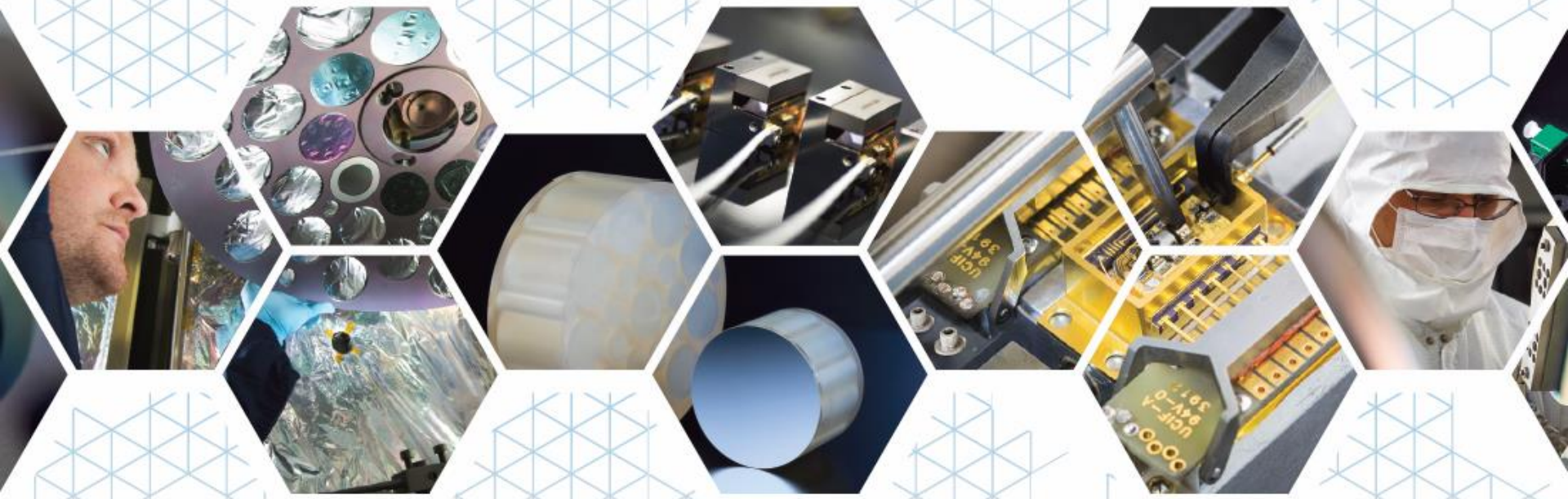

INTERIM RESULTS

HALF YEAR ENDED 31 MARCH 2017

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

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Highlights

Operational & Financial Highlights

- Strong revenue growth driven by telecoms, precision inspection equipment and microelectronic manufacturing sectors.
- Completed the acquisition of StingRay Optics, a specialist designer and manufacturer of opto-mechanical subsystems, in February 2017.
- Continued investment in people and infrastructure to drive further growth and take advantage of positive market conditions.
- Adjusted profit growth of 11.8% compared with the same period last year.
- Cash flow from operations of £7.9 million compared with £2.9 million last year.
- Record order book of £66.6 million, as at 31 March 2017, an increase of 70.5% compared with the same period last year.
- Interim dividend increased by 12.1% to 3.7p (2016:3.3p).

"G&H is well positioned to take advantage of the positive market conditions and has continued to invest in people and infrastructure in order to meet the demands of a record order book."

Mark Webster, CEO

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Highlights
Order Book

- Record order book at 31 March was £66.6 million (HY2016 : £39.2 million), a 70.5% increase.
- Excluding foreign exchange, this is a 61.8% increase.
- Excluding foreign exchange and acquisitions, this is an organic increase of 17.2%, reflecting the positive market conditions.
- G&H has booked £59.5 million in orders since the start of the year.
- The order book has increased further since 31 March 2017.

