) | (195) | (370) |
| - Finance income | (5) | (7) | (16) |
| - Finance costs | 1,499 | 451 | 699 |
| **Total adjustments** | **5,973** | 3,541 | 10,562 |
| Changes in working capital | | | |
| - Inventories | (3,122) | (3,376) | (1,295) |
| - Trade and other receivables | 5,828 | (2,272) | (7,847) |
| - Trade and other payables | (5,132) | (1,990) | 416 |
| **Total changes in working capital** | **(2,426)** | (7,638) | (8,726) |
| **Cash generated from operating activities** | **5,029** | 1,151 | 11,949 |

Reconciliation of net cash flow to movements in net (debt) / cash

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| Decrease in cash in the period | (3,894) | (10,285) | (7,387) |
| Borrowings | - | - | (17,272) |
| Repayment of borrowings | 37 | 2 | 16 |
| Changes in net (debt) / cash resulting from cash flows | (3,857) | (10,283) | (24,643) |
| Finance leases and borrowings acquired | - | - | (355) |
| Translation differences | (56) | 401 | (535) |
| Movement in net (debt) in the period / year | (3,913) | (9,882) | (25,533) |
| Net (debt) / cash at start of period | (10,606) | 14,927 | 14,927 |
| Net (debt) / cash at end of period | (14,519) | 5,045 | (10,606) |

Analysis of net debt

| | At 1 Oct 2018 £'000 | Cash flow £'000 | Exchange movement £'000 | At 31 Mar 2019 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 19,433 | (3,894) | 27 | 15,566 |
| Debt due within 1 year | (60) | - | - | (60) |
| Debt due after 1 year | (29,947) | 32 | (83) | (29,998) |
| Finance leases | (32) | 5 | - | (27) |
| Net debt | (10,606) | (3,857) | (56) | (14,519) |

# NOTES TO THE INTERIM REPORT

## 1. Basis of Preparation

The unaudited Interim Report has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The Interim Report was approved by the Board of Directors and the Audit Committee on 4 June 2019. The Interim Report does not constitute statutory financial statements within the meaning of the Companies Act 2006 and has not been audited.

Comparative figures in the Interim Report for the year ended 30 September 2018 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion. The comparative figures to 31 March 2018 are unaudited.

The Interim Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 4 June 2019. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2018, as described in those financial statements.

## 2. Application of IFRS

### Adoption of new standards

In preparing the interim financial statements, the Group has adopted IFRS15 "Revenue from contracts with customers". This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The implementation of IFRS15 has not led to any material change in the recognition of the Group's revenue.

## 3. Estimates

The preparation of interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2018.

## 4. Financial risk management

The Company's activities expose it to a variety of financial risks, market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at 30 September 2018.

There have been no changes to the risk management policies since the year end.

5. Segmental analysis

| For half year to 31 March 2019 | Aerospace & Defence £'000 | Life Sciences / Biophotonics £'000 | Industrial £'000 | Corporate £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total revenue | 18,451 | 12,044 | 33,107 | – | 63,602 |
| Inter and intra-division | (4) | (386) | (3,504) | – | (3,894) |
| **External revenue** | **18,447** | **11,658** | **29,603** | **–** | **59,708** |
| Divisional expenses | (17,245) | (9,374) | (26,416) | 2,986 | (50,049) |
| **EBITDA[1]** | **1,202** | **2,284** | **3,187** | **2,986** | **9,659** |
| EBITDA % | 6.5% | 19.6% | 10.8% | – | 16.2% |
| Depreciation and Amortisation | (460) | (303) | (1,248) | (267) | (2,278) |
| **Operating profit before amortisation of acquired intangible assets** | **742** | **1,981** | **1,939** | **2,719** | **7,381** |
| Amortisation of acquired intangible assets and goodwill impairment | – | – | – | (4,405) | (4,405) |
| **Operating profit** | **742** | **1,981** | **1,939** | **(1,686)** | **2,976** |
| Operating profit margin % | 4.0% | 17.0% | 6.6% | – | 5.0% |
| Add back non-recurring items | 454 | 30 | 235 | 2,360 | 3,079 |
| Operating profit excluding non-recurring items | 1,196 | 2,011 | 2,174 | 674 | 6,055 |
| Adjusted operating profit margin % | 6.5% | 17.2% | 7.3% | – | 10.1% |

| For half year to 31 March 2018 | Aerospace & Defence £'000 | Life Sciences / Biophotonics £'000 | Industrial £'000 | Corporate £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total revenue | 18,130 | 5,021 | 36,176 | – | 59,327 |
| Inter and intra-division | – | – | (3,719) | – | (3,719) |
| **External revenue** | **18,130** | **5,021** | **32,457** | **–** | **55,608** |
| Divisional expenses | (15,701) | (4,513) | (26,733) | (15) | (46,962) |
| **EBITDA[1]** | **2,429** | **508** | **5,724** | **(15)** | **8,646** |
| EBITDA % | 13.4% | 10.1% | 17.6% | – | 15.5% |
| Depreciation and Amortisation | (367) | (201) | (1,141) | (291) | (2,000) |
| **Operating profit before amortisation of acquired intangible assets** | **2,062** | **307** | **4,583** | **(306)** | **6,646** |
| Amortisation of acquired intangible assets | – | – | – | (954) | (954) |
| **Operating profit** | **2,062** | **307** | **4,583** | **(1,260)** | **5,692** |
| Operating profit margin % | 11.4% | 6.1% | 14.1% | – | 10.2% |
| Add back non-recurring items | – | – | – | 1,456 | 1,456 |
| Operating profit excluding non-recurring items | 2,062 | 307 | 4,583 | 196 | 7,148 |
| Adjusted operating profit margin % | 11.4% | 6.1% | 14.1% | – | 12.9% |

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation.
All of the amounts recorded are in respect of continuing operations.

