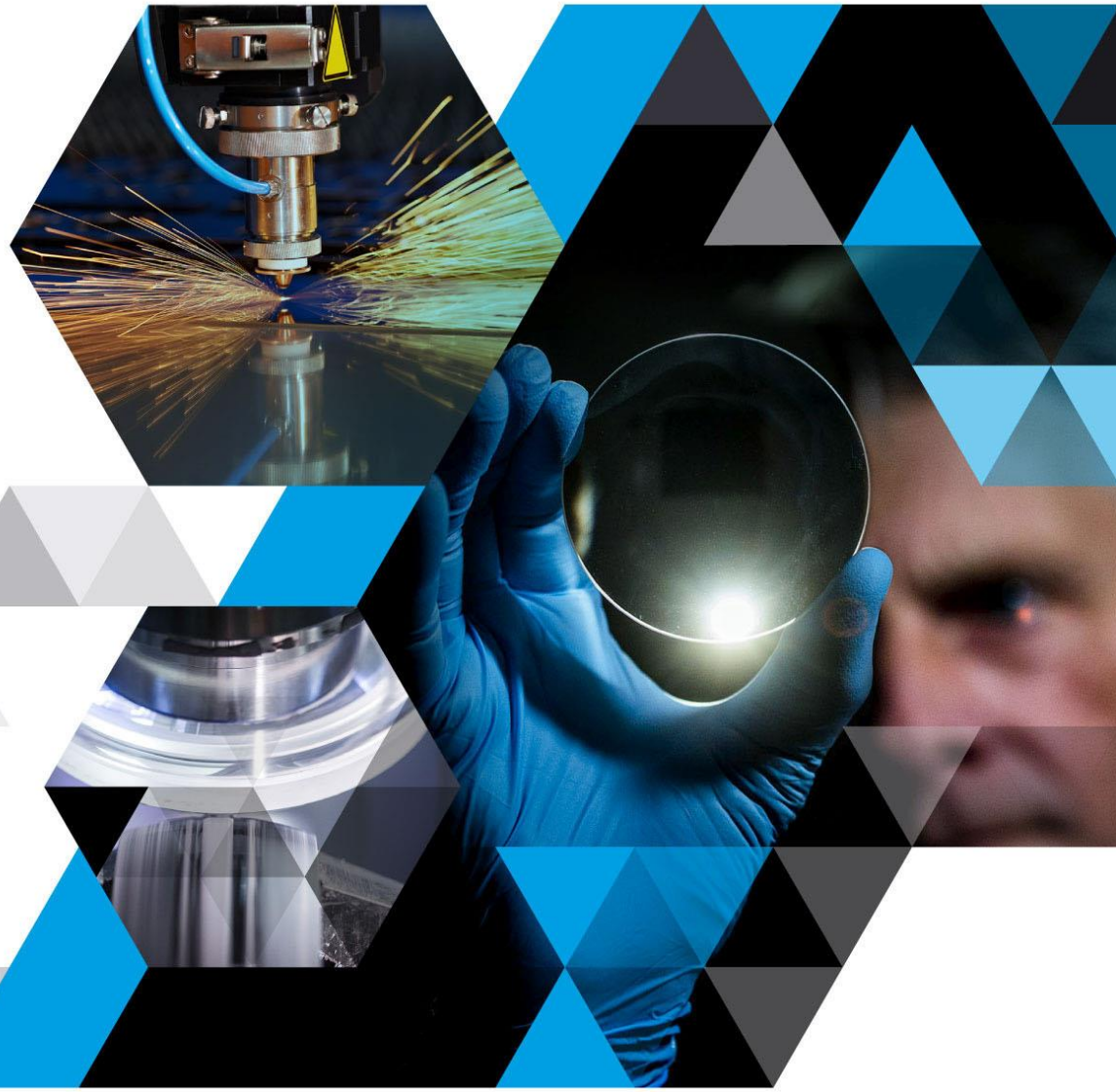
Liberum Industrials Conference

12th January 2023



AGENDA

- Photonics – The Future
- Company Overview & Markets
- 2022 Results Overview
- Growth Opportunities
- Summary & Outlook

