Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

INTERIM REPORT AND ACCOUNTS

MARCH 2018

the specialist manufacturer
of optical components and systems

NOTES TO EDITORS:

1. Gooch & Housego is a photonics technology business 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. It is headquartered in Ilminster, Somerset, UK.
2. This announcement contains certain forward-looking statements that are based on management's current expectations or beliefs as well as assumptions about future events. These are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which G&H operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results, and G&H's plans and objectives, to differ materially from those currently anticipated or implied in the forward-looking statements. Investors should not place undue reliance on any such statements. Nothing in this announcement should be construed as a profit forecast.

FOR FURTHER INFORMATION PLEASE CONTACT:

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INTERIM REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2018

Gooch & Housego PLC (AIM:GHH) ("Gooch & Housego", "G&H", the "Company" or the "Group"), the specialist manufacturer of optical components and systems, today announces its interim results for the six months ended 31 March 2018.

FINANCIAL HIGHLIGHTS

Period ended 31 March	H1 2018	H1 2017	Change (%)
Revenue	£55.6m	£52.2m	6.6%
Adjusted profit before tax[1]	£7.0m	£6.2m	12.7%
Adjusted basic earnings per share[1]	21.5p	18.7p	15.0%
Net cash	£5.0m	£7.8m	(35.1%)
Statutory profit before tax	£5.2m	£4.7m	11.6%
Statutory basic earnings per share	18.6p	14.1p	31.9%
Interim dividend per share	4.2p	3.7p	13.5%

[1] Adjusted for amortisation of acquired intangible assets and non-recurring items.

HIGHLIGHTS

- Strong revenue growth driven by microelectronic manufacturing and A&D sectors.
- Revenue growth of 6.6% compared with the same period last year. Excluding the impact of foreign exchange, an increase of 14.0% over H1 last year.
- Demand for high reliability fibre couplers lower than H1 last year, expected to come back in H2.
- Continued investment in people, equipment and processes to drive further growth and take advantage of positive market conditions.
- Adjusted profit growth of 12.7% compared with same period last year.
- Record half year order book of £84.7 million, as at 31 March 2018, an increase of 27.1% compared with the same period last year. Excluding the impact of foreign exchange, an increase of 36.4%.
- Interim dividend increased to 4.2p (2017:3.7p).

MARK WEBSTER, CHIEF EXECUTIVE OFFICER OF GOOCH & HOUSEGO, COMMENTED:

" Overall market conditions remain good, we have a record half year order book and expectations for full year trading remain in line with management's expectations.

" The introduction of a new manufacturing organisation has enabled us to more readily upgrade capacity and performance, in particular at our Ilminster and Fremont, CA sites, in order to meet the unprecedented demand in the microelectronic sector.

" G&H remains committed to our strategy of diversification and moving up the value chain. We have an active policy of building a diverse and balanced business by establishing a 'critical mass' in life sciences and further strengthening our position in A&D, through investing in a mix of R&D and acquisitions. A&D now represents about a third of our business. We believe this means G&H is well positioned for future growth."

“Our order book stood at a record £84.7 million as at 31 March 2018”

PERFORMANCE OVERVIEW

Gooch & Housego has continued to benefit from positive overall market conditions. First half revenue growth was 6.6%; excluding the impact of foreign exchange, growth was 14.0%; and excluding the impact of foreign exchange and acquisitions growth was 7.7%. The Company saw an acceleration in growth in the period, and we are expecting a good second half trading performance driven by the continued strength of microelectronics, the A&D sector and an improved performance from our high reliability telecommunications business.

Our order book stood at £84.7 million as at 31 March 2018, a record for the half year period and which represents an increase of 27.1% compared to the same time last year. Excluding the impact of foreign exchange this represents an increase of 36.4% over last year. Order intake in the first half of the year has been encouraging. The Company has booked £69.7 million in orders since 1 October 2017, compared to £59.5 million in the corresponding period last year.

The increase in our interim dividend by 13.5% reflects our confidence in the business going forward and is underpinned by a strong balance sheet.

