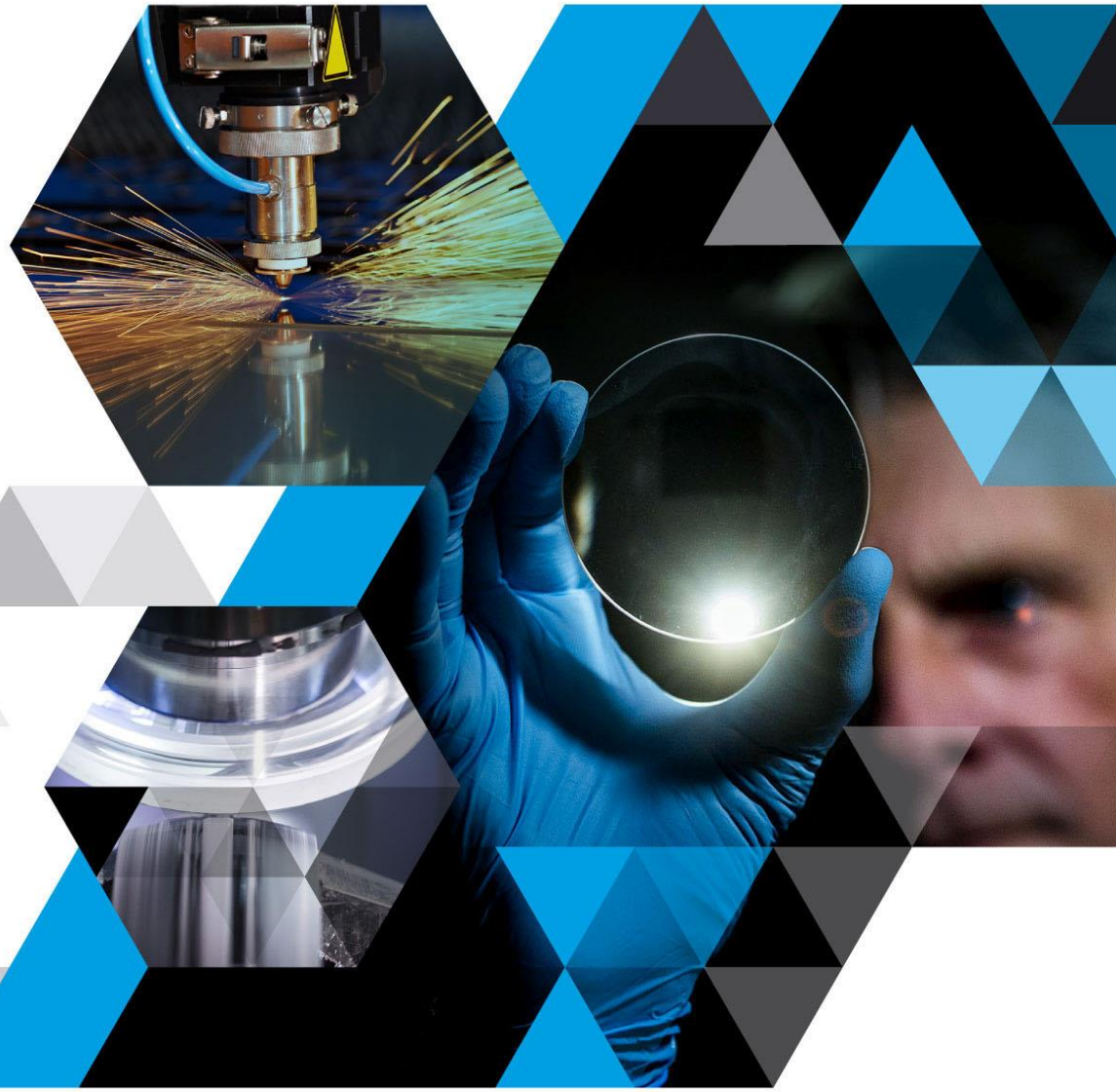


FULL YEAR RESULTS

Year ended 30 September 2021

A year of development and growth

CEO: Mark Webster / CFO: Chris Jewell

KEY HIGHLIGHTS – STRATEGIC PROGRESS

- Trading reflected strong and improving end markets and initial benefits from our manufacturing streamlining programme, more than offsetting currency headwinds and some supply chain issues.
- Industrial laser demand continues to be strong driven by 5G rollout, use of new more flexible materials in microelectronic manufacturing and high worldwide demand for semiconductors.
- Medical lasers continue to grow as elective surgery recovers. Medical diagnostics remained at previous high levels.
- Ambitious manufacturing streamlining programme is largely complete. During FY2021 we reduced from 12 to 9 sites, enabling us to enhance the Group's margins and better respond to customers' needs. Annual benefit of £1.75m.
- New products contributed a record £18.1m in FY2021 (FY2020: £16.9m).
- We continued to invest in our increasingly productive R&D group.
- There is substantial growth potential for our photonic technologies and system capabilities in all our target markets.

"*G&H remains committed to the long term goals of further diversification in A&D and life sciences and moving up the value chain. We intend to pursue these policies vigorously through internal investment and where appropriate, acquisitions.*"

Mark Webster, CEO

KEY HIGHLIGHTS – OPERATIONAL & FINANCIAL

- Revenue of £124.1m, up by 6.4%, excluding foreign exchange.
- Adjusted profit before tax of £12.6m, up 29.4%.
- Strong cash flow over the year leading to further debt reduction. Net debt, excluding lease liabilities, of £2.6m places G&H in a strong position to pursue strategic goals.