Charlie Peppiatt – CEO

Chris Jewell - CFO

PHOTONICS – THE FUTURE

- Photonics is the study and design of systems that depend on the transmission, modulation or amplification of streams of photons, the basic unit of light
- Photonics is already transforming manufacturing, aerospace, communications and medicine
- Optics and electronics are becoming inextricably linked and we believe the application of photonics will become ubiquitous
- Photonic components global TAM $120B in 2021 with CAGR >10% to 2025*
- These components enable a $1.4 trillion end-market today, with share of value increasing in end-systems growing at circa 6% per annum*
- G&H has world class photonics components and systems capabilities
- G&H is well placed to take advantage of and enable what is a transformational shift in technology

* Mckinsey & Co – Photonics Next Wave of Growth April 2022

WHO WE ARE

G&H is a world leader in optical design, test and manufacture

We work with OEM customers worldwide, providing optical systems, assemblies and components for demanding applications, often for deployment in harsh environments

Our vision

A better world with photonics

Our mission

Delivering world class engineering and manufacturing solutions

Our value proposition

Our technology depth and product breadth allow us to design and manufacture **higher specification** components, modules and subsystems

This enables our customers to provide systems with **higher performance, quality, reliability and product lifetime**

We aim to be a go-to expert partner for the most demanding OEM photonics subsystem and component projects

