PRELIMINARY RESULTS – YEAR ENDED 30 SEPTEMBER 2020

CEO: MARK WEBSTER / CFO: CHRIS JEWELL

G&H

KEY HIGHLIGHTS – STRATEGIC PROGRESS

- Trading reflected a challenging global economic environment due to the COVID-19 pandemic.
- Our number one priority during the pandemic is the health and safety of our staff, customers and suppliers.
- G&H is proud of the way of our staff responded.
- Management actions contributed to a stronger second half. These included: ensuring that our manufacturing sites in USA, UK and China were able to open, operate at full capacity and adhere to all relevant health and safety regulations and guidelines; reducing our cost base, which is now in line with the demands of the current working environment.
- G&H's plans to streamline our manufacturing are progressing well and on track to deliver previously announced profitability.
- Cash was actively managed and liquidity improved during the period.
- New products contributed a record £16.9m during FY2020 (FY2019: £13.5m). We continued to invest in our high priority targets.
- During FY2020 management actions have enabled the Group to build in greater resilience to our business.
- Our long term strategic goals of diversification and moving up the value chain were validated by the pandemic.

"*The challenge of the pandemic has validated our long term strategic goals. We intend to vigorously pursue these goals through internal investment and where appropriate, acquisitions*."

Mark Webster, CEO

KEY HIGHLIGHTS – OPERATIONAL & FINANCIAL

- Revenue for the year totalled £122.1m, down 5.5% on the previous year.
- Adjusted profit before tax of £9.8m, down 35.1%, reflecting temporary disruption to G&H's manufacturing sites and lower demand in some subsectors due to the COVID-19 pandemic.
- Capital investment of £6.8m. Major investment in new optic capabilities as part of streamlining project.
- Net debt reduction. Maintained strong balance sheet.
- No dividend declared for FY2020 reflecting the short term global economic uncertainty due to COVID-19.
- As at 30 September 2020, our order book was £92.4m, up 0.8% on prior year at constant currency. Reflects strong demand for fibre optics, hi- reliability fibre couplers for undersea cables and our A&D and Life Science capabilities. Industrial lasers at below 'normalised' levels. Improved demand for medical diagnostics, in particular ventilator systems.

"*Our order book is robust and there remains considerable long term potential for our photonic technologies and system capabilities in all of our target sectors*."

Mark Webster, CEO

FINANCIAL HEADLINES – SUMMARY INCOME STATEMENT

Year Ended 30 September	2020 £m	2019 £m	% Change
Revenue	**122.1**	**129.1**	(5.5)%
Gross profit	**39.3**	**44.9**	(12.6)%
Gross margin - %	**32.1%**	**34.8%**	(270)bps
Adjusted operating profit	**11.2**	**16.3**	(31.0)%
Adjusted operating profit margin	**9.2%**	**12.6%**	(340)bps
Adjusted profit before tax	**9.8**	**15.0**	(35.1)%
Adjusted basic earnings per share (pps)	**30.5p**	**46.8p**	(34.8)%
Non underlying items	**4.4**	**9.1**	(51.9)%

"We continued to invest in our high growth priority target areas. G&H's cost base has been reduced, while protecting those core technologies and capabilities required for long term growth."
Chris Jewell, CFO

- Management actions in response to the COVID-19 pandemic contributed to a stronger second half financial performance. They included selective cost reductions and active cash management.
- Revenue decline of 5.5% yoy or 5.4% excluding foreign exchange.
- Life Sciences grew 7.6%, partially offsetting declines in our A&D and Industrial businesses of 6.4% and 9.9% respectively.
- Gross margin reduced to 32.1%, from 34.8% in the prior year due to lower volumes in our higher margin industrial laser market and product mix.
- Cash spend of £8.0m on R&D (2019: £8.5m).
- Adjusted effective tax rate was 21.8% (2019: 22.2%).
- Non underlying items: charge of £4.4m, cash of £0.1m.