- Return of progressive dividend policy with a proposed full year dividend of 12.2p
- Year end order book of £97.8m, 8.6% higher than the same time last year, excluding foreign exchange.
- Industrial and medical lasers are demonstrating a sustained recovery, while telecommunications and medical diagnostics continue to perform at a high level.

"*The Board is confident that we are well positioned to make further progress in FY2022 and deliver substantial long term growth.*"

Mark Webster, CEO

FINANCIAL HEADLINES – SUMMARY INCOME STATEMENT

Year Ended 30 September	2021 £m	2020 £m	% Change
Revenue	**124.1**	**122.1**	1.6%
Gross profit	**41.3**	**39.3**	5.1%
Gross margin - %	**33.3%**	**32.1%**	120bps
Adjusted operating profit	**13.3**	**11.2**	19.0%
Adjusted operating profit margin	**10.8%**	**9.2%**	160bps
Adjusted profit before tax	**12.6**	**9.8**	29.4%
Adjusted basic earnings per share (p.p.s)	**41.0p**	**30.5p**	34.4%
Non underlying items	**7.9**	**4.4**	79.5%

"Good recovery in trading volumes and the benefits of our site consolidation programme drove improved levels of profitability."
Chris Jewell, CFO

- Revenues grew by 1.6% or 6.4% excluding the effect of foreign exchange.
- Sustained recovery in our Industrial markets and important deliveries completed to our A&D customers.
- Life sciences also grew 5.9%, or 8.1% on a constant currency basis, despite strong prior year comparative figures.
- Gross margin improved to 33.3%, from 32.1% in the prior year thanks to the higher volumes and the benefits of the streamlining programme.
- Cash investment of £7.9m in R&D (2020: £8.0m).
- Adjusted effective tax rate was 18.8% (2020: 21.8%).
- Non underlying items (predominantly related to site rationalisation programme): charge of £7.9m, cash of £5.1m.

