FULL YEAR RESULTS

Year ended 30 September 2023

5th December 2023

AGENDA

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

Charlie Peppiatt - CEO

Chris Jewell - CFO

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)*

A BETTER WORLD WITH PHOTONICS

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

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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)%

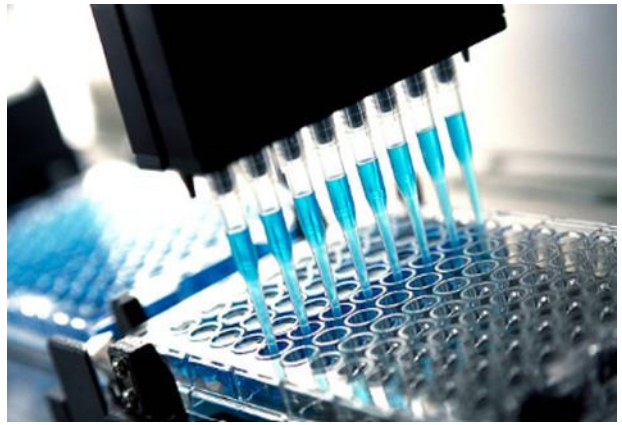
- Revenue grew by 20.4% on a constant currency basis compared with FY2022
- Additional capacity meant improved on time delivery and reductions in overdue backlog
- Ukraine conflict is driving new demand for G&H products used on armoured fighting and unmanned aerial vehicles
- Artemis acquisition adds 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

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

MSCI ESG RATINGS A
CCC B BB BBB A AA AAA

CDP DISCLOSURE INSIGHT ACTION

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STRATEGY UPDATE

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

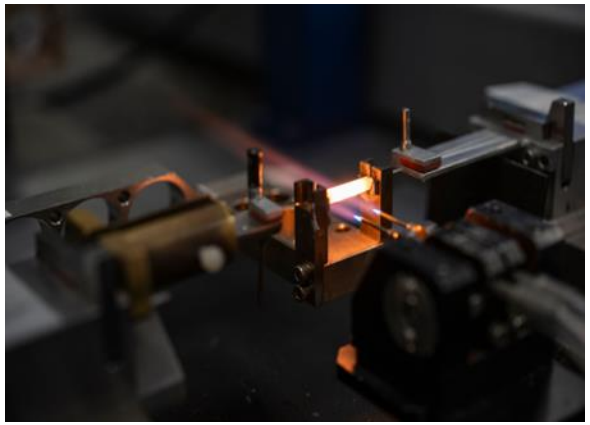
People	Self-Help	Technology	Investment
• Recruitment recovery • Sustainability agenda • Talent acquisition and retention • Employee engagement • Succession planning	• Operational output • Delivery performance • Past due backlog • Productivity plan • Outsourcing progress • USA ITL expansion	• Technology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

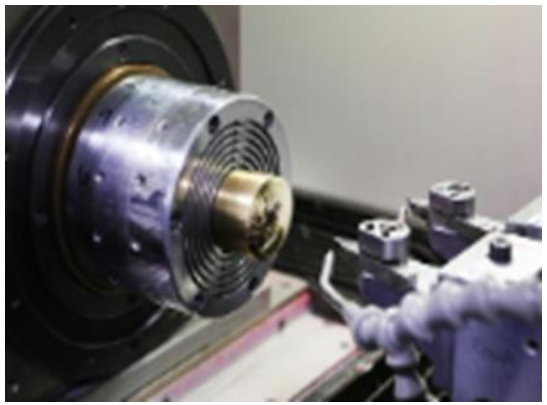
ACQUISITIONS

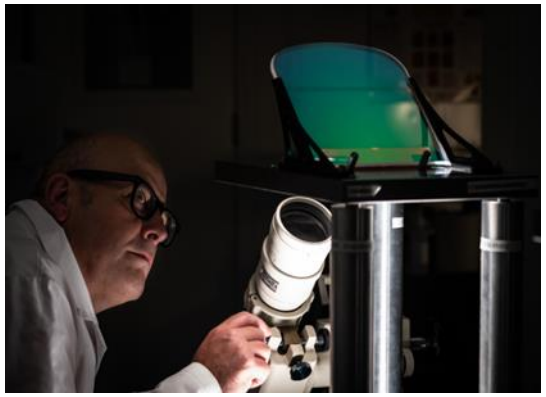
GS Optics – Total consideration up to $15.7m