Revenue

Six months ended 31 March	2018		2017	
	£'000	% of total	£'000	% of total
Industrial	30,508	55%	31,336	60%
Aerospace & Defence	18,130	33%	14,578	28%
Life Sciences	5,021	9%	4,751	9%
Scientific Research	1,949	3%	1,488	3%
Group Revenue	55,608	100%	52,153	100%

Products and Markets – Industrial

Gooch & Housego's principal industrial markets are industrial lasers, telecommunications, metrology, sensing and semiconductor manufacturing. Industrial lasers are used in a diverse range of precision material processing applications ranging from microelectronics to automotive.

Business in our industrial market was polarised between subsectors in the first six months of the year. Overall, sales of products into our industrial markets in the six months to 31 March 2018 were 2.6% lower compared with the equivalent period last year; excluding foreign exchange this represented a 4.0% increase.

The industrial laser and semi-conductor markets continued to demonstrate strong growth (15%) due to the continued high demand for precision lasers used in microelectronic manufacturing. Demand for these products remains strong and with the incremental capacity added during H1 we expect to take greater advantage of the opportunities in this area during H2.

In telecommunications, we believe there will be continued demand for fibre optic components used in under-sea telecommunications applications, from Silicon Valley based companies entering this market and looking to lay their own undersea networks. That said, the demand for high reliability fibre couplers has been lower since the start of the year due to delays in our customers' contracts. We expect this demand to recover in the second half of the year.

Products and Markets – Aerospace & Defence ("A&D")

Product quality, reliability and performance are paramount in this sector, playing to G&H's strengths, along with our commitment to provide value. We have solid, well established positions in target designation and range finding, ring laser and fibre optic gyroscope navigational systems, infrared and RF countermeasures, periscopes and sighting systems, opto-mechanical subsystems used in unmanned aerial vehicles ("UAVs") and space satellite communications.

The A&D market for G&H is characterised by high-value, long-term programmes involving the main US and European defence contractors. Over the past two years G&H has strengthened its position in this market with the acquisition of three businesses (Kent Periscopes, Alfalight & StingRay) whose focus is either entirely or largely A&D. This reflects G&H's commitment to this market which continues to represent an attractive growth area as more applications seek photonics solutions in a sector with high regulatory and compliance hurdles and challenging expectations of its equipment.

Our Aerospace & Defence revenue grew by 24.4% during the first six months of FY2018, compared to the equivalent period last year. Excluding the impact of acquisitions, Aerospace & Defence grew organically by 5.8% compared to the same period last year.

Products and Markets – Life Sciences

G&H's three principal Life Sciences revenue streams are derived from diagnostics (fibre-optic modules for optical coherence tomography (OCT) applications), surgery / treatments (electro-optics and acousto-optics for lasers) and biomedical research (acousto-optics for microscopy applications). In each application area the Company is making steady progress in moving up the value chain and is currently selling sub-systems as well as components to several larger customers.

Our Life Sciences revenue grew by 5.7% in the six months to 31 March 2018, compared with the equivalent period last year and this was against a significant foreign exchange headwind.

Products and Markets – Scientific Research

The key application in Scientific Research is laser inertial confinement fusion ("laser fusion"), where lasers are used to create the conditions found in the core of a star, which are part of long term government funded projects, both in the USA and Europe. In addition to pure research in high energy and plasma physics, these vast laser systems are being used to investigate whether this technology could provide clean, carbon-free energy to reduce dependency on fossil fuels. G&H is continuing to supply crystals, precision optics and fibre components for new system construction and expects ongoing business to continue to service replacement and maintenance requirements.

Our Scientific Research revenue grew by 31.0% in the six months to 31 March 2018, compared to the equivalent period last year, albeit against a weak comparative.

Strategy

G&H's strategy is built around the twin pillars of diversification and moving up the value chain. In order to ensure its strategic goals are met management actively looks to invest in R&D, acquisitions and strategic partnerships.