FINANCIAL HEADLINES – CASHFLOW

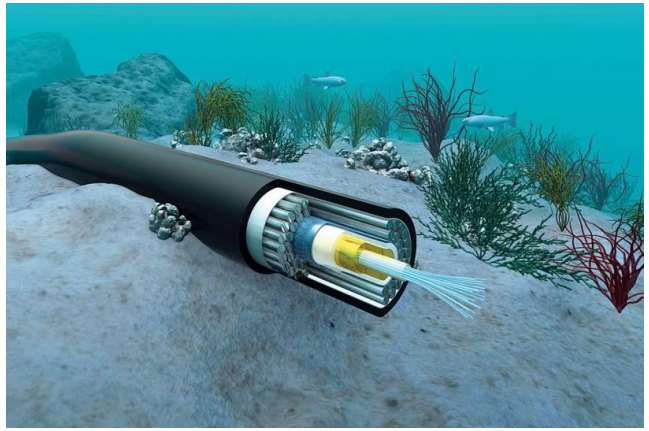
Year Ended 30 September	2021 £m	2020 £m
Net cash flow from operating activities	**16.2**	**20.4**
Cash flow from investing activities		
Acquisition of subsidiary	(3.3)	(4.8)
Purchase of property, plant and equipment & intangibles	(6.2)	(6.8)
Sale of property plant and equipment	-	0.4
Settlement of legal dispute	-	1.6
Net Interest paid	(0.5)	(0.6)
	(10.0)	**(10.2)**
Cash flow from financing activities		
Net borrowing and lease payments	(16.1)	(5.8)
Dividends paid to ordinary shareholders	(1.1)	(1.8)
	(17.2)	**(7.6)**
Net (decrease) / increase in cash and cash equivalents	**(11.0)**	**2.6**
Exchange losses	(0.3)	(0.4)
Cash	**8.4**	**19.7**

- Reduction in working capital of £0.5m since September 2020, despite growth in business volumes.
- ITL acquisition earn-out (max. potential) of £3.25m paid in cash from existing debt facilities.
- Total investment in tangible and intangible assets of £6.2m.
- Net debt (excluding the impact of IFRS 16 – Leases) of £2.6m, down from £6.5m.
- Leverage as measured for our bank covenant was 0.1x (2020: 0.4x).
- $19.2m of Group borrowings repaid during the year.
- Available committed and uncommitted bank facilities of $55.2m to support the Group's future growth.

INDUSTRIAL

Financials (45% of revenue)

	FY21	FY20	Reported growth
Revenue	£55.6m	£54.8m	1.4%
Adjusted operating profit	£7.1m	£4.1m	71.9%
% margin	12.7%	7.5%	520bps



- Industrial grew year on year by 7.2%, at constant currency.
- Strong and sustained growth in industrial lasers, especially in the semiconductor market. Roll out of 5G technology and use of new more flexible materials in microelectronic manufacturing are driving demand. High and sustained global demand for semiconductors.
- G&H's laser engine technology is now used in directional sensing for wind turbines and for protecting infrastructure assets. End customer delays impacted revenues for security applications, but laser sensing increasingly seen as the most efficient way to protect high value assets.
- Demand for our hi-reliability fibre couplers remained strong, with higher use of the technology in space satellites complementing undersea cable business. Greater data requirements and Silicon Valley companies establishing their own networks underpins these revenues.
- Profit margins benefitted from the additional volume and cost reduction as a result of our site consolidation and outsourcing programmes.

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

AEROSPACE & DEFENCE

Financials (33% of revenue)

	FY21	FY20	Reported growth
Revenue	£41.1m	£41.4m	(0.7)%
Adjusted operating profit	£3.1m	£2.8m	12.1%
% margin	7.6%	6.8%	80bps