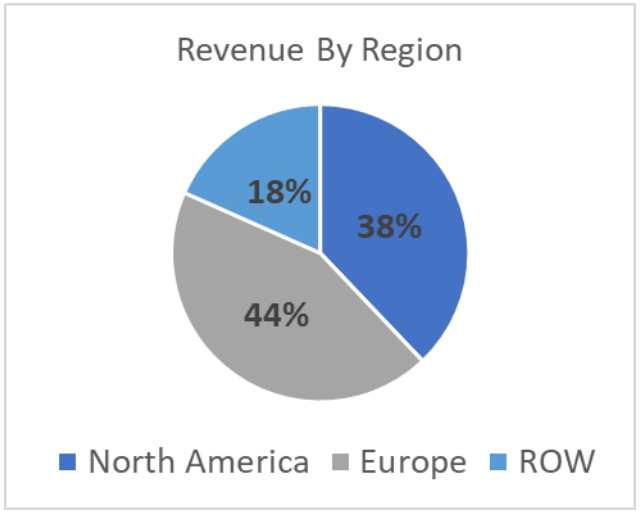
OUR WORLD LEADING REACH AND EXPERTISE

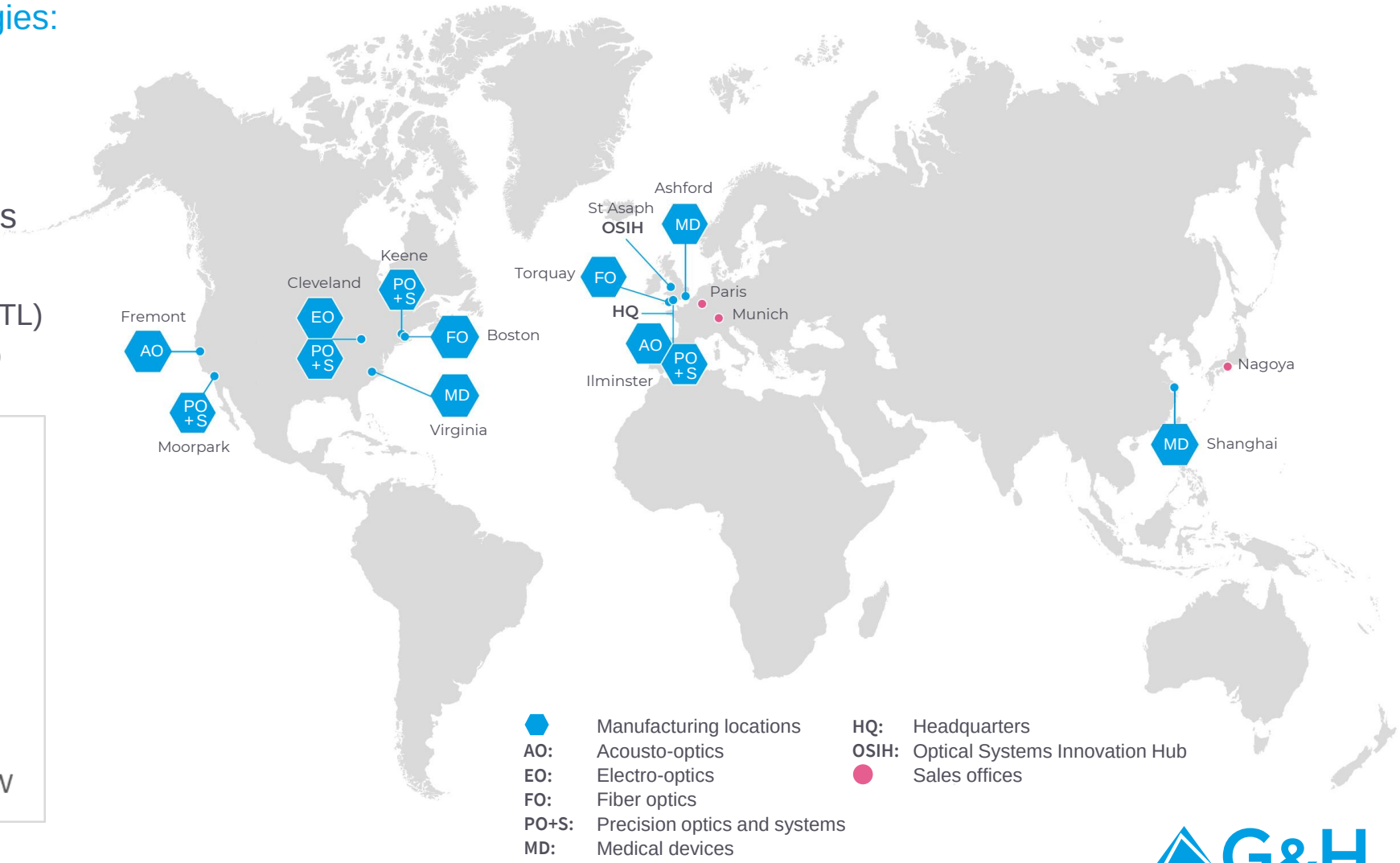
Our excellence in engineering and manufacturing is based on the following core technologies:

- Acousto-optics
- Electro-optics
- Fiber optics
- Precision optics and systems

In addition:

- Medical device manufacturing (ITL)
- Optical Systems Innovation Hub





REVENUE BY SECTOR

2022 Total Revenue: £124.8M

We serve and provide value for three markets:

- Aerospace and Defense
- Industrial and Telecom
- Life Sciences

Industrial and Telecom
£64.6m
51%

Aerospace and Defense
£30.6m
25%

Life Sciences
£29.7m
24%

Revenue figures from 2021 Annual Report

INDUSTRIAL MARKET

Photonics plays an increasingly important role in industrial manufacturing

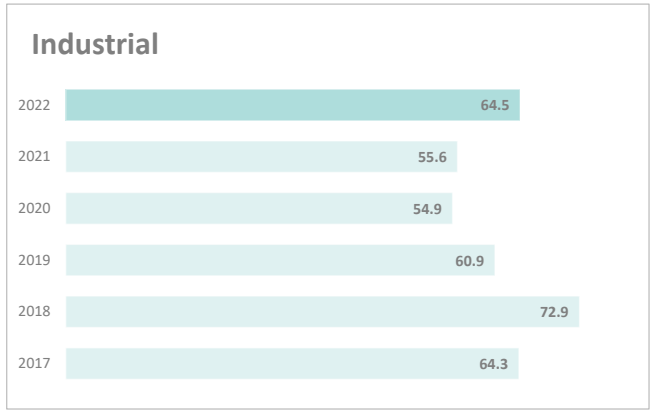
Laser Material Processing - we design and manufacture products which are used in laser cavities, to steer and control the laser's beam