FINANCIAL HEADLINES – CASHFLOW

Year Ended 30 September	2020 £m	2019 £m
Net cash flow from operating activities	**20.4**	**11.6**
Cash flow from investing activities		
Acquisition of subsidiary	(4.8)	(3.9)
Purchase of property, plant and equipment & intangibles	(6.8)	(7.4)
Sale of property plant and equipment	0.4	1.5
Settlement of legal dispute	1.6	-
Net Interest paid	(0.6)	(1.1)
	(10.2)	**(11.0)**
Cash flow from financing activities		
Net borrowing and lease payments	(5.8)	-
Dividends paid to ordinary shareholders	(1.8)	(2.8)
	(7.6)	**(2.8)**
Net increase / (decrease) in cash and cash equivalents	**2.6**	**(2.2)**
Exchange gains / (losses)	(0.4)	0.3
Cash	**19.7**	**17.5**

- £4.7m reduction in working capital since September 2019.
- ITL acquisition earn-out of £4.75m paid in cash from existing debt facilities. This represents 100% of the maximum potential.
- Long running litigation with the landlord of our Fremont facility concluded in our favour. $3.6m received in June 2020.
- Net debt (excluding the impact of IFRS 16 – Leases) of £6.5m, down from £14.3m.
- The adoption of IFRS 16 – Leases added a further £8.2m of lease borrowings within reported net debt of £14.7m.
- Committed bank facility increased to $50m with a further $20m uncommitted acquisition related facility.
- Leverage as measured for our bank covenant was 0.4x (2019: 0.6x).

INDUSTRIAL

Financials (45% of revenue)

	FY20	FY19	Reported growth
Revenue	£54.8m	£60.9m	(9.9)%
Adjusted operating profit	£4.1m	£9.0m	(54.2)%
% margin	7.5%	14.7%	(720)bps

- Industrial lasers is the area of our business most exposed to the wider economy, as such demand was below 'normalised' levels in FY2020 due to the cyclical downturn and COVID-19 pandemic. In the latter part of the year certain subsectors started to pick up, most notably semiconductors.
- Industrial laser revenues were down by 15.9%, compared with FY2019. In contrast the semiconductor sub-sector grew by 13.9%.
- New precision laser based manufacturing techniques and the widespread adoption of 5G technology will drive long term growth in this sector.
- Harsh environment sensing performed well, we picked up orders for our 'laser engines' used for directional sensing in wind farms, oil pipeline security and other related areas.
- Demand for hi-reliability fibre couplers used in undersea cables remained strong, though performance was hindered by our Torquay facility operating at reduced capacity for much of the year in order to meet social distancing guidelines. Telecommunication revenues grew 9.9%.
- Profit margin was impacted by lower revenue for our industrial laser products and lower overhead recovery at our Torquay site.

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

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AEROSPACE & DEFENCE

Financials (34% of revenue)

	FY20	FY19	Reported growth
Revenue	£41.4m	£44.2m	(6.4)%
Adjusted operating profit	£2.8m	£3.5m	(20.6)%
% margin	6.8%	8.0%	(120)bps

- During FY2020 we were able to deliver on a number of important milestones in high profile US defence contracts. This has enabled us to win further business in the US.
- G&H's revenues in the UK and Europe suffered from contract phasing issues.
- Our tier one A&D customers continued to operate through the pandemic, but the effect of working from home for already demanding 'high hurdle' contracts took longer to navigate than usual.
- Exited year with record US order book and much improved UK & Europe order book.
- Our satellite laser communication system has passed its onerous pre-flight tests and should be launched in FY2021

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

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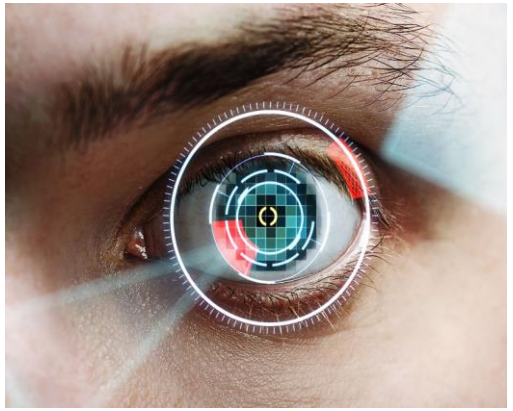
LIFE SCIENCES/BIOPHOTONICS

