Gooch & Housego PLC

Interim Results

Half Year Ended 31 March 2015

Chairman: Gareth Jones **CEO:** Mark Webster **CFO:** Andrew Boteler

Highlights

Operational & Financial Highlights

- Strong performance from industrial laser & telecommunications products underpinned 13% increase in revenue to a record £38.9 million for the first six months of FY2015
- Adjusted profit before tax up 23.5% to £6.3m from £5.1m
- Investment in R&D up 10%
- Melbourne site closure completed and products transferred to other G&H sites
- Solid order book of £34.6 million, up 5.8% since the year end
- Initiatives to drive performance improvement programme across G&H launched
- Strong cash inflow supporting 15.4% increase in the interim dividend of 3.0p

"Gooch & Housego has performed well in the first six months of the financial year against a background of generally improving market conditions. We remain focused on delivering our financial goals and continued growth in FY15 and beyond." Mark Webster- CEO

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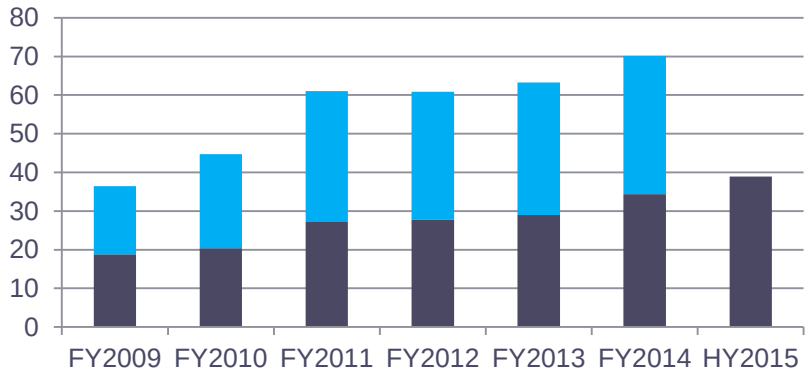
Highlights

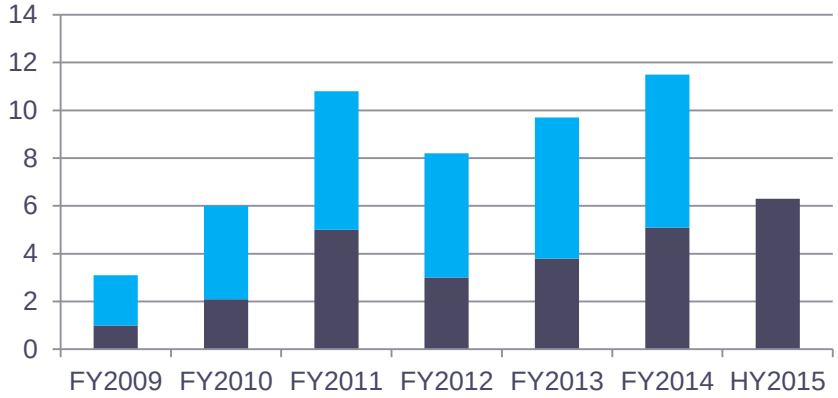
Results at a glance

Half Year Ended 31 March	HY 2015	HY 2014	Change
Revenue	**£38.9m**	**£34.4m**	13.1%
Adjusted profit before tax	**£6.3m**	**£5.1m**	23.5%
Adjusted basic earnings per share	**19.3p**	**15.9p**	21.4%
Interim dividend per share	**3.0p**	**2.6p**	15.4%
Net cash	**£11.9m**	**£2.3m**	£9.6m

Revenue £'m



Adjusted PBT £'m



"The business has delivered sales growth and improving margins driven by a strong performance in our Industrial division" Andrew Boteler - CFO