Printing - In photolithography and micro-lithography

Sensing - Fibre optics are deployed in a wide variety of sensing applications. We supply fibre optic and acousto-optic sub-assemblies and components to equipment manufacturers and installers of these systems

Telecommunications - Our customers deploy our fibre-based products in undersea networks and in space for satellite-to-satellite communications

Scientific Research - We supply critical optical components for leading global research laboratories such as very large frequency conversion crystals used in the world's most powerful laser system employed for inertial confined fusion



AEROSPACE & DEFENCE MARKET

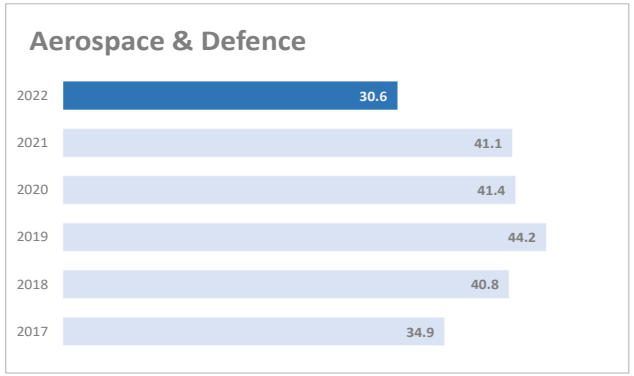
Imaging - An array of photonic components, sub-assemblies and systems into imaging applications which include asset surveillance and LIDAR mapping

Target Designation and Range-Finding - Photonic targeting and range-finding systems ensure correct deployment of munitions

Countermeasures - Ground-Based Systems and Airborne Platforms Infrared countermeasures protect military assets from missile attacks. These systems require accurate modulation of the infrared energy under extreme environmental conditions

Navigation - Gyroscopes are used in inertial navigation systems in aircraft, guided missiles, submarines, ships and spacecraft for rotation sensing to measure or maintain orientation

Space - G&H works with major prime contractors and government agencies on ground-breaking scientific and technology development programs for navigation, earth observation and communication



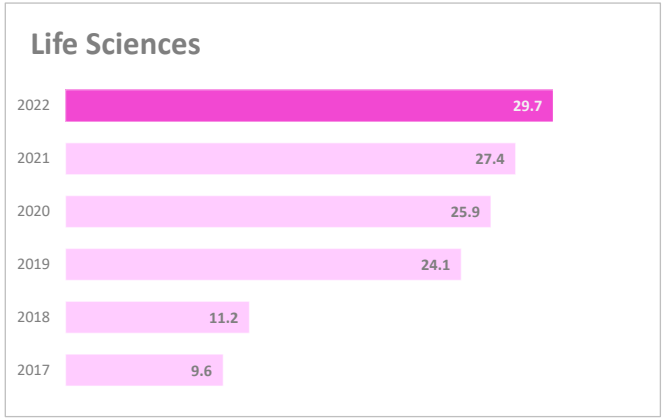
LIFE SCIENCES MARKET

Optical Coherence Tomography (OCT) - We serve most of the world's leading manufacturers of OCT retinal imaging systems

Medical and Cosmetic Laser Systems - G&H is helping develop new laser products which enable less invasive surgical techniques. Applications include cataract replacement, vision correction, prostate surgery, varicose vein treatment, and mole treatment in addition to tattoo removal, teeth whitening, freckle removal, and wrinkle reduction

In Vivo and In Vitro Diagnostics - In Vivo diagnostics for ophthalmic, cardiovascular and cancer detection and In Vitro diagnostics through enabling advanced microscopy and flow cytometry

Medical Devices - We provide full product development, design, manufacturing and after-sale service for the commercialisation of medical diagnostic, analytical, precision electro-mechanical and laboratory instruments