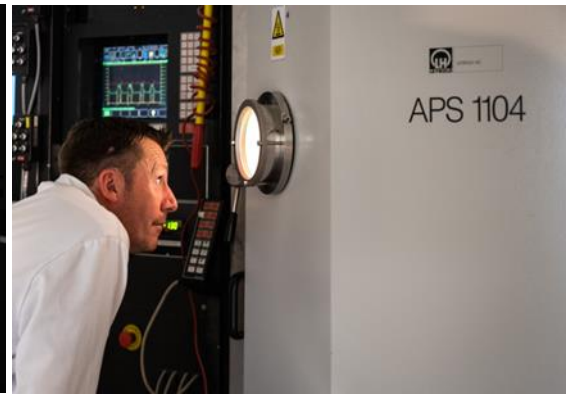
- Polymer precision optics design, manufacture and coating
- Life Sciences (50%), Industrial and A&D applications
- Located in Rochester NY, a hub for photonics talent
- G&H's US Life Sciences 'centre of excellence'

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

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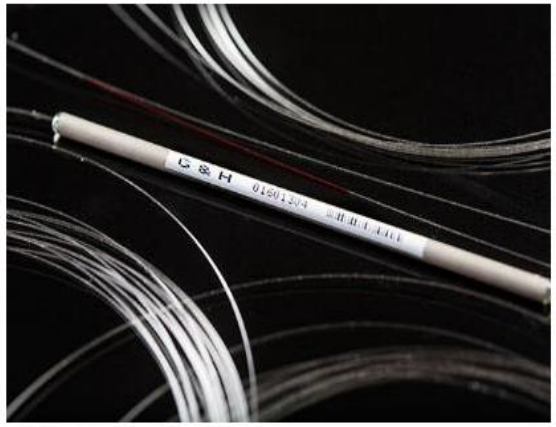
VALUE CREATION FROM TECHNOLOGY FOCUS

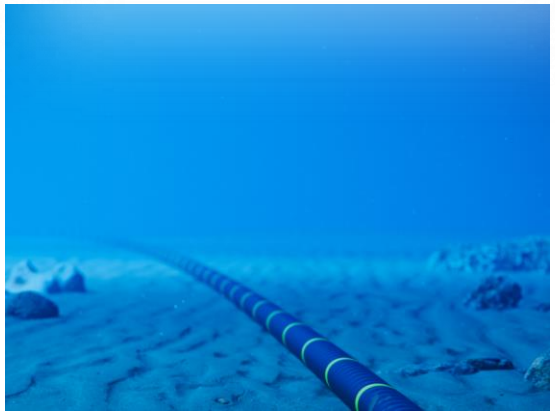
- Technology roadmap review complete with focus on where G&H can differentiate and drive ‘value creation’
- Plan deployed prioritising R&D effort and investment behind seven ‘vital few’ areas
- Investment into innovation hubs and R&D organisation to enable strategy
- >£50m of margin accretive business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

EXAMPLE 1 - UNDERSEA FIBRE-OPTICS

Significant multi-year design wins for Hi-reliability couplers and sub-systems to enable next generation of higher capacity submarine links

- Design and qualification of couplers for new compact undersea repeater systems
- Design phase of fibre optic amplifier sub-assemblies for undersea networks
- Qualification of new more energy-efficient Fiber-Q for undersea cable sensing