R&D: In the first six months of the current financial year, G&H invested £4.1 million in targeted research & development. Our main target areas are a new generation of precision lasers and laser systems, precision inspection

equipment for microelectronic manufacturing, OCT medical diagnostics, laser surgery, space satellite communications, opto-mechanical systems for UAVs, optical systems for armoured vehicles, compatible with USA military standards and optical sensing for harsh environments. This represents 7.4% of revenue and is 8.9% lower than the same period last year (2017: £4.5m), albeit this is impacted by the strength of Sterling against the US Dollar. G&H's continued commitment to investing in targeted R&D programmes is bearing fruit, with 25 new products launched in the period ended 31 March 2018.

Diversification: G&H seeks to develop, through R&D and acquisition, a presence in new markets that offer the potential for significant growth as a result of their adoption of photonic technology, whilst also reducing exposure to cyclicality in any particular sector. We will continue to invest in all of our key sectors in order to ensure we maintain a balanced portfolio and over time achieve a critical mass in Life Sciences and further strengthen our position in A&D. Our recent acquisitions have greatly improved our position in A&D, which now represents 33.0% of our business (2017: 28.0%).

Moving up the Value Chain: G&H seeks to move up the value chain to more complex sub-assemblies and systems through leveraging its excellence in materials and components, and by providing photonic design and engineering solutions for our customers. This will enable G&H to transition from a components supplier to a solutions provider. A significant proportion of our business in the Aerospace & Defence market now comes from the sale of sub-systems rather than discrete components. Our recent acquisitions are all photonic design and sub-assembly businesses and have helped to increase the proportion of our business derived from non-component revenues from 20.8% in FY2017 to 22.4%, for the half year FY2018. G&H has a world class capability in opto-mechanical design and this substantially enhances our ability to offer "end to end" design and manufacturing solutions to our customers.

As well as continuing to develop a leadership position in space photonics, the Systems Technology Group is actively engaged in near-market developments in OCT, fibre lasers and fibre optic sensing as the Company leverages its components expertise to move up the value chain in these important areas.

Operations

As previously reported, Gooch & Housego's manufacturing sites have been re-organised into three technical groups, namely Acousto Optic/Electro Optic, Precision Optic and Fibre Optics. It is our aim to add a fourth manufacturing centre by the beginning of FY2019, namely Systems. This is part of becoming a more scalable organisation able to accommodate anticipated growth rates. There have already been benefits, as we upgrade capacity and performance at those sites manufacturing critical parts for the microelectronics sector.

Principal Risks and Uncertainties

The principal risks and uncertainties to which the Group is exposed and our approach to managing those risks are unchanged from those identified on page 27 of our 2017 Annual Report.

Acquisitions

G&H continues to evaluate various acquisition opportunities that have the potential to accelerate delivery of the Company's strategic objectives. Having established a presence in its target markets, G&H is now focussing on moving up the value chain in each of those markets. Whilst the business will continue to evaluate bolt-on businesses in our core component technologies, continued strong focus is being placed on acquisition opportunities that enhance the Company's ability to wrap electronics and software around core photonic products to yield system-level solutions.

In February 2017 G&H acquired StingRay Optics LLC ("StingRay"), a New Hampshire, USA based specialist designer and manufacturer of high performance optical and opto-mechanical subsystems for demanding defence and commercial applications. It has integrated well into the Group; StingRay's performance has continued to exceed our expectations and we paid the first instalment of the earn out during H1.

Reconciliation of adjusted performance measures

	Operating Profit		Net finance costs		Taxation		Profit after tax		Earnings per share	
Half year to 31 March	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 pence	2017 pence
Reported	5,692	4,900	(444)	(197)	(668)	(1,261)	4,580	3,442	18.6	14.1
Amortisation of acquired intangible assets	954	797	–	–	(62)	(214)	892	583	3.6	2.4
Restructuring costs	502	351	–	–	(103)	(94)	399	257	1.6	1.0
Transaction fees	–	287	–	–	–	(77)	–	210	–	0.3
Interest on discounted deferred consideration	–	–	305	80	–	–	305	80	1.2	0.9
Impact of US tax rate change on deferred tax balances	–	–	–	–	(864)	–	(864)	–	(3.5)	–
Adjusted	7,148	6,335	(139)	(117)	(1,697)	(1,646)	5,312	4,572	21.5	18.7

Adjusted profit before tax was £7.0 million, an increase of 12.7% on the prior year (H1 2017: £6.2 million). This strong profit performance has been delivered at the same time as investing in the increased capacity required to deliver against a record half year order book.

