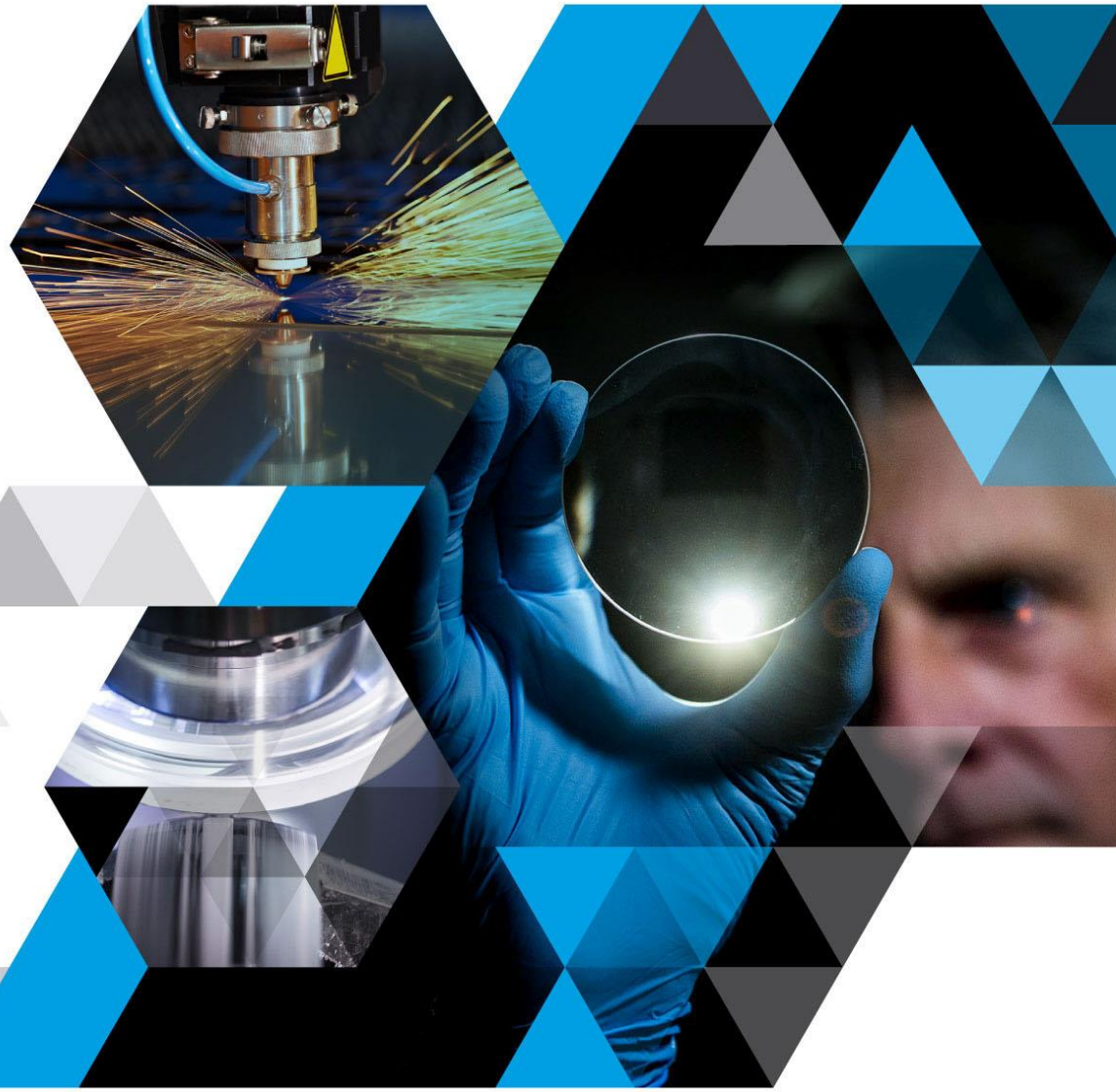


INTERIM RESULTS

Half year ended 31 March 2023 and

STRATEGY UPDATE

6th June 2023

AGENDA

- Highlights
- Financial Results
- Segmental Update
- Environmental, Social & Governance
- Strategy Update
- Summary & Outlook

Charlie Peppiatt – CEO

Chris Jewell - CFO

HIGHLIGHTS

- H1 revenue up 31.7% to £71.3m (H1 2022: £54.1m) reflecting strong growth in all market segments
- Increase in productive capacity and steady reduction in overdue backlog
- Adjusted operating profit up 32.9% to £5.2m (H1 2022: £3.9m)
- Cost inflation persists but is being passed on with some time lag
- Order book remains strong at £124.4m (H1 2022: £119.9m)
- Cash from operations of £6.0m (H1 2022: £3.2m) despite £5m investment in inventory levels
- Interim dividend of 4.8p per share (H1 2022: 4.7p)
- Review of the Group's strategy complete

"Positive progress has been made in the first half with increasing operational output and continued strong levels of customer engagement on new product opportunities. Full year expectations for the Group are unchanged."