Financials (21% of revenue)

	FY20	FY19	Reported growth
Revenue	£25.9m	£24.1m	7.4%
Adjusted operating profit	£4.7m	£5.1m	(8.5)%
% margin	18.0%	21.1%	(310)bps



- Our medical diagnostics system business grew strongly during the year and benefited from increased demand for our products due to the COVID-19 pandemic. In particular, a unit which is designed to improve respiratory function and oxygen uptake as part of a ventilator system.
- In contrast, there was a reduction in non- COVID-19 medical procedures. This resulted in lower OCT business and a sharp reduction in the number of procedures using medical lasers, in particular for cosmetic surgery.
- OCT technology in retinal scanning, glaucoma detection, cardiovascular and cancer disease detection and our specialist components used in medical lasers for ophthalmic, prostate and cosmetic surgery remain key areas for G&H. In the latter part of the year we started to see a return to demand growth for both these areas.

Optical Coherence Tomography (OCT)	Laser Surgery	Microscopy	Systems

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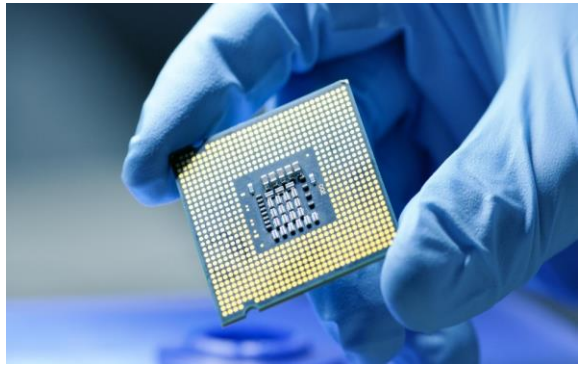
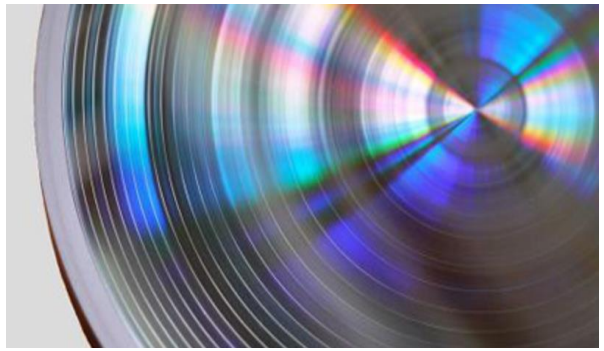
STREAMLINING OF G&H'S MANUFACTURING BASE

- As part of a move towards improving efficiency, customer service and capacity we announced in March 2020 that we will streamline our manufacturing operations. It is progressing well and remains on plan.
- Outsourcing Acousto Optic (AO) q-switch manufacturing from Ilminster, Somerset to a contract manufacturer in Asia. Create an AO engineering and design hub at our Fremont, CA site. Products and equipment have started to transfer with the aim of completion by end of FY2021.
- Establishing a UK Precision Optic (PO) hub at Ilminster site by moving specialist PO manufacturing from Glenrothes, Fife, to complement existing PO manufacturing at Ilminster, then close Glenrothes site. The transfer of all equipment from Glenrothes and closing of site will be complete by end of calendar year 2020.
- The total project investment over FY2020 and FY2021 is expected to be circa £5m. Full year savings of £1.25m per annum expected to be delivered for FY2022.
- Going forward we will continue to review further improvements to the manufacturing base.