People	Self-Help	Technology	Investment

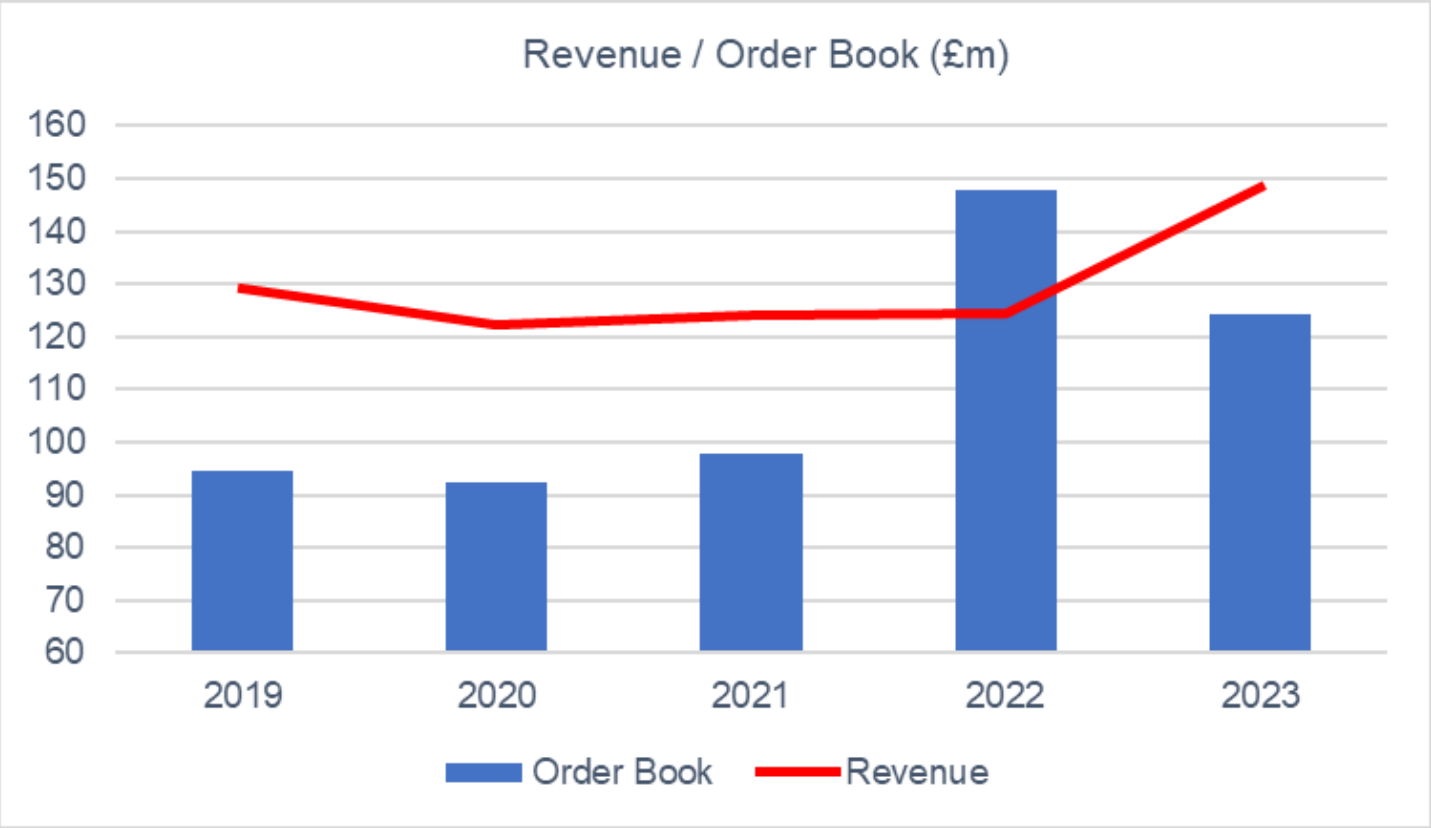
EXAMPLE 2 – PRECISION OPTICS VALUE-ADD

G&H Artemis has been awarded a contract to supply the UK Special Forces, Royal Marine Commandos and Army Special Operations Brigades with scope laser protection for the new KS-1 assault rifle

- Lasers are in widespread use on the battlefield, with applications including target designation and illumination, range finding, ordnance guidance and counter measures
- G&H bespoke filter assemblies have been selected to provide laser protection to the riflescope
- Opportunity to expand this offering to additional rifle models and other Allied countries

People	Self-Help	Technology	Investment

OUTLOOK



- FY2023 order book normalised but remains strong with supply chain and lead-time improvements
- Prior year record order book included £11.2m past due backlog
- Healthy order levels across all three end markets
- Positive book to bill ratio from H2 has continued into FY2024
- Current order book up to >£130m

"Our order book gives us good visibility for FY2024 and we are confident we will deliver further profitable growth."

SUMMARY

- Order book remains strong despite adjustment to more normalised levels
- Significant increase in productive capacity and reduction in overdue backlog
- Contract manufacturing partner on track to commence supply of additional product lines
- Strategy to deliver sustainable margin growth deployed Group-wide
- ‘Value creation’ synergies from new acquisitions identified
- Further growth in financial performance expected in FY2024

“While mindful of the increasingly uncertain macroeconomic and geopolitical landscape, G&H remains well positioned with a robust pipeline across all our end markets and is refocused through a clear strategy to deliver a path to mid teen returns in the medium term”

Appendices

2024 Expected Financial Calendar

- 21st February 2024 – AGM Trading Update
- 4th April 2024 – Half Year Trading Update
- June 2024 – Interim Announcement
- October 2024 – Full Year Trading Update
- December 2024 – Full Year Results Announcement

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."

Cautionary Statement

- For the purposes of the following disclaimers, references to this ‘document’ shall be deemed to include references to the presenters’ speeches, the question and answer 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.

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