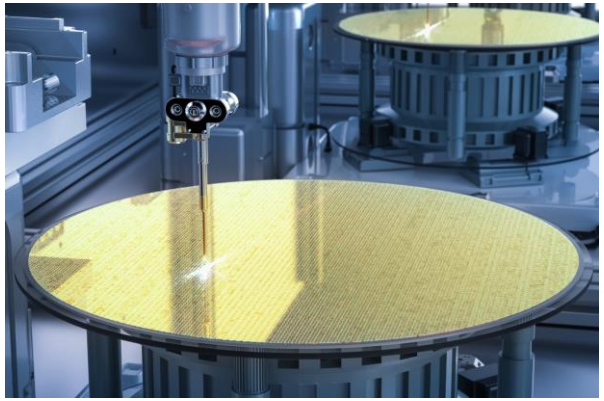
2022 Results Overview

- Record order book of £147.7m up 51% reflecting strong end market demand (FY2021: £97.8m)
- Revenue of £124.8m unchanged on prior year (FY2021: £124.1m)
- Growth in both Industrial and Life Sciences offset by decline in Aerospace and Defence
- Adjusted profit before tax declined 35.4% to £8.1m (FY2021: £12.6m)
- Investment to increase capacity but challenges with recruitment, operations and supply chain constrained output
- Net debt increased to £19.1m (FY2021: £9.2m) reflecting inventory investment to alleviate supply chain shortages
- Proposed final dividend of 7.9 pence per share, giving a total of 12.6 pence per share (FY2021: 12.2p)
- Review of the Group's strategy underway

"I will be focused on ensuring we resolve the operational constraints and address investment priorities that have impacted the business to deliver the strong demand we see from our customers."

GROWTH OPPORTUNITIES

- Semiconductor demand from megatrends & ‘Technological Sovereignty’ driving advanced photonics for new generation photolithographic equipment and other advanced microelectronics
- Environmental & Space high reliability fibre-optic modules and opto-mechanical systems
- Bio-photonics embedded into IVD devices and medical systems
- Aerospace & Defence imaging systems and optical solutions

