G&H

THE CAVENDISH CONFERENCE

15th May 2024

gandh.com

AGENDA

- Company Overview
- Environmental, Social & Governance
- Strategy Update
- FY2024 Financial Results
- Business Update
- Outlook & Summary

Charlie Peppiatt - CEO

Chris Jewell - CFO

BUSINESS OVERVIEW

2023 Revenue: £148.5M (2022: £124.8M)

Life Sciences	Aerospace and Defence	Industrial and Telecom
22%	26%	52%

LIFE SCIENCES	AEROSPACE & DEFENSE	INDUSTRIAL & TELECOM
• Medical imaging • Flow cytometry • Diagnostics • Laser surgery • DNA sequencing • Aesthetic procedures • Microscopy • Drug delivery	• Navigation • Targeting • Range finding • Imaging • RF & satellite comms • Sights for AFVs • Soldier protection • Countermeasures	• Laser manufacturing • Photolithography • Microelectronics • Undersea networks • Perimeter sensing • Wind sensing • Laser fusion • Machine vision

Emerging applications increasingly employ photonics as the enabler.

Our customers require specialized, reliable and high-performance solutions.

G&H pushes the boundaries in these key areas and provides differentiating product solutions.

We maintain close and long-lasting relationships with our customers.

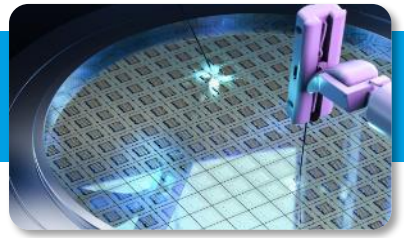
G&H KEY AREAS

Industrial

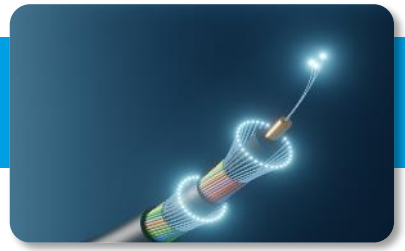
Quantum photonics for Comms & sensing

LiDAR for wind sensing

Lasers for semiconductor & machining



High-capacity telecom fibre networks

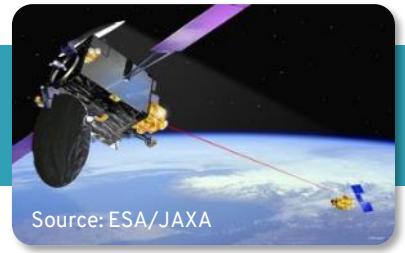


Aerospace & Defence

Imaging systems for UAVs, space & turrets

Armoured vehicle imaging systems

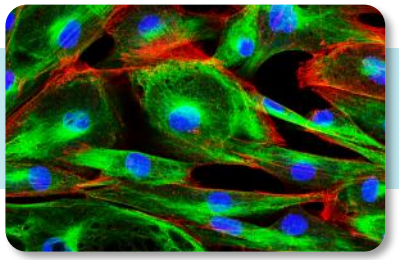
Laser comms for UAVs & satellites



Laser Directed Energy Weapons

Life Science

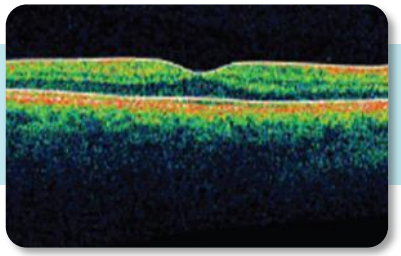
Confocal fluorescence microscopy



Medical lasers in Aesthetics & dentistry

In-Vitro Diagnostics instruments

Ophthalmic & intra-coronary imaging



BROAD PHOTONICS EXPERTISE WITH GLOBAL REACH

Manufacturing Locations

AO: Acousto-optics

EO: Electro-optics

FO: Fiber optics

PO+S: Precision optics and systems

MD: Medical devices

HQ: Headquarters

OSIH: Optical Systems Innovation Hub

CM: Contract manufacturing

Sales offices

Acquisitive Growth

In 2023 G&H acquired:

GS Optics, Rochester NY (Polymer Optics)

Artemis Optical, UK (Coating specialist)

G&H employs over 900 skilled employees across 10 manufacturing and design facilities.