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Financial Overview

Income Statement

Half Year Ended 31 March	2017 £'000	2016 £'000
Revenue	**52,153**	**38,361**
Gross profit	**20,209**	**13,109**
Operating expenses	**(13,874)**	**(7,516)**
Adjusted operating profit	**6,335**	**5,593**
Adjusted operating profit %	**12.1%**	**14.6%**
Acquired intangible assets amortisation and exceptional items	**(1,435)**	**(2,033)**
Operating profit	**4,900**	**3,560**
Net finance costs	**(197)**	**(33)**
Profit before tax	**4,703**	**3,527**
Tax expense	**(1,261)**	**(913)**
Profit for the period	**3,442**	**2,614**
Basic earnings per share	**14.1p**	**10.8p**
Adjusted profit before tax	**6,218**	**5,560**
Adjusted basic earnings per share	**18.7p**	**17.0p**

Key points:

- Revenue growth of 36.0% compared with the same period last year.
- Excluding the impact of foreign exchange revenue increased by 18.2%.
- G&H is substantially "naturally hedged," primarily due to our large US Dollar cost base, therefore the foreign exchange benefit is mainly seen on the revenue line.
- Gross margin increased to 38.7%, compared with 34.2% in the same period last year.
- Invested in people and infrastructure to drive further growth and take advantage of the record order book.
- Invested £4.5 million in R&D. This represents 8.6% of revenue and is 28.6% higher than HY2016 (2016: £3.5m).
- Adjusted profit before tax increased by 11.8%, compared with the same period last year.
- Effective tax rate was 26.8% (2016: 25.9%).

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Financial Overview

Cash Flow

Half Year Ended 31 March	2017 £'000	2016 £'000
Cash flow from operating activities after tax	**7,069**	**2,446**
Cash flow from investing activities		
Purchase of property, plant and equipment & intangibles	(3,890)	(6,293)
Acquisition of subsidiaries, net of cash acquired	(5,549)	-
Interest received	18	20
	(9,421)	**(6,273)**
Cash flow from financing activities		
Movement in borrowings	6,045	(29)
Proceeds from issuance of share capital	-	-
Interest paid	(109)	(50)
Dividends paid to ordinary shareholders	(1,383)	(1,254)
	4,553	**(1,333)**
Net increase in cash and cash equivalents	**2,201**	**(5,160)**
Cash and cash equivalents	**25,686**	**17,810**

Key points:

- Cash flow from operations before tax of £7.9 million, compared with £2.9 million last year.
- £3.6 million investment in Property, Plant & Equipment, targeted at increasing capacity in our two largest UK sites and the Cleveland facility modernisation.
- An initial consideration of $7.5 million in cash from existing debt facilities was paid in respect of the StingRay acquisition.
- The Company's net cash position remains robust at £7.8 million, down from £12.3 million at 30 September 2016, following the acquisition of StingRay.
- Interim dividend increased 12.1% to 3.7p (2016: 3.3p).

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Financial Overview

Balance Sheet

As at 31 March		2017 £'000	2016 £'000
Non-current assets	Tangible assets	34,935	29,645
	Intangible assets	44,418	21,074
	Other	2,785	2,382
		82,138	**53,101**
Current assets	Inventories	21,025	16,269
	Trade & other receivables	21,852	16,332
	Cash & cash equivalents	25,686	17,810
		68,563	**50,411**
Current liabilities	Trade & other creditors	(20,547)	(11,675)
	Borrowings	(3)	(10)
	Other	(1,397)	(692)
		(21,947)	**(12,377)**
Non current liabilities	Borrowings	(17,913)	(5,482)
	Other	(14,388)	(3,169)
		(32,301)	**(8,651)**
Net assets		**96,453**	**82,484**

Key points:

- Strong balance sheet maintained.
- £3.6 million invested in property, plant & equipment.
- £0.4 million of R&D costs capitalised, net of amortisation.
- Excluding the impact of foreign exchange and acquisitions, inventories fell by £0.5 million, compared with the position as at 31 March 2016.
- Excluding the impact of foreign exchange and acquisitions, receivables increased by £2.6 million, compared with the position as at 31 March 2016.
- The movement in borrowings reflects the three acquisitions made since 31 March 2016, together with the impact of foreign exchange.