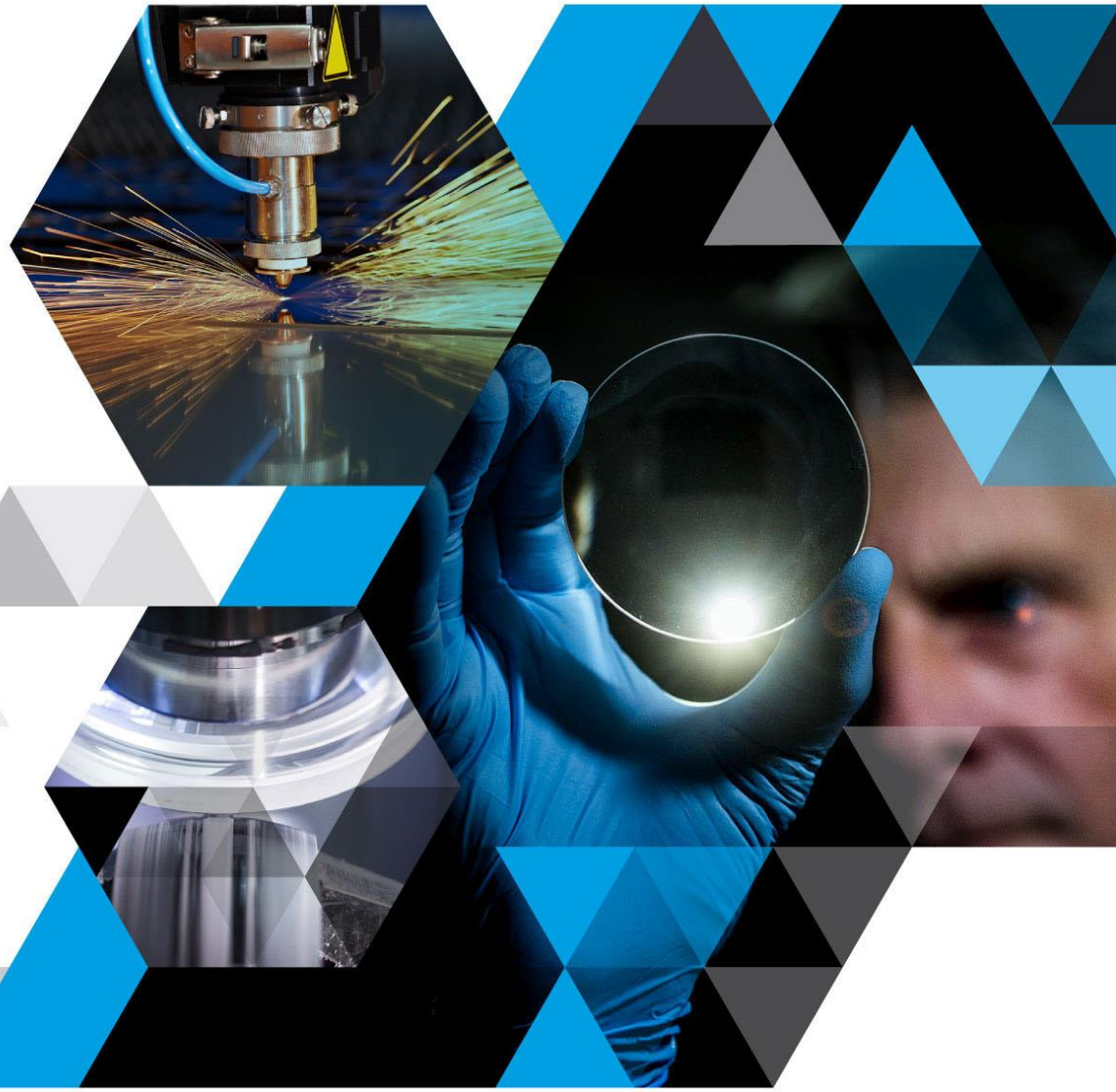


SUMMARY AND OUTLOOK

- Well positioned for growth with record order book and robust pipeline
- Positive progress addressing operational output challenges
- Manufacturing partner producing at volume and additional products being qualified
- Supply chain constraints and input cost inflation pressures persist
- Growth in financial performance in 2023 though at a lower level than previously assumed
    - Accelerated R&D investment focused on growth markets
    - Addition of further capacity to service strong demand
- Review of the Group's strategy is underway

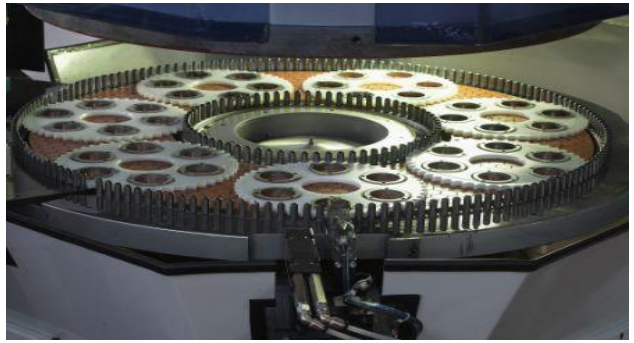
"We anticipate higher production in FY2023 as we convert our record order book. The business will invest to ensure G&H can capitalise on accelerating the rapid deployment of photonics technologies underpinning the future growth potential of the Group."

APPENDICES



INITIAL OBSERVATIONS BY NEW CEO

- Dedicated workforce with deep technical skills across the business
- Broad blue-chip customer base across all end markets
- G&H products are recognised for their superior technical performance and quality
- Operational delivery over recent times has not met required standards
- Facilities well invested, new product development requires acceleration
- Elements of existing strategy valid but execution and implementation stalled



ESG – RESPONSIBLE BUSINESS

Environment

- New solar panels at Ilminster and Ashford facilities became operational in the year
- All UK sites now purchasing 100% of their electricity from renewable sources
- Achieved 27% reduction in Scope 1 and 2 carbon emissions
- On track to achieve target of being net neutral by 2035

Social

- Refreshed G&H Values to support our Vision of a ‘Better World with Photonics’
- Underpinned with a suite of Behaviours that help our people put those Values into practice on a day to day basis