SUMMARY INCOME STATEMENT

HY Ended 31 March	2023 £m	2022 £m	Change
Revenue	**71.3**	54.1	31.7%
Gross profit	**20.6**	17.3	18.9%
Adjusted operating profit	**5.2**	3.9	32.9%
Adjusted operating profit %	**7.4%**	7.3%	10 bps
Adjusted profit before tax	**4.5**	3.6	26.2%
Adjusted basic earnings per share (p.p.s)	**14.9p**	11.8p	26.3%

"The investments we have made to add capacity have driven increased revenue and reduced our overdue backlog."

- Strong growth in revenue in all market segments
- Recruitment in production areas now substantially complete
- Supply chain issues mitigated by higher levels of safety stocks
- Revenue growth of 31.7% (20.6% constant currency)
- Input cost inflation continues to impact. Some lag in passing on higher pricing, given size of order book
- R&D investment: £4.5m (H1 2022: £4.1m)
- Adjusted effective tax rate: 17.8% (H1 2022: 17.8%)
- Non underlying items: £1.3m of which £0.5m was cash

CASHFLOW

HY Ended 31 March	2023 £m	2022 £m
Net cash flow from operating activities	**6.0**	**4.0**
Cash flow from investing activities		
Purchase of property, plant and equipment & intangibles	(4.2)	(4.0)
Cash flow from financing activities		
Net borrowings	1.3	2.8
Interest paid	(0.7)	(0.3)
Dividends paid	(2.0)	(1.9)
Net increase in cash	**0.4**	**0.6**
Exchange losses	(0.3)	-
Cash	**6.1**	**9.0**
Net Debt (excl. IFRS 16)	**12.9**	**5.9**
Net Debt (incl. IFRS 16)	**19.2**	**12.0**

- £3.5m increase in working capital since September 2022. Inventory added to support growing demand
- Capital investment - further precision optics equipment and investment to drive automation
- Net debt (excluding the impact of IFRS 16 – Leases) of £12.9m
- Leverage for bank reporting: 0.8 net debt / EBITDA
- The Group has circa $46m available from committed and uncommitted debt facilities to fund future growth

INDUSTRIAL

Financials (53% of Group revenue)

	HY23	HY22	Growth
Revenue	£37.9m	£27.7m	36.7%
Adjusted Operating Profit	£5.3m	£4.1m	29.0%
% Margin	14.1%	14.9%	(80)bp

- Industrial revenue grew by 22.1% on a constant currency basis compared with H1 2022
- Ramp-up continues into semiconductor market led by growth of our latest Germanium AOM and fibre optic coupler products
- Hi-reliability fibre coupler demand for undersea cables remains strong
- First supplies of Hi-Rel couplers from our SE Asian contract manufacturing partner expected in H2
- Profit margins declined marginally due to cost inflation. Pricing and productivity action will support profitability in H2

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

AEROSPACE & DEFENCE

Financials (25% of Group revenue)

	HY23	HY22	Growth
Revenue	£17.5m	£13.1m	33.6%
Adjusted Operating Profit	£(1.9)m	£(2.2)m	n/a
% Margin	(10.8)%	(17.1)%	630bp

- Revenue growth primarily from production ramp-up for advanced guidance system programmes at our Boston facility
- Ukraine conflict has resulted in increased quotation activity for G&H products used on armoured vehicle platforms
- Commercial aerospace recovery driving demand for our ring laser gyro precision optics ahead of capacity to supply
- Continued engagement on funded programmes for the development of high-power space communication modules
- We are supplying advanced optical assemblies for a number of directed energy system prototypes

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

G&H

LIFE SCIENCES

Financials (22% of Group revenue)

	HY23	HY22	Growth
Revenue	£15.8m	£13.3m	19.3%
Adjusted Operating Profit	£2.3m	£2.1m	8.0%
% Margin	14.3%	15.8%	(150)bp