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Market analysis

Results by segment

	Industrial	Aerospace & Defence	Life Sciences	Scientific Research	Corporate	Group
Revenue						
2017	**£31.3m**	**£14.6m**	**£4.8m**	**£1.5m**	**-**	**£52.2m**
2016	£24.8m	£8.1m	£3.9m	£1.6m	-	**£38.4m**
Change	£6.5m	£6.5m	£0.9m	(£0.1m)	-	**£13.8m**
%	*26.2%*	*80.2%*	*23.1%*	*(6.3%)*	-	***35.9%***
Adjusted operating profit						
2017	**£5.3m**	**£1.1m**	**£0.3m**	**£0.0m**	**(£1.2m)**	**£5.5m**
2016	£4.8m	£0.5m	£0.5m	£0.2m	(£1.1m)	**£4.9m**
Change	£0.5m	£0.6m	(£0.2m)	(£0.2m)	(£0.1m)	**£0.6m**
%	*10.4%*	*120.0%*	*(40.0%)*	*(90.0%)*	*(9.1%)*	***12.2%***

- Industrials - growth driven by telecoms, precision inspection equipment and microelectronic manufacturing sectors.
- Aerospace & Defence - £5.1 million of growth delivered through acquisitions.
- Life Sciences - investment in life sciences business development.

"Our aim is to build critical mass in A&D and Life Sciences in order to fully leverage our capabilities and protect against the fluctuation associated with ordering patterns and key customer performance, as per the Industrial sector."

Mark Webster CEO

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Technology, Products & Markets

Markets & Applications

Industrial

Revenue	
2017	**£31.3m**
2016	£24.8m
Change	£6.5m
%	*26.2%*

Adjusted operating profit

2017	**£5.3m**
2016	£4.8m
Change	£0.5m
%	*10.4%*

Markets

Microelectronics & light manufacturing

- Strong demand for microelectronic components from Far East, driven by the demand for OLED technology, smart phones and tablets.
- Investment made to build capacity.
- Growth in high value add inspection equipment products.

Fibre optic sensing

- Lower demand in H1, albeit against a strong FY2016 comparator.

Telecommunications

- Continued strong demand for high reliability undersea fibre couplers driven by 'non-traditional' companies laying their own networks.

Metrology

Applications

- Fibre lasers
- Solid state lasers
- Other laser sources
- Semi-conductor equipment
- Inspection equipment

- Perimeter sensing
- Laser scanners
- Wind turbines

- Undersea amplifiers
- Specialist networks
- 40G & 100G Modulation systems

- Laser interferometers

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Technology, Products & Markets

Markets & Applications

Aerospace & Defence

Revenue	
2017	**£14.6m**
2016	£8.1m
Change	£6.5m
%	*80.2%*

Adjusted operating profit

2017	**£1.1m**
2016	£0.5m
Change	£0.6m
%	*120.0%*

Markets

Target designation & range finding

- Market position greatly enhanced by the acquisition of StingRay and Kent Periscopes. Looking to leverage StingRay's opto-mechanical design capability across the group, in particular our IR and UAV business.

Navigation systems

- An increasingly competitive market place for G&H. Price pressure being counteracted with cost reduction measures.

Space Photonics

- Increasingly G&H recognised as a global leader in space satellite communications, now on both sides of the Atlantic.
- Increasing commercial traction.

Countermeasures

Applications

- Aircraft platforms
- Missile systems
- Land based military platforms
- UAVs

- Ring laser gyroscopes
- Fibre gyroscopes

- Telco satellites
- GPS satellites
- Research satellites
- Space navigation

- Infra-red countermeasures
- RF countermeasures

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Technology, Products & Markets

Markets & Applications

Life sciences

Revenue	
2017	**£4.8m**
2016	£3.9m
Change	£0.9m
%	*23.1%*

Adjusted operating profit

2017	**£0.3m**
2016	£0.5m
Change	(£0.2m)
%	*(40.0%)*

Markets

Optical Coherence Tomography

- Increasing investment in a broader portfolio of OCT products, with new customers, for a range of new applications beyond the traditional strength in Ophthalmology.

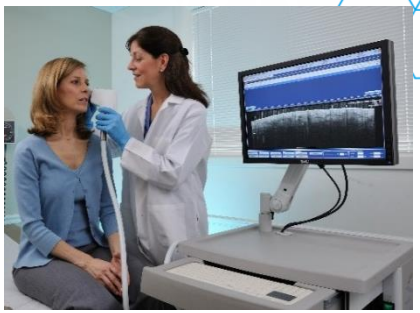
Laser Surgery

- An area of current and future growth.