The US Tax Reform Bill, HR1, which was substantively enacted on 22 December 2017, included legislation to reduce the main rate of US Federal tax from 35% to 21% from 1 January 2018. Accordingly, the closing net US deferred tax liability has been recognised on that basis leading to an exceptional tax credit of £864,000.

Cash Flow and Financing

In the six months to 31 March 2018 G&H generated cash from operations of £1.2 million, compared with £7.9 million in the same period of 2017 following a significant investment in working capital. In response to the capacity increases required at those sites manufacturing critical components for microelectronics applications and in preparation for the expected ramp in high reliability fibre couplers, the business has undertaken a strategic inventory build. Inventory has increased by £3.4 million since the year end. We would expect a large proportion of this to unwind before the year end. Following investment in capacity, the business ramped up production towards the end of the period resulting in an increase in trade receivables of £2m.

In respect of the StingRay acquisition, the business achieved its first year earn-out targets resulting in a $6 million payment made to the founders in February 2018. The remaining deferred contingent consideration of up to $4 million, payable in cash, based upon the performance of the business in the first half, is likely to be paid in February 2019.

“

Gooch & Housego is well positioned to take advantage of positive market conditions”

Capital expenditure on property, plant and equipment was £2.7 million in the period (2016: £3.6 million). The main fixed asset additions were in relation to increasing capacity in our sites manufacturing critical components for microelectronics applications. Expenditure on upgrading our ERP system of £0.5m is included in intangible capital expenditure.

The Company's net cash position remains robust at £5.0 million, down from £14.9 million at 30 September 2017, following the payment of the StingRay earn out and the investment in working capital.

Staff

The Company workforce increased from 823 at 30 September 2017 to 870 at the end of March 2018. This increase comes largely from our investment in increased capacity, offset by efficiency savings.

Dividends

The Directors have declared an interim dividend of 4.2p per share (2017 : 3.7p per share), a 13.5% increase on the prior period, which is reflective of the Directors' confidence in the business going forward and is underpinned by our strong balance sheet. This dividend will be payable on 27 July 2018 to shareholders on the register as at 22 June 2018.

Prospects and outlook

G&H remains committed to the twin pillars of our strategy, namely diversification and moving up the value chain. Increasingly our acquisition strategy is targeting opportunities that enhance the Company's ability to wrap electronics and software around core photonic products to yield system-level solutions and to deliver 'critical mass' in Life Sciences and further strengthen our position in A&D.

The Company is well-positioned to take advantage of positive market conditions and has continued to invest in people, upgraded equipment and new processes to meet the demands of a strong order book. We remain on track to meet our full year expectations.

G&H has reorganised its manufacturing organisation in order to enable more efficient delivery of products to our customers and we will continue to invest in capacity to service high growth areas. We will prioritise enhanced business development activity in our three main business sectors and invest in highly focused R&D programmes. G&H believes these activities provide a solid basis for our future performance .

Mark Webster
Chief Executive Officer

Andrew Boteler
Chief Financial Officer

5 June 2018

GROUP INCOME STATEMENT

Unaudited interim results for the 6 months ended 31 March 2018

	Note	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Revenue	5	55,608	52,153	112,016
Cost of revenue		(33,886)	(31,944)	(65,937)
Gross profit		21,722	20,209	46,079
Research and Development		(3,739)	(4,096)	(8,119)
Sales and Marketing		(4,551)	(4,706)	(9,459)
Administration		(8,507)	(7,438)	(16,937)
Other income and expenses		767	931	1,714
Operating profit	5	5,692	4,900	13,278
Net finance costs		(444)	(197)	(676)
Profit before income tax expense		5,248	4,703	12,602
Income tax expense	6	(668)	(1,261)	(3,710)
Profit for the period		4,580	3,442	8,892
Basic earnings per share	7	18.6p	14.1p	36.4p

Reconciliation of profit before tax to adjusted profit before tax:

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Profit before tax	5,248	4,703	12,602
Amortisation of acquired intangible assets	954	797	2,202
Release of accrued contingent consideration	-	-	(615)
Impairment of goodwill	-	-	615
Restructuring costs	502	351	536
Transaction fees	-	287	390
Interest on discounted deferred	305	80	381
Adjusted profit before tax	7,009	6,218	16,111

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Profit for the period	4,580	3,442	8,892
Other comprehensive income			
Currency translation differences	(1,496)	1,801	(1,410)
Other comprehensive (expense) / income for the period	(1,496)	1,801	(1,410)
Total comprehensive income for the period	**3,084**	**5,243**	**7,482**

GROUP BALANCE SHEET

Unaudited interim results for the 6 months ended 31 March 2018

	31 Mar 2018 (Unaudited) £'000	31 Mar 2017 (Unaudited) £'000	30 Sep 2017 (Audited) £'000
Non-current assets			
Property, plant and equipment	34,445	34,935	33,890
Intangible assets	38,926	44,418	40,250
Deferred income tax assets	1,502	2,785	2,703
	74,873	**82,138**	**76,843**
Current assets			
Inventories	23,968	21,025	21,078
Income tax assets	638	–	267
Trade and other receivables	26,691	21,852	24,723
Cash and cash equivalents	16,053	25,686	26,425
	67,350	**68,563**	**72,493**
Current liabilities			
Trade and other payables	(21,747)	(20,547)	(23,758)
Borrowings	(6)	(3)	(6)
Income tax liabilities	–	(594)	(579)
Provision for other liabilities and charges	(884)	(803)	(888)
Deferred consideration	(4,256)	–	(4,286)
	(26,893)	**(21,947)**	**(29,517)**
Net current assets	**40,457**	**46,616**	**42,976**
Non-current liabilities			
Borrowings	(11,002)	(17,913)	(11,492)
Deferred income tax liabilities	(4,438)	(4,951)	(5,938)
Deferred consideration	–	(9,437)	(4,253)
	(15,440)	**(32,301)**	**(21,683)**
Net assets	**99,890**	**96,453**	**98,136**
Shareholders' equity			
Called up share capital	4,950	4,895	4,903
Share premium account	15,530	15,530	15,530
Merger reserve	4,640	4,640	4,460
Cumulative translation reserve	4,078	8,875	5,574
Retained earnings	70,692	62,603	67,489
Equity Shareholders' Funds	**99,890**	**96,453**	**98,136**

STATEMENT OF CHANGES IN EQUITY

Unaudited interim results for the 6 months ended 31 March 2018

	Share capital account £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Cumulative translation reserve £'000	Total equity £'000
At 1 October 2016	4,852	15,530	2,671	60,135	6,984	90,172
Profit for the period	–	–	–	3,442	–	3,442
Other comprehensive income for the period		–	–	–	1,801	1,801
Total comprehensive income for the period		–	–	3,442	1,801	5,243
Dividends	–	–	–	(1,383)	–	(1,383)
Proceeds from shares issued	43	–	1,969	(7)	–	2,005
Fair value of employee services	–	–	–	329	–	329
Tax credit relating to share option schemes	–	–	–	87	–	87
At 31 March 2017 (unaudited)	4,895	15,530	4,640	62,603	8,785	96,453
At 1 October 2017	4,903	15,530	4,640	67,489	5,574	98,136
Profit for the period	–	–	–	4,580	–	4,580
Other comprehensive income for the period	–	–	–	–	(1,496)	(1,496)
Total comprehensive income / (expense) for the period	–	–	–	4,580	(1,496)	3,084
Dividends	–	–	–	(1,608)	–	(1,608)
Proceeds from shares issued	47	–	–	(47)	–	–
Fair value of employee services	–	–	–	338	–	338
Tax debit relating to share option schemes	–	–	–	(60)	–	(60)
At 31 March 2018 (unaudited)	4,950	15,530	4,640	70,692	4,078	99,890