- Revenues grew by 13.6% compared with H1 2022, on a constant currency basis
- Medical lasers continued to benefit from the return of elective surgery
- Customer design qualification delays on next generation medical diagnostic devices impacted H1, expected to ramp up in H2
- Medical diagnostics order book is strong. Engineering fully utilised on next generation development programmes

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

A RESPONSIBLE BUSINESS

We are focused on creating a long-term sustainable business

Environment

- All of our UK manufacturing sites generate energy from solar sources
- Additional solar panels and batteries to store electricity installed at our Ashford facility
- Carbon emissions intensity measure reduced by 13.4%
- Ilminster and Torquay sites recommended for environmental ISO14001 certification

Social

- Regular feedback sessions to the Board from site employee representatives
- Flexible working arrangements where possible
- Company-wide celebrations of G&H's 75th Anniversary to be held later this year

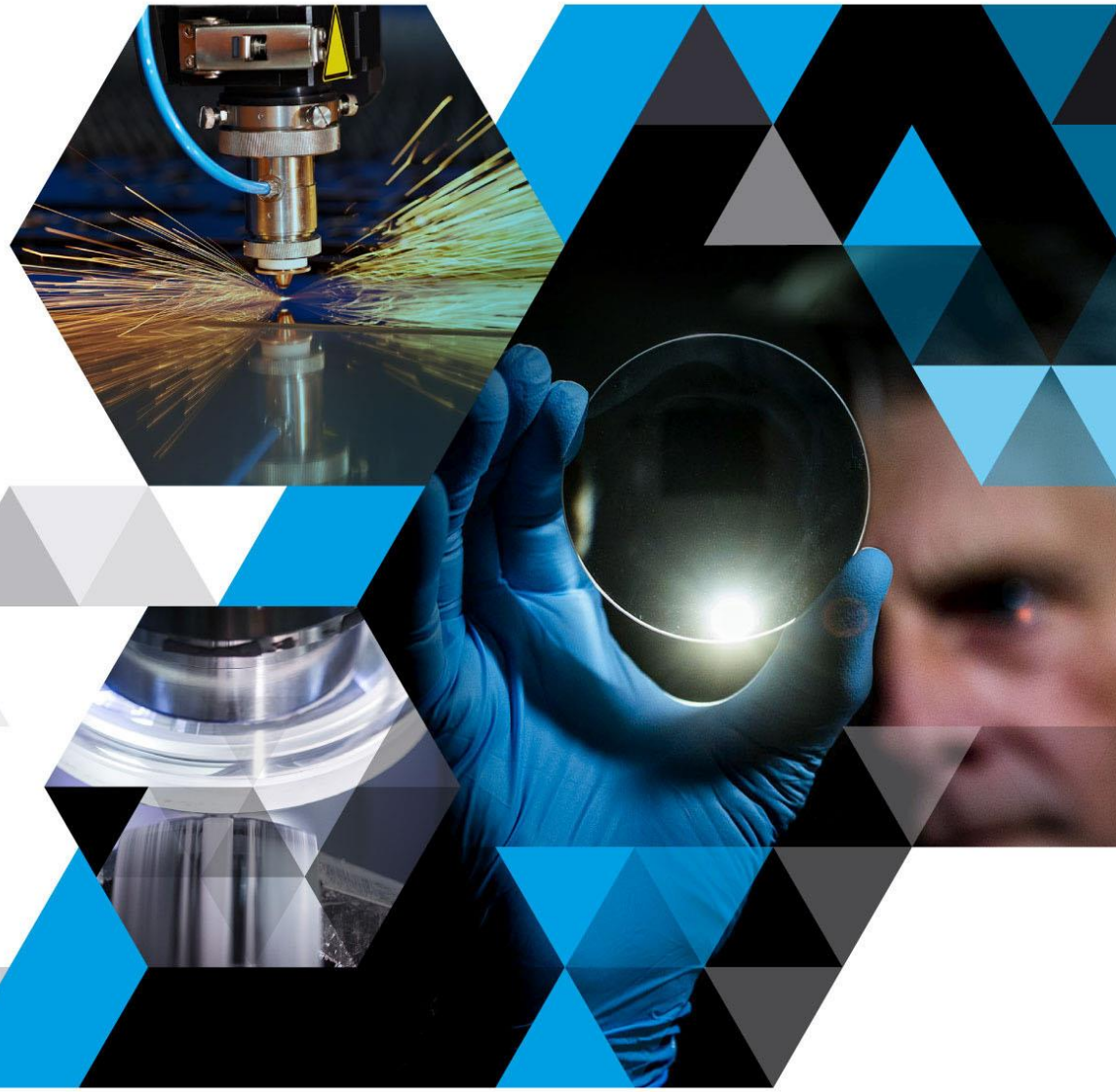
Governance

- Susan Searle appointed to the Board as non-executive director in April 2023
- CDP engagement for independent measurement of our ESG activities including within our supply chain