Microscopy

Applications

- Ophthalmic imaging
- Cardiovascular
- Oesophageal imaging



- Prostate surgery
- Ophthalmic surgery
- Cosmetic surgery
- Tattoo removal

- Confocal microscopes

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Technology, Products & Markets

Markets & Applications

Scientific research

Revenue	
2017	**£1.5m**
2016	£1.6m
Change	(£0.1m)
%	*(6.3%)*

Adjusted operating profit

2017	**£0.0m**
2016	£0.2m
Change	(£0.2m)
%	*(90.0%)*

Markets

Inertial Confinement Fusion

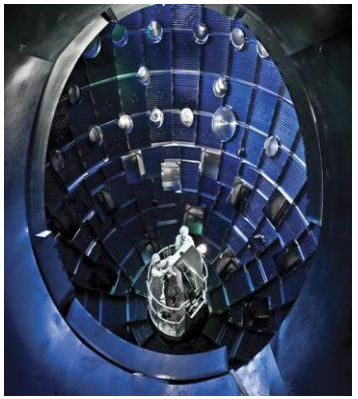
- Maintain our position as custodians of this technology.

Scientific Instrumentation

- Upgrading technology to meet enhanced customer demands.

Applications

- National Ignition Facility
- Laser Mega Joule



- Research institutes
- Universities

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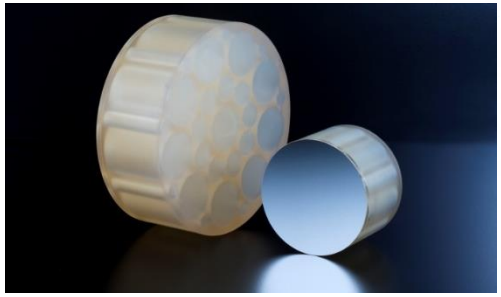
Our Strategy

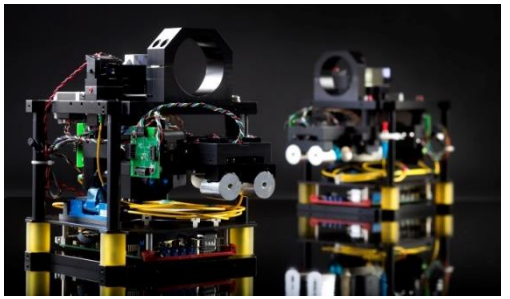
Remains consistent

Diversify

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

- Aim to establish critical mass in Aerospace & Defence and Life Sciences
- Exploit near/ medium term opportunities in:
  - Fibre and ultrafast lasers
  - High precision inspection equipment
  - Remote sensing
  - SWIR
  - Satellite communications
  - UAV navigation and communication
  - Laser surgery
  - OCT Diagnostics





Move up the value chain

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

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

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Performance Improvement Plan - Progress

- **Operational excellence** – Globally focused teams representing the key manufacturing disciplines are now established and will deliver performance benefits in 2017 and beyond. Introduction of company wide lean manufacturing principles and training is well under way.

- **Investment in facilities** –
  - Fremont move & Torquay facility extensions now completed.
  - Investment in more operators and updated equipment at Ilminster site necessary during H1 to meet record demand.
  - Cleveland site upgrade is substantially complete. We will have invested in the region of $5 million in a facility which will help drive much needed operational efficiency as well as better showcasing our capabilities to customers.

- **Business Development** – A&D business development group now well established and functioning well. Recently added US life science and microelectronic business development executives to take advantage of the latest technology trends in those areas and establish new customers.

- **Targeted R&D approach** – focus on fewer higher return projects has resulted in the introduction of 18 new products in the first half of the year. The space satellite communications group is now established in the USA as well in the UK, incorporating engineers from the Alfalight acquisition and is now bidding for US development work and contracts.

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Summary & Outlook

- Full year trading remains in line with our expectations.
- G&H remains committed to the twin pillars of our strategy, namely diversification and moving up the value chain.
- Our recent A&D acquisitions and increased investment in R&D have gone some way to achieving our goal of establishing ‘critical mass’ in this sector. Looking to leverage StingRay’s opto-mechanical design expertise across the group.
- The proportion of our business being derived from non-component sales has increased to 20.8%, compared with 15.2% in FY2016.
- Record order book which has strengthened since the end of the half year
- Continued to invest in people and infrastructure to enable us to drive further growth and take advantage of the positive market environment.
- 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 2017 and beyond. Revenue from new products in the first half of FY2017 was £4.9 million. Eighteen new products launched by the half year.
- Well positioned to make strategic acquisitions as and when the right opportunities become available, supported by a strong balance sheet and net cash.