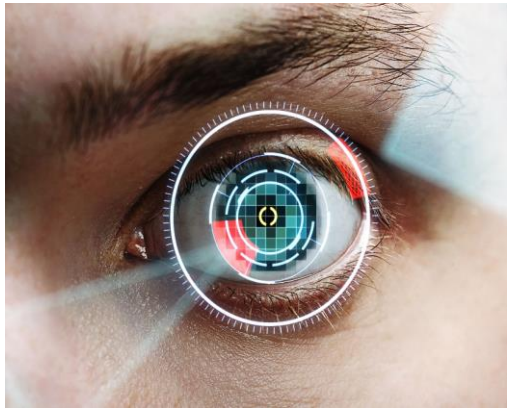
- Aerospace and Defence grew year on year by 4.3%, at constant currency.
- Complex optical arrays in the IR spectrum for unmanned aerial vehicle (UAV) imaging and communication systems was a source of multiple new products in FY2021 and represents significant growth potential. Completed deliveries of optical sensor systems on a number of armoured vehicle programmes.
- The successful launch of ‘first of its kind’ laser based satellite communication system has enabled further business for our Torquay and Boston, MA team
- We have maintained our laser based aerospace navigational system capability at our Moorpark, CA facility, though we are not forecasting the commercial aerospace market to recover until 2023.
- We are supporting technology demonstration projects for directed energy systems which we expect to be a significant future growth opportunity.

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

LIFE SCIENCES/BIOPHOTONICS

Financials (22% of revenue)

	FY21	FY20	Reported growth
Revenue	£27.4m	£25.9m	5.9%
Adjusted operating profit	£4.2m	£4.7m	(8.8)%
% margin	15.5%	18.0%	(250)Bps

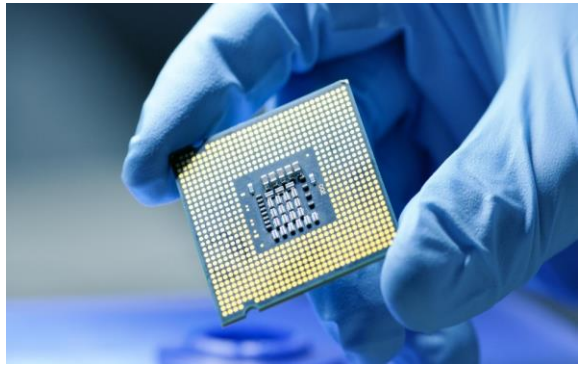


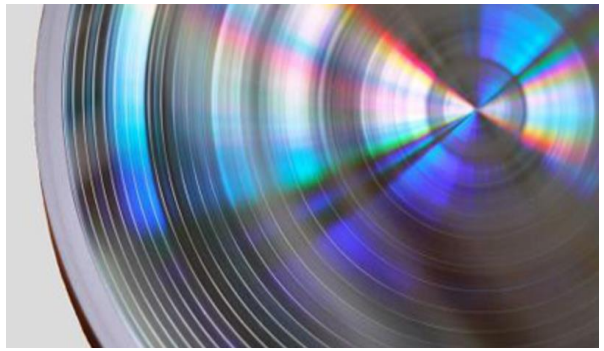
- Life sciences grew year on year by 8.1%, at constant currency
- Demand for our medical diagnostics products remained at the high levels seen in the previous year. Shipments of a product designed to improve respiratory function as part of ventilator system were an important contributor.
- We expanded our medical diagnostics R&D group to meet growing demand from our customers in USA, Europe and China.
- Orders for our specialist medical laser products have been strong as the market recovers from the low levels of elective surgery seen during the pandemic.
- Optical coherence tomography (OCT) products performed well. G&H has a market leading position in ophthalmology, and a product using the technology for diagnosis of cardiovascular disease has just entered registration trials in USA.

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

Streamlining of G&H's manufacturing base and operations

- Streamlining of our manufacturing base progressed well during FY2021.
- We reduced the number of manufacturing sites from 12 to 9.
- Our Baltimore, MD production was moved to Boston, MA creating a single US optical fibre facility.
- In the UK production has been transferred from Glenrothes, Scotland and St Asaph, Wales sites to Ilminster, Somerset, creating a single UK precision optics (PO) hub.
- Our world leading optical systems engineering team has been transferred to an innovation hub in St. Asaph.
- Outsourcing of our Ilminster acousto-optic (AO) production to our South East Asian contract manufacturing partner is well advanced and the final product transfers are expected to be completed soon.
- The previously announced annual benefit of £1.75m from FY2022 is on track to be delivered.