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RESPONSIBLE BUSINESS

Environment

- Reduction in our carbon intensity measure of 33%
- Site plans in place to reduce energy usage
- 69% of the Group's purchased electricity now from non-carbon sources
- On track to achieve target of being net zero scope 1 & 2 by 2035
- CDP (Carbon Disclosure Project) disclosure submitted. Score due Jan-24

Social

- Cost of living support to our employees
- 75th Anniversary celebrations at each site

Governance

- Sustainability sub-committee of the Board established
- Susan Searle appointed as a non-executive director

G&H STRATEGY – SUSTAINABLE GROWTH

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

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STRATEGY PROGRESS

Path to mid-teens returns (700-800 bps accretion) over the medium term, net of investments excluding portfolio changes

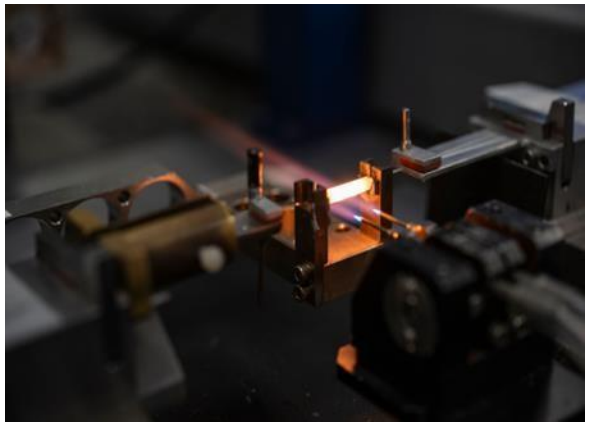
People	Self-Help	Technology	Investment
• Recruitment recovery • Sustainability agenda • Talent acquisition and retention • Employee engagement • Succession planning	• Operational output • Delivery performance • Past due backlog • Productivity plan • Outsourcing progress • USA ITL expansion	• Technology Roadmap update with 'Vital Few' • Innovation hubs • Rochester investment • Acousto-optic team • R&D Coating Summit	• GS Optics • Artemis Optical • Divestment EM4 • Streamline footprint • Cash focus • Portfolio review

Volume	Productivity	Outsourcing	New Products	Portfolio
c.100 bps	c.200 bps	c.150 bps	c.150 bps	c.200 bps

OUTSOURCING

Proactive outsourcing of products earlier in their life cycle where technological sovereignty is not a differentiator

- Dedicated leadership and resources added
- Supply of acousto-optic products expanding
- Hi-Rel couplers qualified and in production with ramp-up planned in FY2024
- Additional product selection underway
- Growth plans to >25% of Group revenue



People	Self-Help	Technology	Investment

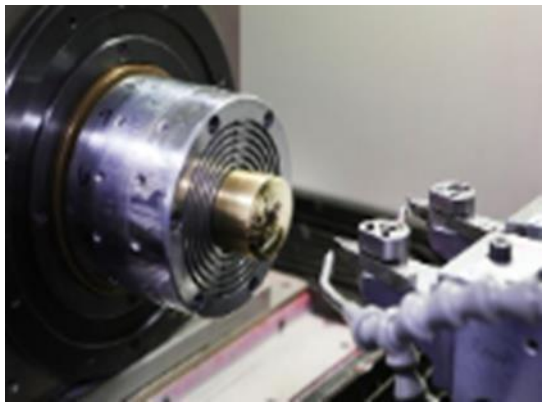
ACQUISITIONS

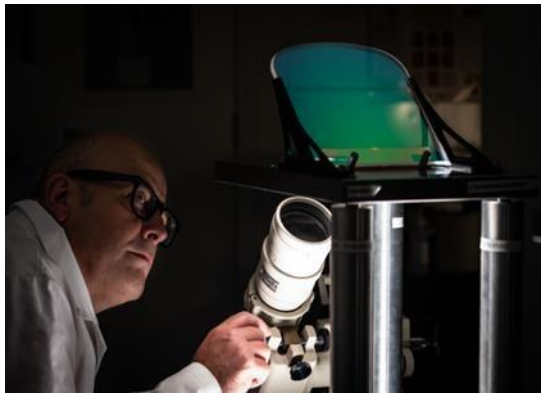
GS Optics – Total consideration up to $15.7m