Governance

- The Company applies the UK Corporate Governance Code (2018)
- The Board has conducted a review during the year to confirm our full compliance
- Promoting gender diversity in new roles at all levels
- ESG sub-committee to be established in 2023

2022 SUMMART INCOME STATEMENT

Year Ended 30 September	2022 £m	2021 £m	% Change
Revenue	**124.8**	**124.1**	0.6%
Gross profit	**39.1**	**41.3**	(5.5)%
Gross margin %	**31.3%**	**33.3%**	(200)bps
Adjusted operating profit	**8.9**	**13.3**	(33.6)%
Adjusted operating profit margin	**7.1%**	**10.8%**	(370)bps
Adjusted profit before tax	**8.1**	**12.6**	(35.4)%
Adjusted basic earnings per share (p.p.s)	**27.2p**	**41.0p**	(33.7)%
Non underlying items	**10.4**	**7.9**	31.2%

"Sustained investment is being made to satisfy record levels of demand from our customers."

- Revenue grew by 0.6%; excluding fx down 3.7%
- Further growth in our industrial laser and semiconductor revenue
- Medical lasers market is strong; A&D revenue declined as programmes ended
- Gross margin declined to 31.3%; lower volumes and continued investment to add productive capacity
- Cash investment of £9.3m in R&D (2021: £7.9m)
- Adjusted effective tax rate was 16.3% (2021: 18.8%)
- Non underlying items charge of £10.4m, cash of £0.5m. Included £6.7m impairment charge against goodwill and other intangible assets, driven by increase in the Group's cost of capital
- Reported loss before tax for the year of £2.3m

2022 CASHFLOW

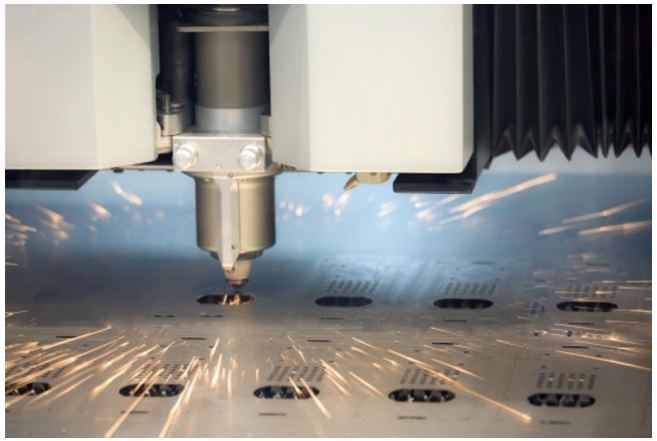
Year Ended 30 September	2022 £m	2021 £m
Net cash flow from operating activities	**6.5**	**16.2**
Cash flow from investing activities		
Acquisition of subsidiary	-	(3.3)
Purchase of property, plant and equipment & intangibles	(8.6)	(6.2)
Net Interest paid	(0.7)	(0.5)
	(9.3)	**(10.0)**
Cash flow from financing activities		
Net borrowing and lease payments	3.4	(16.1)
Dividends paid to ordinary shareholders	(3.1)	(1.1)
	0.3	**(17.2)**
Net decrease in cash and cash equivalents	**(2.5)**	**(11.0)**
Exchange gains / (losses)	0.1	(0.4)
Cash	**6.0**	**8.4**

- Increase in working capital of £10.0m in the year, with investment in inventory levels given tightness of supply chain
- Total investment in tangible and intangible assets increased to £8.6m
- Net debt (excluding the impact of IFRS 16 – Leases) of £12.8m increased from £2.6m
- Leverage as measured for our bank covenant was 0.7x (2021: 0.1x)
- Debt facility was extended on favourable terms to April 2027
- Available committed and uncommitted bank facilities of $49m to support the Group's future growth

2022 INDUSTRIAL

Financials (51% of revenue)

	FY22	FY21	Change
Revenue	£64.6m	£55.6m	16.2%
Adjusted Operating Profit	£8.4m	£7.1m	19.1%
% Margin	13.0%	12.7%	30bps
Order Book	£57.5m	£36.8m	56.3%