## 5. Segmental analysis (continued)

Analysis of revenue by destination

| | Half year to 31 Mar 2019 (Unaudited) £'000 | Half year to 31 Mar 2018 (Unaudited) £'000 |
|---|---|---|
| United Kingdom | 15,121 | 8,656 |
| America | 21,595 | 20,468 |
| Continental Europe | 12,412 | 13,051 |
| Asia-Pacific | 10,580 | 13,433 |
| | **59,708** | **55,608** |

## 6. Income tax expense

Analysis of tax charge in the period

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| Current taxation | | | |
| UK Corporation tax | 917 | 544 | 1,895 |
| Overseas tax | 262 | 868 | 1,381 |
| Total current tax | 1,179 | 1,412 | 3,276 |
| Deferred tax | | | |
| Origination and reversal of temporary differences | 32 | 120 | 481 |
| Impact of change in the US tax rate | – | (864) | (864) |
| Total deferred tax | 32 | (744) | (383) |
| Income tax expense per income statement | 1,211 | 668 | 2,893 |

The tax charge for the six months ended 31 March 2019 is based on the estimated effective rate of the tax for the Group for the full year to 30 September 2019. The estimated rate is applied to the profit before tax.

## 7. Earnings per share

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

| | Half Year to 31 Mar 2019 (Unaudited) No. | Half Year to 31 Mar 2018 (Unaudited) No. | Full Year to 30 Sep 2018 (Audited) No. |
|---|---|---|---|
| Number of shares used for basic earnings per share | 24,926,574 | 24,660,697 | 24,629,591 |
| Dilutive shares | 208,823 | 252,099 | 265,817 |
| Number of shares used for dilutive earnings per share | 25,135,397 | 24,912,796 | 24,895,408 |

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

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2019 (Unaudited) p per share | Half Year to 31 Mar 2018 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) p per share | Full Year to 30 Sep 2018 (Audited) £'000 | Full Year to 30 Sep 2018 (Audited) p per share |
|---|---|---|---|---|---|---|
| Basic earnings per share | 271 | 1.1p | 4,580 | 18.6p | 7,220 | 29.3p |
| Adjustments net of income tax expense: | | | | | | |
| Amortisation of acquired intangible assets | 1,755 | 7.0p | 892 | 3.6p | 1,865 | 7.6p |
| Goodwill impairment | 2,576 | 10.3p | – | – | 2,708 | 11.0p |
| Adjustment to accrued contingent consideration | (1,445) | (5.8p) | – | – | 417 | 1.7p |
| Site closure costs | (422) | (1.7p) | – | – | 1,210 | 4.9p |
| Restructuring costs | 504 | 2.0p | 399 | 1.6p | 695 | 2.8p |
| Transaction fees | – | – | – | – | 489 | 2.0p |
| Interest on discounted deferred consideration | 850 | 3.5p | 305 | 1.2p | 340 | 1.4p |
| Tax credit due to US tax rate change | – | – | (864) | (3.5p) | (864) | (3.5p) |
| Total adjustments net of income tax expense | 3,818 | 15.3p | 732 | 2.9p | 6,860 | 27.9p |
| Adjusted basic earnings per share | 4,089 | 16.4p | 5,312 | 21.5p | 14,080 | 57.2p |
| Basic diluted earnings per share | 271 | 1.1p | 4,580 | 18.4p | 7,220 | 29.0p |
| **Adjusted diluted earnings per share** | **4,089** | **16.3p** | **5,312** | **21.3p** | **14,080** | **56.5p** |

Adjusted earnings per share before amortisation of acquired intangible assets and adjustments has been shown because, in the opinion of the Directors, it more accurately reflects the trading performance of the Group.

## 8. Dividend

The Directors have declared an interim dividend of 4.3 pence per share for the half year ended 31 March 2019. This dividend has not been accounted for within the period to 31 March 2019 as it is yet to be paid.

| | Half Year to 31 Mar 2019 (Unaudited) £'000 | Half Year to 31 Mar 2018 (Unaudited) £'000 | Full Year to 30 Sep 2018 (Audited) £'000 |
|---|---|---|---|
| Final 2018 dividend paid : 7.1p per share | 1,733 | – | – |
| Final 2017 dividend paid : 6.5p per share | – | 1,608 | 1,608 |
| 2018 Interim dividend paid: 4.2p per share | – | – | 1,039 |
| | 1,733 | 1,608 | 2,647 |

## 9. Borrowings

The group's banking facilities with NatWest Bank comprise a committed revolving credit facility of $40m and an uncommitted flexible acquisition facility of $20m both available until 31 August 2021.

The revolving credit facility attracts an interest rate of between 1.2% and 1.7% above LIBOR dependent upon the Company's leverage ratio.

## 10. Called up share Capital

| | 2019 No. | 2018 No. | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| **Allotted, issued and fully paid** | | | | |
| Ordinary share of 20p each | **25,036,397** | 24,907,831 | **5,008** | 4,950 |

Gooch & Housego
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