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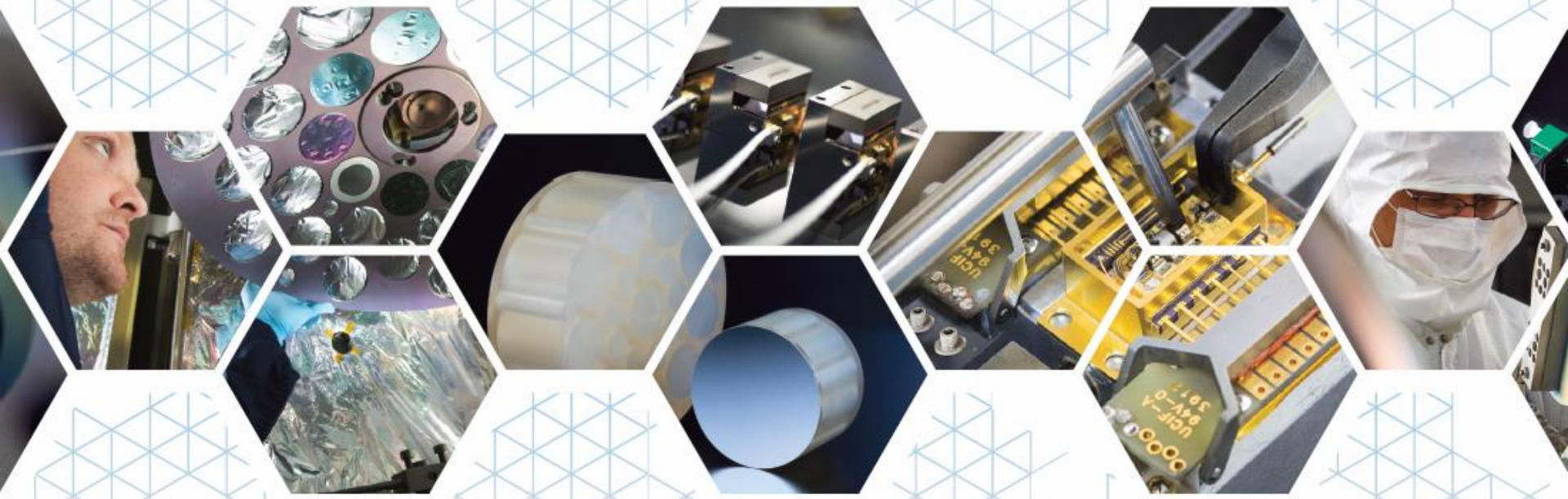

Appendices

Gooch & Housego
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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.

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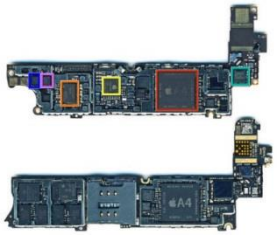
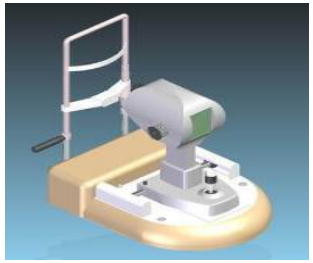
G&H photonics – part of our everyday lives

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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New Products & Capabilities introduced in 2017

Key: New products introduced in H1 FY2017	Technology	Precision Optics	Acousto/Electro Optics	Fibre Optics	Systems & Instrumentation
Markets					
Aerospace & Defence		2		3	
Industrial			5	1	2
Life Sciences			1	4	
Scientific Research					

"G&H sees continued investment in R&D for all areas of our business as fundamental to the organic growth of the company. In 2017 we have had 18 new product releases so far."

Mark Webster - CEO

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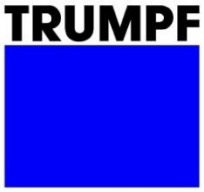
Key Customers