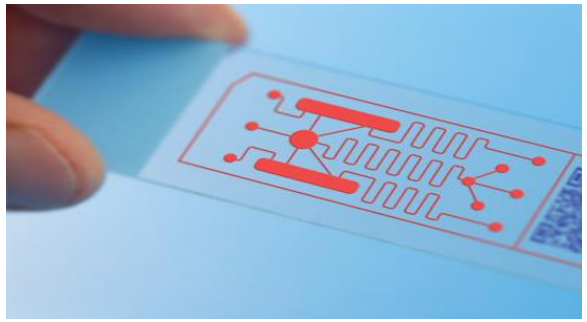




OUR STRATEGY– remains diversification and moving up the value chain

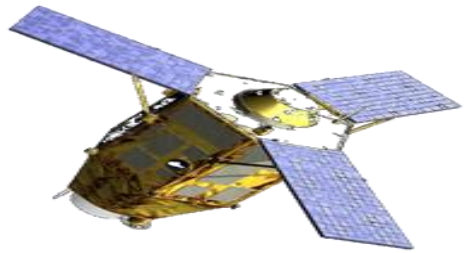
Two core strategic objectives

- To further diversify the business. A&D and Life Sciences represent a counter balance to industrials, with 33.9% and 21.2% of FY2020 revenue respectively. This represents considerable progress over the last few years.
- To secure a greater proportion of the Group's revenues from sub-assemblies and systems. They now represent 33.1% of FY2020 revenue.



R&D near/medium term targets include:

- Ultrafast precision lasers. EUV lithography for nanoelectronics
- 'Laser engines' for wind farms, oil pipeline security and other related uses.
- Complex IR optical arrays for UAV imaging and communication systems.
- Satellite laser based communication systems. Utility in small satellite constellations and UAVs.
- High security level A&D programmes in the USA and Europe.
- OCT diagnostic systems, including ophthalmic and cardiovascular disease detection.
- Medical diagnostic systems, such as influenza virus detection with Chinese life science company.



KEY MESSAGES AND OUTLOOK

- In the short term there is considerable global economic uncertainty due to the COVID-19 pandemic, but G&H's order book is robust and testament to the benefits of a diversified portfolio.

- During FY2020 management actions have helped the Group to build in greater resilience to our business.
- All our manufacturing sites are open, able to operate at full capacity and are compliant with relevant heath and safety requirements. Our Torquay site made infrastructure and process improvements in order to meet the social distancing regulations. All six US sites are now classified as fully or mainly exempt.
- G&H's plan to streamline its manufacturing is progressing well and on track to deliver previously announced profitability. Our cost base is reduced and in line with the requirements of the new working environment.
- The Group has a sound financial position, a strong balance sheet and improved liquidity.

- New products delivered a record contribution in FY2020 and we will continue to invest in those areas identified as having the highest return for our photonic technologies and system capabilities.

- Our strategic objectives of diversification and moving up the value chain have been validated by the pandemic. G&H intends to vigorously pursue this policy through internal investment and where appropriate, further acquisitions.

- Subject to the short term global economic environment, the Board remains confident that G&H is well positioned to deliver material progress in FY 2021 and substantial long-term growth.

APPENDICES

Targeted R&D

New products	Precision Optics & Systems	Acousto/ Electro-Optics	Fibre Optics
Aerospace & Defence	27	-	3
Industrial	-	2	1
Life Sciences	6	-	1

"Our investment in R&D has continued. We have released 40 new products to the market in 2020."
Mark Webster - CEO

Non Underlying Items

Non Underlying Items

- Total non underlying charge of £4.4m.
- M&A related - £3.0m.
    - Amortisation of acquired intangibles - £2.7m
    - Interest unwind of contingent consideration - £0.3m
- Restructuring - £2.6m – streamlining of our manufacturing facilities including the closure of our Glenrothes site.
- Settlement of legal dispute - £(1.2)m – amounts awarded to G&H in respect of litigation with the landlord of our Fremont facility.

Investor Timetable

- 24th February 2021 – AGM Trading Update
- 7th April 2021 – Half Year Trading Update
- June 2021 – Interim Announcement
- October 2021 – Full Year Trading Update
- December 2021 – Preliminary Announcement

Key Customers

G&H

G&H