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Financial Overview

Income Statement

Period Ended 31 March	2015 £'000	% Change	2014 £'000
Revenue	**38,945**	13.1%	**34,422**
Gross profit	**15,560**	15.6%	**13,462**
Operating expenses	**(9,093)**	12.8%	**(8,060)**
Adjusted operating profit	**6,467**	19.7%	**5,402**
Adjusted operating profit %	**16.6%**		**15.7%**
Acquired intangible assets amortisation and exceptional items	**(1,219)**		**(1,446)**
Operating profit	**5,248**	32.7%	**3,956**
Net finance costs	**(148)**	(49.5%)	**(293)**
Profit before income tax	**5,100**	39.2%	**3,663**
Income tax expense	**(1,363)**	(32.2%)	**(1,031)**
Profit for the period	**3,737**	42.0%	**2,632**
Basic earnings per share	**15.6p**	41.8%	**11.0p**
Adjusted profit before tax	**6,319**	23.7%	5,109
Adjusted basic earnings per share	**19.3p**	21.4%	15.9p

Key points:

- Group revenue for the half year was a record £38.9 million, 13% higher
- Excluding the impact of foreign exchange, revenue increased by 10%
- Gross margin increased by 1 percentage point to 40% driven by the increased volumes
- Adjusted operating margins increased to 16.6% (2014 : 15.7%)
- G&H invested £3.2 million in R&D. This represents 8.2% of revenue and is 10% higher than H1 '14 (2014: £2.9m)
- Net finance costs reduced by almost half as a result of the company's continued strong cash generation and re-financing its debt
- Effective tax rate, after taking account of goodwill movements, was 26.5% (2014 : 25.6%)

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Financial Overview

Cash Flow Statement

Period Ended 31 March	2015 £'000	2014 £'000
Net cash flows from operating activities	**5,079**	**4,323**
Cash flows from investing activities		
Acquisition of subsidiaries	-	(5,532)
Capital expenditure & other investing activities	(785)	(836)
	(785)	**(6,368)**
Cash flows from financing activities		
Repayment of borrowings	(8,731)	(1,704)
Drawdown of borrowings	5,168	4,971
Proceeds from issuance of share capital	98	123
Interest paid	(178)	(230)
Dividends paid to ordinary shareholders	(1,101)	(950)
	(4,744)	**2,210**
Net (decrease)/increase in gross cash	**(450)**	**165**
Gross cash at the beginning of the period	17,094	12,088
Exchange gains/(losses)	596	(237)
Gross cash at the end of the period	**17,240**	**12,016**

Key points:

- Gross cash from operations generated £5.8 million, compared to £4.9 million in H1 '14
- The closure of the Melbourne site entailed a cash cost of $0.8 million. All costs and cash burdens associated with this closure have now been satisfied
- Gross capital expenditure on property, plant and equipment was £1.1 million in H1 '15 (H1 '14: £0.9 million).

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Financial Overview

Balance Sheet

		2015 £'000	2014 £'000
Non-current assets	Tangible assets	24,031	24,339
	Intangible assets	21,312	20,697
	Other	2,797	3,462
Total		**48,140**	**48,498**
Current assets	Inventories	16,304	13,976
	Trade & other receivables	16,091	14,614
	Cash & cash equivalents	17,240	12,016
Total		**49,635**	**40,606**
Current liabilities	Trade & other creditors	(13,591)	(10,060)
	Borrowings	(5,349)	(7,972)
	Other	(485)	(272)
Total		**(19,425)**	**(18,304)**
Non current assets	Borrowings	-	(1,698)
	Other	(2,478)	(2,568)
Total		**(2,478)**	**(4,266)**
Net assets		**75,872**	**66,534**

Key points:

- Net cash increased to £11.9 million (September 2014 : £8.7 million)
- Working capital has increased by £1.9 million since the year end. This is a function of the planned inventory build and a favourable trading environment.
- Inventory increase of £1.6 million to £16.3 million since the year end, due to planned inventory build, FX and positive trading.
- Debt re-financed during the period. G&H now has a committed revolving credit facility with RBS of $15 million and an uncommitted flexible acquisition facility of $20 million available until 30 April 2019.