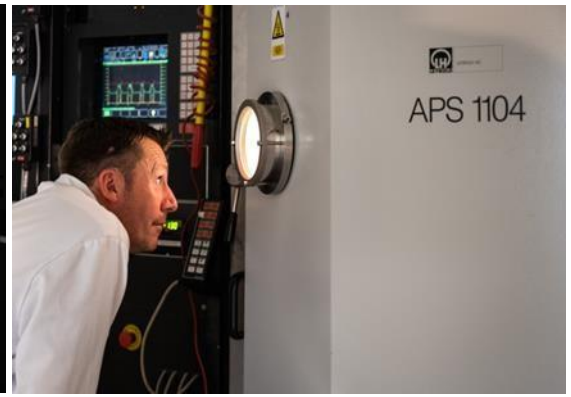
- Polymer precision optics design, manufacture and coating
- Life Sciences (50%), Industrial and A&D applications
- Located in Rochester NY, a hub for photonics talent
- G&H's US Life Sciences 'centre of excellence'

Artemis Optical – Total consideration up to £8.9m

- Specialist in advanced thin film optics coating
- Customised system enabling optical filters and mirrors
- A&D (70%), Life Sciences and Industrial markets
- As part of G&H provides technology enabling systems
- Deep technical and product management know-how







People	Self-Help	Technology	Investment

VALUE CREATION FROM TECHNOLOGY FOCUS

- Technology roadmap review complete with focus on where G&H can differentiate and drive ‘value creation’
- Plan deployed prioritising R&D effort and investment behind seven ‘vital few’ areas
- Investment into innovation hubs and R&D organisation to enable strategy
- >£50m of margin accretive business from new products in these areas over the medium term

FY2023 RESULTS HIGHLIGHTS

- Revenue up 19% to £148.5m (FY2022: £124.8m) with continued strong growth in all three end markets
- Significant improvement in operational execution and further reduction in overdue backlog
- Adjusted operating profit up 28% to £11.3m (FY2022: £8.9m)
- Normalised order book remains strong at £124.1m (FY2022: £147.7m)
- Acquisitions of GS Optics and Artemis with integration activities progressing well
- Net debt* increased to £31.7m (FY2022: £19.1m) reflecting £11.7m investment in acquisitions
- Proposed final dividend of 8.2 pence per share, giving total of 13.0 pence per share (FY2022: 12.6p)

"I am pleased with the progress that has been made across the business through the collective hard work of the workforce delivering more effectively through our new strategy that was launched in the summer."

(Including IFRS 16 debt)*

SUMMARY INCOME STATEMENT

Year Ended 30 September	2023 £m	2022 £m	% Change
Revenue	**148.5**	**124.8**	19.0%
Gross profit	**44.0**	**39.1**	12.7%
Gross margin %	**29.6%**	**31.3%**	(170)bps
Adjusted operating profit	**11.3**	**8.9**	28.0%
Adjusted operating profit margin	**7.6%**	**7.1%**	50bps
Finance charges	**(1.7)**	**(0.8)**	(113)%
Adjusted profit before tax	**9.6**	**8.1**	17.5%
Adjusted basic earnings per share (p.p.s)	**31.3p**	**27.2p**	15.1%
Non underlying items	**4.6**	**10.4**	(56.3)%
Reported profit/loss before tax	**5.0**	**(2.3)**	n/a

- Revenue grew by 19%; organic, constant currency up 13.6%
- Good growth across all three of our end markets
- Gross margin declined to 29.6%; inflation continued to impact
- Investment in R&D of £9.3m (2022: £9.2m)
- Adjusted operating profit up 28%
- Finance charges increased reflecting higher market rates and additional borrowing to fund the two acquisitions
- Non underlying items charge of £4.6m, cash of £2.7m.
- Reported profit before tax for the year of £5.0m (2022: loss of £2.3m)
- Adjusted effective tax rate was 18.0% (2022: 16.3%)

"Our additional productive capacity drove strong revenue and profit growth."