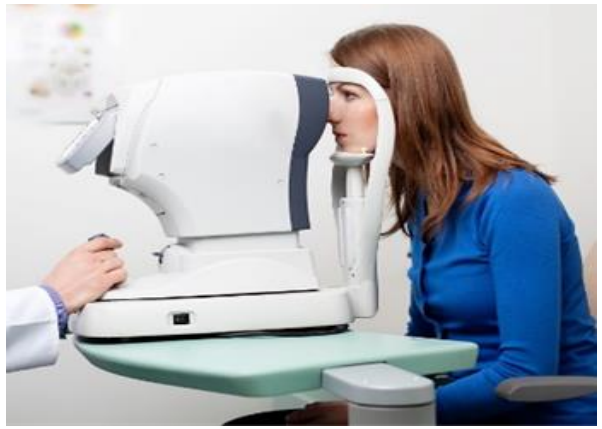
- Expansion of semiconductor infrastructure to address megatrends: IoT, AI, 5G, Net Zero and Cloud key growth drivers
- Industrial revenue grew year on year by 10.5% at constant currency
- Revenue from industrial laser and semiconductor markets continue to grow
- Profit margins benefitted from the additional volume despite further investment in capacity
- Contract manufacturing partner has ramped to volume production for select acousto-optic products

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

2022 LIFE SCIENCES

Financials (24% of revenue)

	FY22	FY21	Change
Revenue	£29.7m	£27.4m	8.2%
Adjusted Operating Profit	£4.0m	£4.2m	(6.9)%
% Margin	13.3%	15.5%	(220)bps
Order Book	£36.6m	£26.6m	37.6%



- Life Sciences grew year on year by 5.3% at constant currency
- New customer programmes for medical diagnostics have replaced reductions in ventilator programmes
- Expanded our medical diagnostics R&D group to meet growing demand
- New larger ITL facility opened in Virginia to support growth opportunities in North American market
- Demand for our medical laser products benefitting from continued growth in cosmetic procedures

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

2022 AEROSPACE & DEFENCE

Financials (25% of revenue)

	FY22	FY21	Change
Revenue	£30.6m	£41.1m	(25.6)%
Adjusted Operating Profit	£(2.7)m	£3.1m	(185.0)%
% Margin	(8.7)%	7.6%	(1630)bps
Order Book	£53.5m	£33.6m	59.1%

- Aerospace and Defence revenues declined year on year by 29% at constant currency
- Deliveries to military vehicle and laser based space communication programmes completed in prior year
- New programme wins have driven 41% order book growth at constant currency underpinning recovery
- Development projects for directed energy systems and laser based space communications
- Increased opportunities for replenishment of armoured vehicle programmes

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

G&H

2023 Expected Financial Calendar

- 22nd February 2023 AGM Trading Update
- 4th April 2023 Half Year Trading Update
- June 2023 Interim Announcement
- October 2023 Full Year Trading Update
- December 2023 Full Year Results Announcement

2022 OTHER FINANCIAL ITEMS

R&D Spend

- The Group's R&D spend in the year totalled £9.3m (FY2021: £7.9m). This represented 7.4% of revenue (FY2021: 6.4%)
- The Group capitalises a portion of its R&D spend in accordance with IFRS. The amount held on the balance sheet is £1.9m (FY2021: £1.8m).

Tax

- The tax credit for the year totalled £0.3m (FY2021: charge £1.3m)
- This comprised an underlying tax charge of £1.3m (FY2021: £2.4m) and a credit on non-underlying items of £1.6m. The effective underlying tax rate was 16.3% (FY2021: 18.8%). The reduction in the rate was largely due to the release of certain provisions held in respect of uncertain items in the prior year.
- The Group has overseas tax losses of £11.1m (FY2021: £9.2m) available for offset against future profits of the Group.

Interest cost

- The Group's interest charge comprised £0.5m (FY2021: £0.4m) in respect of bank interest and £0.2m (FY2021: £0.3m) 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.

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.

How can our expertise enable your success?