STRATEGY UPDATE

Delivering sustainable margin growth

6th June 2023



AGENDA

- Photonics Market
- New Strategy
- Strategic Priorities
- End-market Focus
- Path to Mid-teen Returns

“A new approach delivered with agility and wisdom to avoid repeating the problems of the recent past”

PHOTONICS MARKET - GROWING RAPIDLY

Photonics at the heart of next generation innovation and growth

Photonics components landscape increasingly concentrated

Photonics components enable $1.4 trillion end-market* and share of system content increasing

Tailwinds from mega-trends increasing attractiveness of several vertical markets

Closer integration of lasers, optics and sensors creating new source of value

Photonics Enabling New Frontiers of Technology

*Source: McKinsey Research 2022

G&H NEW STRATEGY

New strategy focused on becoming an 'innovative customer focused technology company' making a 'better world with photonics' and the 'first choice' for all our stakeholders

OFFERING DIFFERENTIATED PERFORMANCE THROUGH 4 KEY STRATEGIC PRIORITIES:

1
Establish dynamic high-performance teams and a purpose-led culture

PEOPLE

2
Deliver exceptional customer experience and superior operational execution

SELF-HELP

3
Create enhanced value through technology and platform solutions

TECHNOLOGY

4
Focus investment to accelerate accretive growth, both organic and inorganic

INVESTMENT

Achieved by following G&H's guiding values to deliver fundamental and sustainable improvement for employees, company profitability and our planet

STRATEGIC PRIORITIES

Retained - But better execution and greater focus

- Diversification - within limits and with greater discipline on delivering synergies & simplification
- Move up the value chain – coatings, packages, sub systems and systems
- Focus on customers – behaviour and systems change required for better results
- Balanced Portfolio – Industrial, A&D and Life Sciences remain but clarity on value proposition

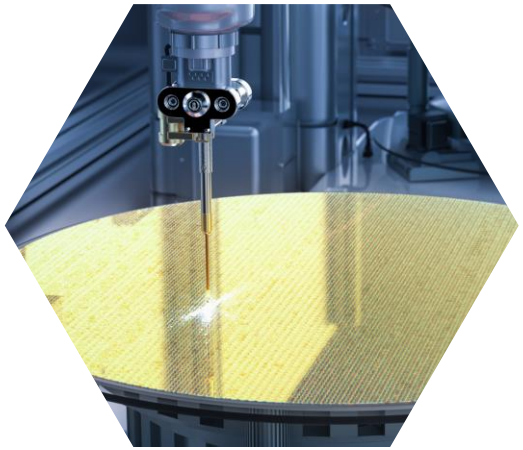
Change - Different emphasis and new direction

- Invest in people, core technology and product platforms in collaboration with our customers
- Proactive outsourcing of products earlier in life cycle where technological sovereignty is not a differentiator
- Address non-performers in combination with pursuing strategic ‘speed to value’ acquisitions
- Enhanced value creation through delivering group synergies, cross-selling and integration of acquisitions

People	Self-Help	Technology	Investment

END-MARKET FOCUS

INDUSTRIAL



- Advanced microelectronics
- Photolithography systems
- Hi-reliability communications
- Sensing modules & systems
- Green energy

A&D

- Imaging in harsh environments
- Counter-measures and sensing
- Space photonics
- Directed energy systems
- Advanced coatings
- Embedded imaging periscopes