CASH FLOW

Year Ended 30 September	2023 £m	2022 £m
Reported operating profit/(loss)	**6.9**	**(1.6)**
Depreciation, amortisation & impairment	11.0	17.2
Net capital expenditure	(5.8)	(6.7)
Purchase of intangible assets	(1.1)	(1.9)
Working capital movement	(2.0)	(10.0)
Other	0.1	(1.0)
Operating cash flow after capex	**9.1**	**(4.0)**
Net interest and tax	(1.8)	(0.3)
Lease liability repayment	(1.6)	(1.6)
Free cash flow	**5.7**	**(5.9)**
Acquisitions	(11.7)	-
Dividend	(3.2)	(3.1)
FX and other non cash items	1.1	(2.9)
Increase in bank debt	**(8.1)**	**(11.9)**
Net Debt (excluding IFRS 16)	**(20.9)**	**(12.8)**
Net Debt - total	**(31.7)**	**(19.1)**

- Total investment in tangible and intangible assets of £6.9m (2022: £8.6m)
- Increase in working capital of £2.0m with £3.5m invested in the first half followed by a £1.5m unwind in the second half.
- Free cash flow of £5.7m (2022: £(5.9)m)
- Net debt (excluding the impact of IFRS 16 – Leases) of £20.9m increased from £12.8m, to fund the acquisitions
- Committed debt facility was extended by $20m
- Leverage as measured for our bank covenant was 1.1x (2022: 0.7x)
- Available committed and uncommitted bank facilities of $35.4m to support the Group's future growth

"Our capital is being deployed efficiently and effectively to support growth."

INDUSTRIAL

Financials (52% of revenue)

	FY23	FY22	Change
Revenue	£77.1m	£64.6m	19.5%
Adjusted Operating Profit	£10.5m	£8.4m	24.9%
% Margin	13.6%	13.0%	60bps
Order Book	£46.9m	£57.5m	(18.5)%

- Additional productive capacity successfully added to deliver organic constant currency revenue growth of 13.7%
- Semiconductor infrastructure market remains strong with first deliveries of new fibre optic splitter units used in the world's most advanced photolithography equipment
- Contract manufacturing partner now qualified and shipping high reliability fibre couplers as well as acousto-optic products
- Inventory correction impact from some industrial customers

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

AEROSPACE & DEFENCE

Financials (26% of revenue)

	FY23	FY22	Change
Revenue	£38.6m	£30.6m	26.2%
Adjusted Operating Profit	£(2.3)m	£(2.7)m	14.8%
% Margin	(6.0)%	(8.7)%	270bps
Order Book	£45.5m	£53.5m	(14.9)%

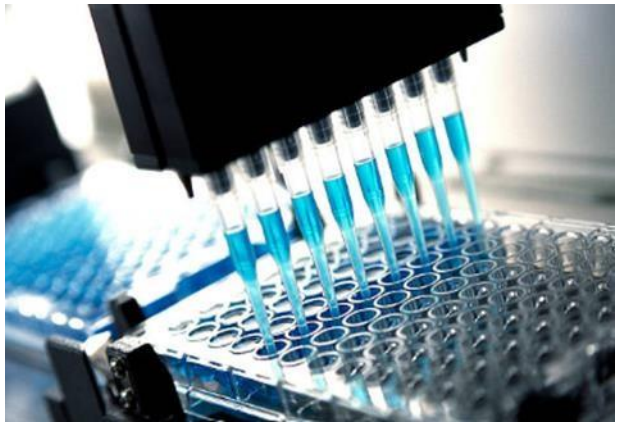
- Revenue grew by 20.4% on a constant currency basis compared with FY2022
- Additional capacity meant improved on time delivery and reductions in overdue backlog
- Ukraine conflict is driving new demand for G&H products used on armoured fighting and unmanned aerial vehicles
- Artemis acquisition adds advanced coating capabilities addressing increased laser protection battlefield requirements
- Focused improvement resources added to turnaround underperforming parts of this business unit

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

LIFE SCIENCES

Financials (22% of revenue)