GROUP CASH FLOW STATEMENT

Unaudited interim results for the 6 months ended 31 March 2018

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Cash flows from operating activities			
Cash generated from operations	1,151	7,871	19,526
Income tax paid	(1,646)	(802)	(1,957)
Net cash (used by) /generated from operating activities	**(495)**	**7,069**	**17,569**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	(4,414)	(5,549)	(5,658)
Purchase of property, plant and equipment	(2,739)	(3,568)	(5,799)
Sale of property, plant and equipment	-	26	29
Purchase of intangible assets	(922)	(348)	(604)
Interest received	7	18	27
Interest paid	(111)	(109)	(326)
Net cash used in investing activities	**(8,179)**	**(9,530)**	**(12,331)**
Cash flows from financing activities			
Drawdown of acquisition borrowing facility	-	6,045	5,918
Repayment of borrowings	(3)	-	(5,523)
Dividends paid to ordinary shareholders	(1,608)	(1,383)	(2,289)
Net cash (used in) / generated from financing activities	**(1,611)**	**4,662**	**(1,894)**
Net (decrease) / increase in cash	**(10,285)**	**2,201**	**3,344**
Cash at beginning of the period	**26,425**	**23,167**	**23,167**
Exchange (losses) / gains on cash	(87)	318	(86)
Cash at the end of the period	**16,053**	**25,686**	**26,425**

NOTES TO THE GROUP CASH FLOW STATEMENT

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Profit before income tax	**5,248**	4,703	12,602
Adjustments for:			
- Amortisation of acquired intangible assets	954	797	2,202
- Amortisation of other intangible assets	67	98	199
- Impairment of goodwill	-	-	615
- Release of accrued contingent consideration	-	-	(615)
- Depreciation	1,933	1,750	3,664
- Share based payment obligations	338	329	587
- Amounts claimed under the RDEC	(195)	-	(370)
- Finance income	(7)	(17)	(27)
- Finance costs	451	214	703
Total adjustments	**3,541**	3,171	6,958
Changes in working capital			
- Inventories	(3,376)	(605)	(1,442)
- Trade and other receivables	(2,272)	1,578	(1,465)
- Trade and other payables	(1,990)	(976)	2,873
Total changes in working capital	**(7,638)**	(3)	(34)
Cash generated from operating activities	**1,151**	7,871	19,526

Reconciliation of net cash flow to movements in net cash

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
(Decrease) / (increase) in cash in the period	**(10,285)**	2,201	3,344
Borrowings	**-**	(6,045)	(5,918)
Repayment of borrowings	**2**	-	5,523
Changes in net cash resulting from cash flows	**(10,283)**	(3,844)	2,949
Translation differences	**401**	(54)	310
Movement in net cash in the period / year	**(9,882)**	(3,898)	3,259
Net cash at start of period	**14,927**	11,668	11,668
Net cash at end of period	**5,045**	7,770	14,927

Analysis of net cash

	At 1 Oct 2017 £'000	Cash flow £'000	Exchange movement £'000	At 31 Mar 2018 £'000
Cash at bank and in hand	**26,425**	(10,285)	(87)	**16,053**
Debt due after 1 year	**(11,480)**	-	488	**(10,992)**
Finance leases	**(18)**	2	-	**(16)**
Net cash	**14,927**	(10,283)	401	**5,045**

NOTES TO THE INTERIM REPORT

1. Basis of Preparation

The unaudited Interim Report has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The Interim Report was approved by the Board of Directors and the Audit Committee on 5 June 2018. The Interim Report does not constitute statutory financial statements within the meaning of the Companies Act 2006 and has not been audited.

Comparative figures in the Interim Report for the year ended 30 September 2017 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion. The comparative figures to 31 March 2017 are unaudited.

The Interim Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 5 June 2018. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2017, as described in those financial statements.

2. Application of IFRS

Adoption of new standards

During the current reporting period there were no new standards or amendments which had a material impact on the net assets of the Group. In addition, standards or amendments issued but not yet effective are not expected to have a material impact on the net assets of the Group. As disclosed in our 2017 Annual Report, management do not currently expect IFRS15, which will apply to the Group in future accounting periods, to have a material impact on the financial statements, but will continue to monitor this as the adoption date gets closer.