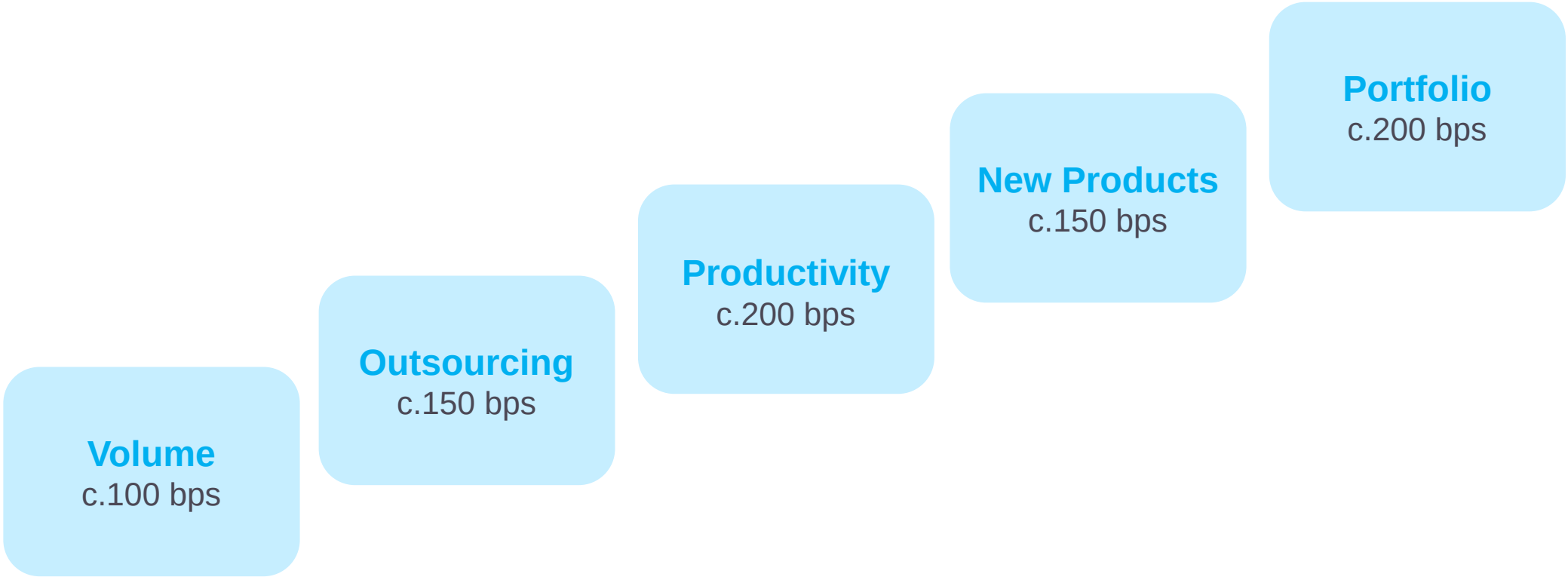
LIFE SCIENCES

- In-vivo imaging & sensing
- In-vitro microscopy & analytics
- Aesthetic lasers & laser surgery
- Diagnostic instruments with G&H bio-photonics

Updated technology roadmaps deploying ***platform*** design solutions to accelerate time to market where G&H has technical differentiators in attractive sectors with strong baseline growth

PATH TO MID-TEEN RETURNS

Return on sales accretion potential of 700-800 bps over medium term, net of required investments excluding portfolio changes