	FY23	FY22	Change
Revenue	£32.8m	£29.7m	10.4%
Adjusted Operating Profit	£4.1m	£4.0m	3.9%
% Margin	12.5%	13.3%	(80)bps
Order Book	£31.7m	£36.6m	(13.4)%



- Revenues grew by 6.2% compared with FY2022, on a constant currency basis
- Strong medical laser demand especially in first half but less forward visibility as inventory holdings are corrected
- Medical diagnostic market revenues flat compared with prior year but programmes ramping in FY2024
- GS Optics acquired in Rochester NY. Establishing site as North American Life Sciences Centre of Excellence

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

APPENDICES

NON UNDERLYING ITEMS

Total non underlying charge of £4.6m (of which cash £2.0m)

- Amortisation of acquired intangibles: £1.7m (of which cash - £nil)
- Acquisitions: £1.2m (of which cash - £1.1m)
- Site closures: £0.9m - closure of our Shanghai facility and transfer of ITL US to our Rochester, NY site (of which cash - £0.1m)
- Restructuring: £0.8m – restructuring of our operations (of which cash - £0.8m)

OTHER FINANCIAL ITEMS

R&D Spend

- The Group's R&D charge in the year totalled £9.3m (FY2022: £9.2m). This represented 6.2% of revenue (FY2022: 7.4%)
- The Group capitalises a portion of its R&D spend in accordance with IFRS. The amount held on the balance sheet is £1.7m (FY2022: £1.9m).

Tax

- The tax charge for the year totalled £1.0m (FY2022: credit £0.3m)
- This comprised an underlying tax charge of £1.7m (FY2022: £1.3m) and a credit on non-underlying items of £0.7m. The effective underlying tax rate was 18.0% (FY2022: 16.3%).
- The Group has overseas tax losses of £14.1m (FY2022: £11.1m) available for offset against future profits of the Group.

Interest cost

- The Group's interest charge comprised £1.5m (FY2022: £0.5m) in respect of bank interest and £0.3m (FY2022: £0.2m) in respect of lease interest.
- Drawings against the Group's borrowing facilities attract an interest rate of between 1.6% and 2.1% above US$ Secured Overnight Financing Rate dependent upon the Group's leverage ratio.

TARGETED R&D

New products launched in the year	Precision Optics & Systems	Acousto/ Electro-Optics	Fibre Optics
Aerospace & Defence	36	2	4
Industrial	6	2	4
Life Sciences	2	-	1

- New products generated £26.1m of revenue in FY2023 (FY2022: £17.9m)

"We are increasingly focusing our engineering skills from across the Group to demonstrate our ability to develop more complex designs."

ACOUSTO OPTICS

DEFLECTORS

MODULATORS

Q-SWITCHES

TUNEABLE FILTERS

RF DRIVERS

G&H has been manufacturing world class acousto-optic devices and RF drivers for 40+ years.

Our AO product line is vertically integrated, from crystal growth to device packaging.

We offer both custom OEM designs, optimized for a wide variety of applications, and standard products.

Proprietary software enable optimization of design, performance, and budgetary constraints of our devices.

G&H AO technology is deployed in the world's most advanced semiconductor fabrication equipment, on leading medical imaging platforms and ground-breaking planetary exploration missions.

Our products distinguish themselves with the range of specifications, applications and long product lifetime.

ELECTRO OPTICS

- LARGE CRYSTALS
- POCKELS CELLS
- Q-SWITCHES
- WAVEPLATES
- HV DRIVERS

Our electro-optic and crystal growth facility was founded in 1973.

All aspects of the design and manufacturing process are proprietary and managed internally.

We offer custom OEM designs optimized for a wide variety of applications as well as standard products.

Utilizing novel crystal growth, fabrication and polishing techniques, we manufacture longitudinal and transverse electrode configuration Pockels cells.

Our Pockels Cells and acousto-optic devices use our own highest quality crystals. We grow KDP, KD*P, BBO, CdS, CdSe and LN

Proprietary antireflection coatings increase lifespan and performance.

Our high voltage drivers can be paired with our Pockels Cells for optimal performance.

G&H