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Technology, Products & Markets

Markets & Applications

Industrial

Revenue:

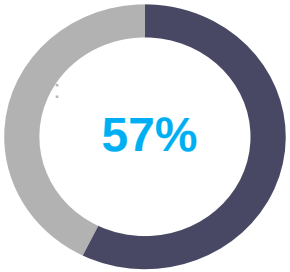
£22.3m

(2014: £18.9m)

Adjusted Operating Profit:

£4.7m

(2014: £3.6m)



- strong demand for acousto-optic components for solid state and fibre lasers
- telecommunications business strong, driven by undersea fibre components and crystals for modulation systems

Markets	Applications
▪ **Micro-electronics & light manufacturing**	Fibre lasers Solid state lasers Other laser sources Semi-conductor equipment Inspection equipment
▪ **Fibre optic sensing**	Perimeter sensing Laser scanners Wind turbines
▪ **Telecommunications**	Undersea amplifiers Specialist networks 40G & 100G Modulation systems
▪ **Metrology**	Laser interferometers

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Technology, Products & Markets

Markets & Applications

Aerospace & Defence

Revenue:

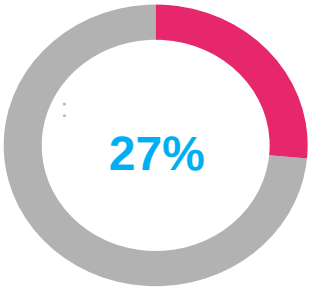
£10.3m

(2014: £10.2m)

Adjusted Operating Profit:

£1.0m

(2014: £1.5m)



- A&D business flat in the first six months of FY2015
- business remains optimistic about the growth potential for this market in the short term

Markets	Applications
Target designation & range finding	Aircraft platforms Missile systems Land based military platforms
Navigation systems	Ring laser gyroscopes Fibre gyroscopes
Space Photonics	Telco satellites GPS satellites Research satellites Space navigation
Countermeasures	Infra-red countermeasures RF countermeasures

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Technology, Products & Markets

Markets & Applications

Life Sciences

Revenue:

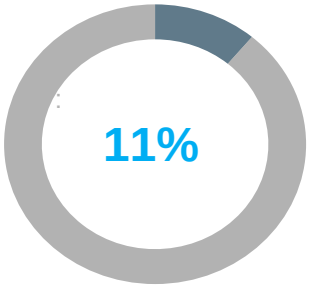
£4.3m

(2014: £3.6m)

Adjusted Operating Profit:

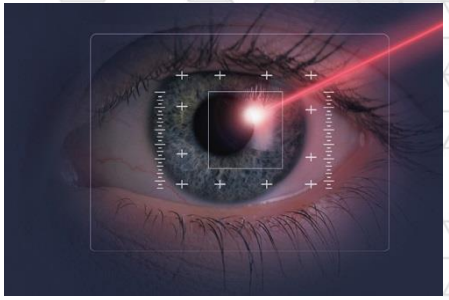
£0.6m

(2014: £0.5m)



- strong growth driven by demand for components for laser surgery and laser treatment applications

Markets	Applications
Optical Coherence Tomography	Ophthalmic imaging Cardiovascular Oesophageal imaging
Laser Surgery	Prostate surgery Ophthalmic surgery Cosmetic surgery Tattoo removal
Microscopy	Confocal microscopes



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Technology, Products & Markets

Markets & Applications

Scientific Research

Revenue:

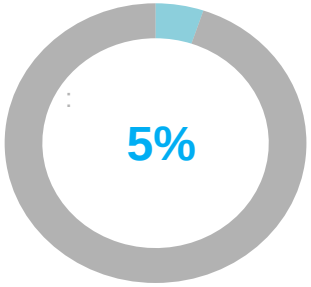
£2.0m

(2014: £1.7m)

Adjusted Operating Profit:

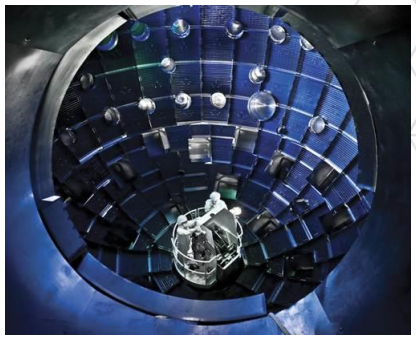
£0.4m

(2014: £0.0m)



- good growth albeit from a low comparative base
- business mainly coming from nuclear fusion research applications

Markets	Applications
Internal Confinement Fusion	National Ignition Facility Laser Mega Joule
Scientific Instrumentation	Research institutes Universities



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Strategy & Preparing for the Future

Diversification

The newer markets of Aerospace & Defence and Life Sciences, together with new application areas within our Industrial market, offer the potential for significant growth through their rapid adoption of photonic technologies

Six Year CAGR By Market

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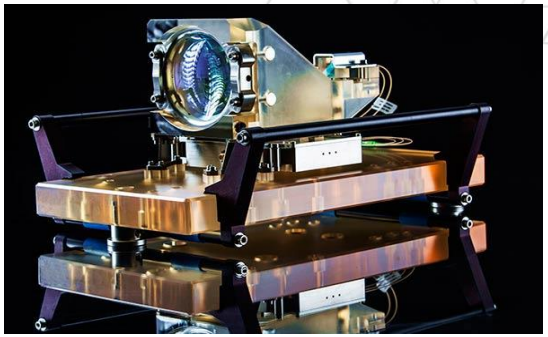
Strategy & Preparing for the Future

Moving up the Value Chain



Diversify

Exploit high-growth opportunities for photonics technology

- *Fibre Optic lasers*
- *Fibre Optic sensing*
- *Laser surgery*
- *A&D sub- systems and systems*
- *Medical Diagnostics*
- *Space/ Satellite communications*

- **Move up the value chain**

Leverage excellence in components to become a solutions provider

Optics + electronics + software + mechanics = *added value*
Materials => components => modules => systems

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Strategy & Preparing for the Future

Performance Improvement Plan

Three key areas of focus:

1. ***Ensuring a consistent high level of operational excellence across all the sites***

   Small corporate group that lead, manage and set standards for supply chain management, quality assurance, compliance, process engineering, lean manufacturing and continuous manufacturing improvement

2. ***Develop deeper ties with key target customers***

   Grow presence in US and Far East, hire key Business Development skills / experience in A&D and Life Sciences. Greater focus on business development and moving up the value chain with key customers

3. ***Ensure there is a 'balanced' R&D portfolio that meets customers' strategic needs***

   Prioritise site based projects using rigorous technical, market and financial analysis. Continue to increase resource, in particular STG and focus on high return projects. Balance between short and medium term projects.

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Outlook

Gooch & Housego is well placed to deliver continued growth in FY15 and beyond, through our **twin strategies** of :

- Diversification and;
- Moving up the value chain.

These strategies will be supplemented by the **performance improvement programme** aimed at :

- Driving operational excellence;
- Developing deeper ties with key customers; and
- Ensuring we have a balanced R&D portfolio.

Finally, the business has the financial and management capacity to execute on **acquisition opportunities** should they arise.

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Appendices

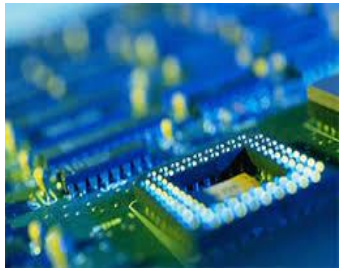
Technology, Products & Markets

Photonics and 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 increasingly providing better solutions than electronics alone
- 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
- G&H has a world class photonics components and systems capability
- G&H is well placed to take advantage of and enable what will be a transformational shift in technology in multiple markets & products



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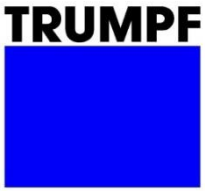
Key Customers