3. Estimates

The preparation of interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2017.

4. Financial risk management

The Company's activities expose it to a variety of financial risks, market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at 30 September 2017.

There have been no changes to the risk management policies since the year end.

5. Segmental analysis

For half year to 31 March 2018	Aerospace & Defence £'000	Life Sciences £'000	Industrial £'000	Scientific Research £'000	Corporate £'000	Total £'000
Revenue						
Total revenue	18,130	5,021	34,227	1,949	–	59,327
Inter and intra-division	–	–	(3,719)	–	–	(3,719)
External revenue	**18,130**	**5,021**	**30,508**	**1,949**	**–**	**55,608**
Divisional expenses	(15,701)	(4,513)	(25,098)	(1,635)	(15)	(46,962)
EBITDA[1]	**2,429**	**508**	**5,410**	**314**	**(15)**	**8,646**
EBITDA %	13.4%	10.1%	17.7%	16.1%	–	15.5%
Depreciation and Amortisation	(367)	(201)	(1,036)	(105)	(291)	(2,000)
Operating profit before amortisation of acquired intangible assets	**2,062**	**307**	**4,374**	**209**	**(306)**	**6,646**
Amortisation of acquired intangible assets	–	–	–	–	(954)	(954)
Operating profit	**2,062**	**307**	**4,374**	**209**	**(1,260)**	**5,692**
Operating profit margin %	11.4%	6.1%	14.3%	10.7%	–	10.2%
Add back non-recurring items	–	–	–	–	1,456	1,456
Operating profit excluding non-recurring items	2,062	307	4,374	209	196	7,148
Adjusted operating profit margin %	11.4%	6.1%	14.3%	10.7%	–	12.9%

For half year to 31 March 2017	Aerospace & Defence £'000	Life Sciences £'000	Industrial £'000	Scientific Research £'000	Corporate £'000	Total £'000
Revenue						
Total revenue	14,578	4,751	34,463	1,488	–	55,280
Inter and intra-division	–	–	(3,127)	–	–	(3,127)
External revenue	**14,578**	**4,751**	**31,336**	**1,488**	**–**	**52,153**
Divisional expenses	(13,178)	(4,216)	(25,121)	(1,415)	(677)	(44,607)
EBITDA[1]	**1,400**	**535**	**6,215**	**73**	**(677)**	**7,546**
EBITDA %	9.6%	11.3%	19.8%	4.9%	–	14.5%
Depreciation and Amortisation	(334)	(192)	(942)	(57)	(324)	(1,849)
Operating profit before amortisation of acquired intangible assets	**1,066**	**343**	**5,273**	**16**	**(1,001)**	**5,697**
Amortisation of acquired intangible assets	–	–	–	–	(797)	(797)
Operating profit	**1,066**	**343**	**5,273**	**16**	**(1,798)**	**4,900**
Operating profit margin %	7.3%	7.2%	16.8%	1.1%	–	9.4%
Add back non-recurring items	–	–	–	–	1,435	1,435
Operating profit excluding non-recurring items	1,066	343	5,273	16	(363)	6,335
Adjusted operating profit margin %	7.3%	7.2%	16.8%	1.1%	–	12.1%

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation.
All of the amounts recorded are in respect of continuing operations.

5. Segmental analysis (continued)

Analysis of revenue by destination

	Half year to 31 Mar 2018 (Unaudited) £'000	Half year to 31 Mar 2017 (Unaudited) £'000
United Kingdom	8,656	8,714
America	20,468	21,393
Continental Europe	13,051	11,675
Asia-Pacific	13,433	10,371
	55,608	**52,153**

6. Income tax expense

Analysis of tax charge in the period

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Current taxation			
UK Corporation tax	544	569	1,318
Overseas tax	868	517	2,165
Adjustments in respect of prior year tax charge	–	–	(1,315)
Total current tax	1,412	1,086	2,168
Deferred tax			
Origination and reversal of temporary differences	120	175	227
Adjustments in respect of prior year deferred tax	–	–	1,315
Impact of change in the US tax rate	(864)	–	–
Total deferred tax	(744)	175	1,542
Income tax expense per income statement	**668**	**1,261**	3,710

The tax charge for the six months ended 31 March 2018 is based on the estimated effective rate of the tax for the Group for the full year to 30 September 2018. The estimated rate is applied to the profit before tax.