A responsible business

We are focused on creating a long term sustainable business.

Environment

- New solar panels installed at our Ilminster facility in the year. They are already installed at Torquay and a further installation is planned at our Ashford, Kent site.
- G&H is now generating approx. 600 KwP of electricity from solar sources. Year-on-year carbon reduction programme reduced emissions by 7.5% in the year.
- By September 2021 43% of our purchased electricity was from renewable sources.

Social

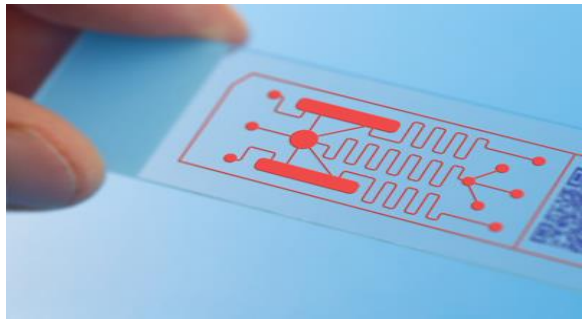
- Employee workshops held to develop the behaviours we expect to deliver our Mission and Values.
- We support the communities in which we work.

Governance

- We are committed to maintaining the highest standards of corporate governance.
- The Company applies the UK Corporate Governance Code (2018).

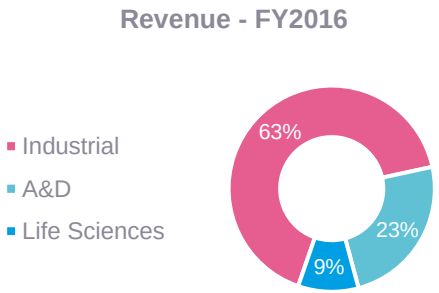
Our Strategy remains diversification and moving up the value chain

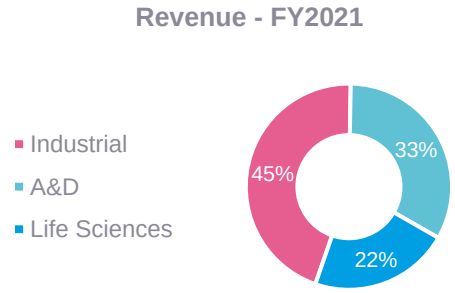
Our core strategic objectives



To further diversify the business

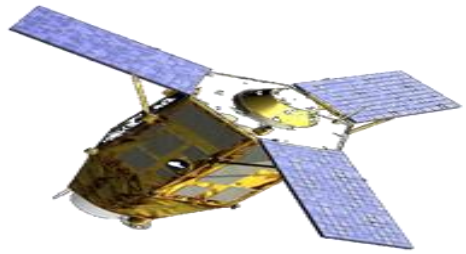
- A&D and Life Sciences with 33.1% and 22.1% of FY2021 Group revenue respectively represent a counter balance to our exposure to the economic cycle in our industrial markets. This represents considerable progress over the last five years.





To secure a greater proportion of the Group's revenues from sub-assemblies and systems

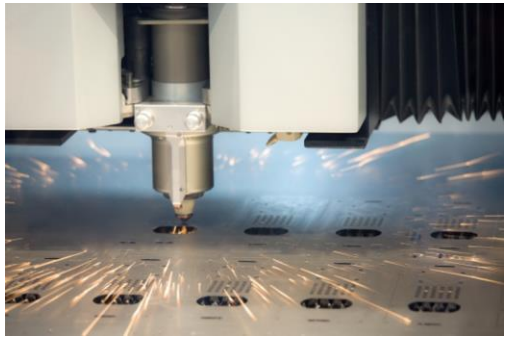
- They now account for 33.2% of FY2021 Group revenue. The acquisition of ITL has provided the platform for a systems engineering hub.