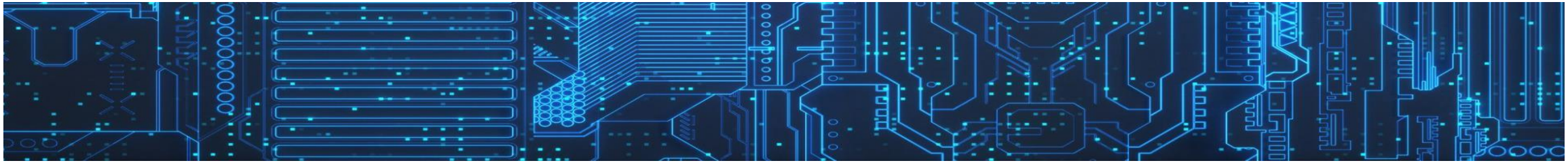


People	Self-Help	Technology	Investment

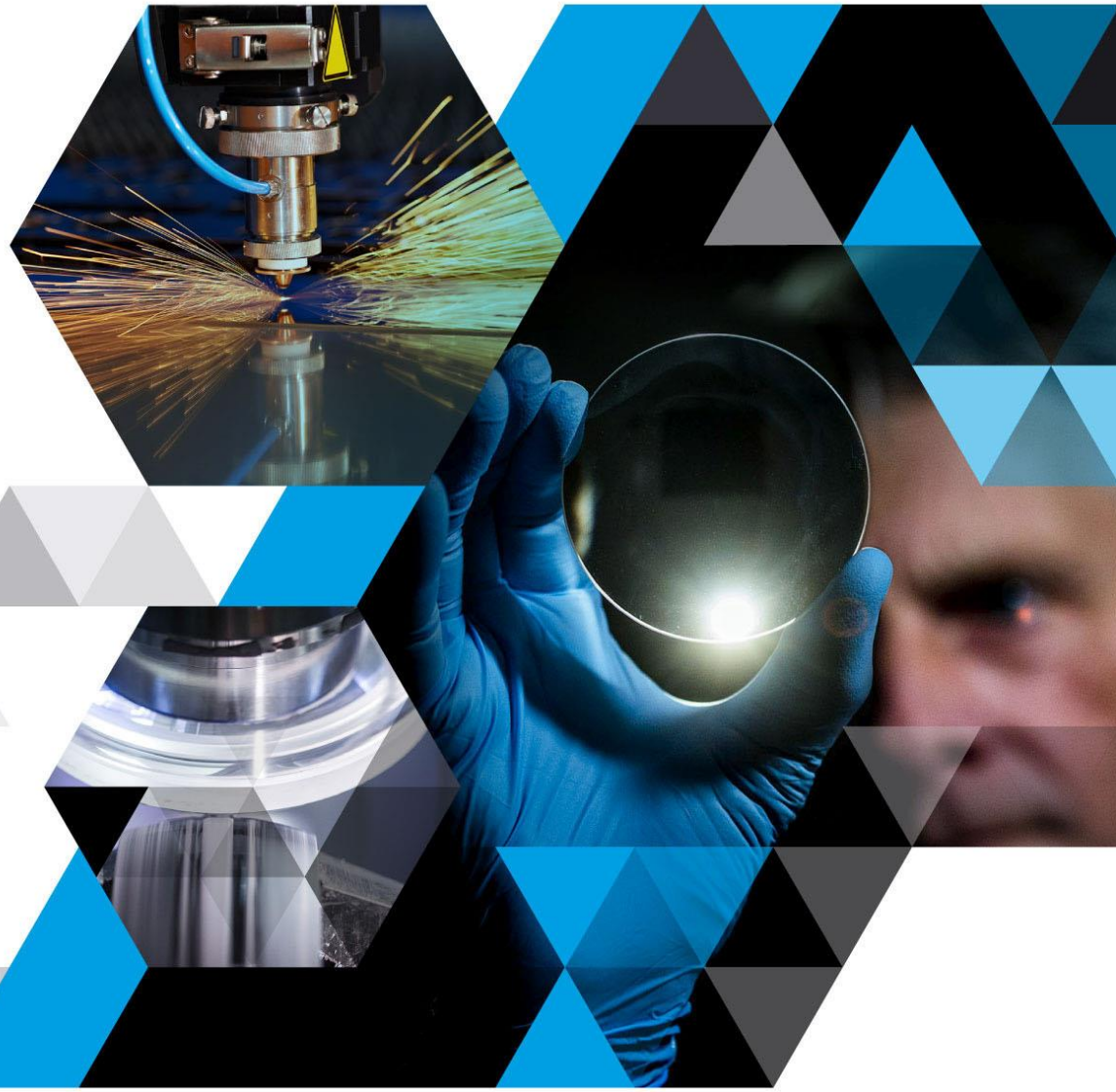
SUMMARY AND OUTLOOK

- Significant increase in productive capacity and reduction in overdue backlog
- Order book remains strong despite trend towards more normalised levels
- Contract manufacturing partner on track to commence supply of additional product lines
- Pricing adjustments to offset cost inflation expected to support H2
- Engineering resources focused on customer-led next generation development projects
- Outlook for the full year unchanged

“Strategic review confirms a clear route to mid teen returns in the medium term”



APPENDICES



FINANCIAL GUIDANCE – YEAR ENDING SEPT 2023

- Capital expenditure
  - Circa £8-9m
- Research & Development
  - Circa £9m (6% - 7% of revenue)
- Working capital
  - Inventory levels likely to remain higher as supply chain constraints continue
- Tax
  - Adjusted effective tax rate of 17-19%
- Foreign exchange
  - USD 1 cent = £0.7m revenue and £0.04m operating profit impact

INVESTOR TIMETABLE

- 28 July 2023 – Interim Dividend Payment Date
- 3 October 2023 – Full Year Trading Update
- 5 December 2023 – Preliminary Announcement

CAUTIONARY STATEMENT

- For the purposes of the following disclaimers, references to this ‘document’ shall be deemed to include references to the presenters’ speeches, the questions and answers session and any other related verbal or written communications.

- This document contains forward-looking statements. These have been made by the Directors in good faith based on the information available to them up to the time of their approval of this document. The Directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements.

- The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

G&H