7. Earnings per share

The calculation of earnings per 20p Ordinary Share is based on the profit for the period using as a divisor the weighted average number of Ordinary Shares in issue during the period. The weighted average number of shares is given below.

	Half Year to 31 Mar 2018 (Unaudited) No.	Half Year to 31 Mar 2017 (Unaudited) No.	Full Year to 30 Sep 2017 (Audited) No.
Number of shares used for basic earnings per share	**24,660,697**	24,374,577	24,457,701
Dilutive shares	**252,099**	376,517	412,901
Number of shares used for dilutive earnings per share	**24,912,796**	24,751,094	24,870,602

A reconciliation of the earnings used in the earnings per share calculation is set out below:

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2018 (Unaudited) p per share	Half Year to 31 Mar 2017 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) p per share	Full Year to 30 Sep 2017 (Audited) £'000	Full Year to 30 Sep 2017 (Audited) p per share
Basic earnings per share	4,580	18.6p	3,442	14.1p	8,892	36.4p
Adjustments net of income tax expense:						
Amortisation of acquired intangible assets	892	3.6p	583	2.4p	2,034	8.3p
Goodwill impairment	–	–	–	–	615	2.5p
Release of accrued contingent consideration	–	–	–	–	(615)	(2.5p)
Restructuring costs	399	1.6p	257	1.0p	431	1.8p
Transaction fees	–	–	210	0.9p	314	1.3p
Interest on discounted deferred consideration	305	1.2p	80	0.3p	381	1.6p
Tax credit due to US tax rate change	(864)	(3.5p)	–	–	–	–
Total adjustments net of income tax expense	732	2.9p	1,130	4.6p	3,160	13.0p
Adjusted basic earnings per share	5,312	21.5p	4,572	18.7p	12,052	49.4p
Basic diluted earnings per share	4,580	18.4p	3,442	13.8p	8,892	35.8p
Adjusted diluted earnings per share	**5,312**	**21.3p**	**4,572**	**18.5p**	**12,052**	**48.5p**

Adjusted earnings per share before amortisation of acquired intangible assets and adjustments has been shown because, in the opinion of the Directors, it more accurately reflects the trading performance of the Group.

8. Dividend

The Directors have declared an interim dividend of 4.2 pence per share for the half year ended 31 March 2018. This dividend has not been accounted for within the period to 31 March 2018 as it is yet to be paid.

	Half Year to 31 Mar 2018 (Unaudited) £'000	Half Year to 31 Mar 2017 (Unaudited) £'000	Full Year to 30 Sep 2017 (Audited) £'000
Final 2017 dividend paid : 6.5p per share	1,608	–	–
Final 2016 dividend paid : 5.2p per share	–	1,383	1,383
2017 Interim dividend paid: 3.7p per share	–	–	906
	1,608	1,383	2,289

9. Intangible assets

Management have not identified any triggering events for impairment at the half year and therefore the goodwill impairment reviews have not been formally updated. As disclosed in our 2017 Annual Report, the headroom on the impairment calculations in respect of the goodwill on our Boston and Moorpark sites is limited, but remains supported based on our latest forecasts for these businesses. Should these forecasts be missed in the second half of 2018, an impairment charge may arise.

10. Borrowings

The group's banking facilities with the Royal Bank of Scotland comprise a committed revolving credit facility of $15m and an uncommitted flexible acquisition facility of $20m both available until 30 April 2019. The business will look to renegotiate these facilities in the coming months.

The revolving credit facility attracts an interest rate of between 0.9% and 1.8% above LIBOR dependent upon the Company's leverage ratio.

11. Called up share Capital

	2018 No.	2017 No.	2018 £'000	2017 £'000
Allotted, issued and fully paid				
Ordinary share of 20p each	24,741,964	24,476,471	4,950	4,895

the specialist manufacturer of optical components and systems

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