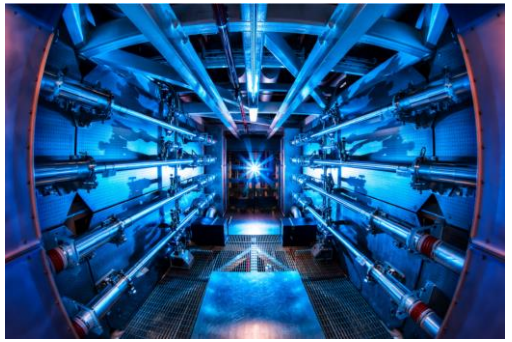


Our R&D priorities

Our short and medium term targets include:

- ”State of the art” extreme ultra-violet (EUV) lithography lasers used for nano electronics.
- Market leading Germanium AO modulators for use in semiconductor manufacturing.
- Laser engine technology used in directional sensing for wind turbines and infrastructure asset protection. Our partner company is now selling into the large Chinese wind farm market.
- IR optical arrays for UAV imaging and communication systems.
- We are working on thermal overlay of our traditional optical sighting systems for armoured vehicles.
- Launch of laser-based satellite laser system in collaboration with NEC and JAXA (Japan Aerospace Exploration Agency) has opened up potential business in other standard satellite, constellation satellite and near space UAV programmes.
- Pockels Cells capability applied to next generation of medical lasers with our largest medical laser customer.
- OCT technology used in cancer and cardiovascular disease detection.
- Expanded medical diagnostic R&D group to work on a range of novel diagnostic systems. Three collaborations with Chinese medical diagnostic companies, through our Shanghai facility. China Government is backing the establishment of its own medical diagnostic industry.

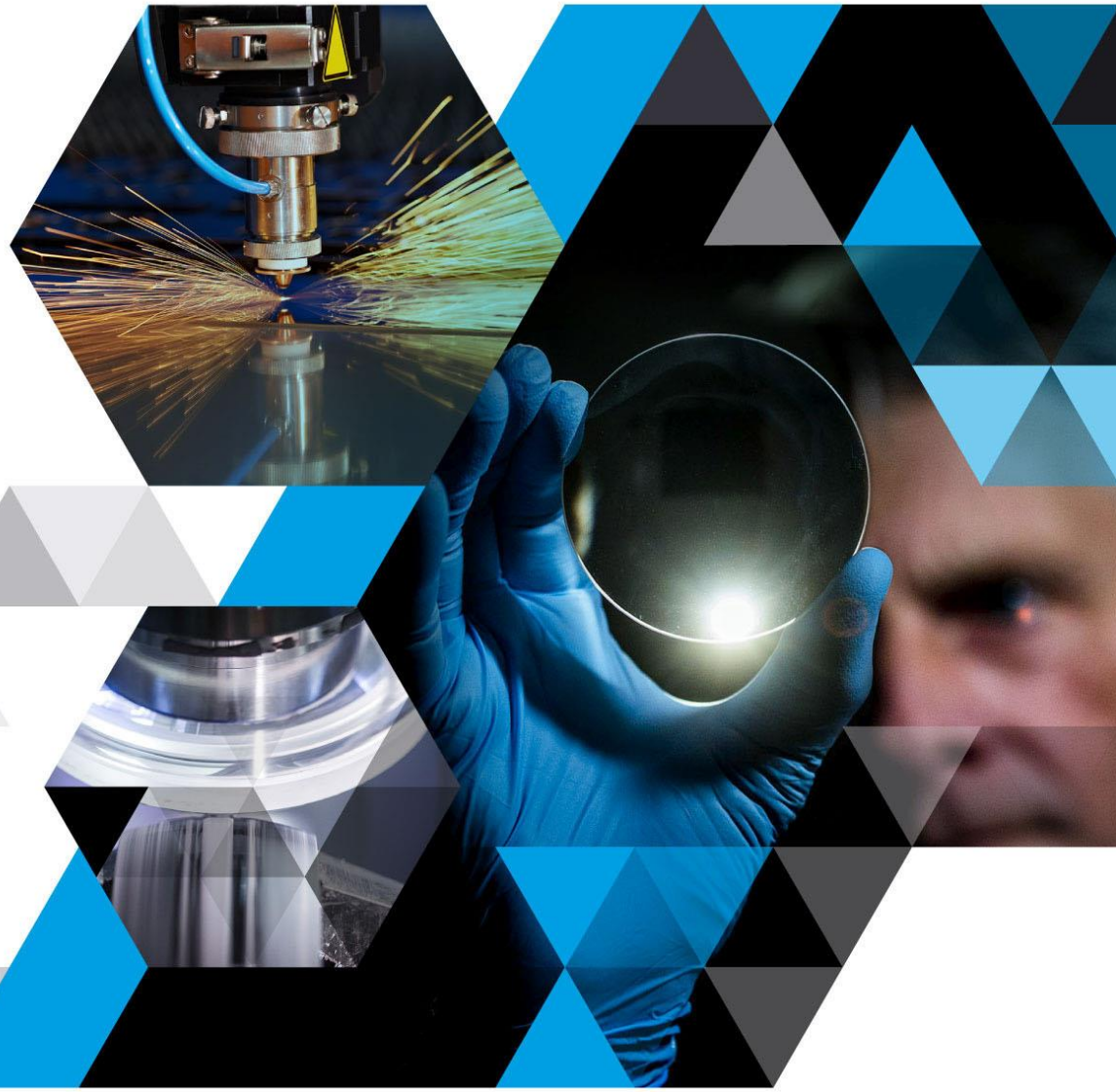




Key messages and outlook

- The business environment in FY2021 improved markedly compared to pandemic affected FY2020. We believe this will continue to improve in FY2022.
- There was strong demand for our industrial laser, medical laser, telecommunications and medical diagnostic products. We expect demand led growth to continue in these sub-sectors.
- Our year end order book was 8.4% higher than the previous year end, excluding the impact of foreign exchange.
- Despite the strong financial results in FY 2021 there was some ‘drag’ on performance due to pockets of self isolation, availability of labour in the US and supply chain issues. These factors may still have an impact on performance in the short term. Mitigating actions have been taken by management in each of these areas.
- Our plans to streamline our manufacturing operations have been largely completed and are on track to deliver the previously reported benefits.
- New products are an increasingly important part of our portfolio. We remain committed to investing in those areas identified as providing the greatest potential return.
- G&H remains committed to further diversification and moving up the value chain. We intend to vigorously pursue these goals through internal investment and where appropriate, acquisitions.
- The Board remains confident that G&H is well positioned to deliver further progress in FY2022 and substantial long-term growth.

Appendices



Targeted R&D

New products	Precision Optics & Systems	Acousto/ Electro-Optics	Fibre Optics
Aerospace & Defence	29	-	4
Industrial	-	2	4
Life Sciences	5	-	4

- New products contributed a record £18.1m in FY2021 (FY2020: £16.9m).

"There remains substantial growth potential for our photonic technologies and system capabilities across all of our target sectors."
Mark Webster - CEO

Non Underlying Items

Non Underlying Items

- **Total non underlying charge of £7.9m.**
- Amortisation of acquired intangibles - £2.0m.
- Restructuring - £5.9m – streamlining of our manufacturing sites including the closure of our Glenrothes, Baltimore and St Asaph production facilities.

2022 Expected Financial Calendar

- 23rd February 2022 – AGM Trading Update
- 5th April 2022 – Half Year Trading Update
- June 2022 – Interim Announcement
- October 2022 – Full Year Trading Update
- December 2022 – Full Year Results Announcement

Key Customers

G&H

G&H