For immediate release **6 December 2022**

Gooch & Housego PLC

("Gooch & Housego", "G&H", the "Company" or the "Group")

RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2022

Gooch & Housego PLC (AIM: GHH), the specialist manufacturer of photonic components and systems, today announces its audited results for the year ended 30 September 2022.

Year ended 30 September	**2022**	2021
Revenue (£m)	**124.8**	124.1
Adjusted profit before tax (£m)*	**8.1**	12.6
Adjusted basic earnings per share (pence)*	**27.2p**	41.0p
Statutory (loss) / profit before tax (£m)	**(2.3)**	4.7
Basic (loss) / earnings per share (pence)	**(8.0)p**	13.6p
Total dividend per share (pence)	**12.6p**	12.2p
Net debt excluding IFRS16 (£m)	**12.8**	2.6
Net debt (£m)	**19.1**	9.2

- adjusted figures exclude the amortisation of acquired intangible assets, impairment of goodwill and acquired intangible assets, non-underlying items being restructuring costs, and CEO succession costs, together with the related tax impact. A reconciliation of adjusted figures to reported figures is given on page 18.

Key points

- Record order book of £147.7m, up 51% (35.3% excluding foreign exchange) underpinned by strong end market demand.
- Overall revenue unchanged with growth in both Industrial and Life Sciences offset by decline in Aerospace and Defence.
- Adjusted profit before tax declined to £8.1m. Investment made to increase capacity but challenges with recruitment, operations and supply chain constrained output.
- Non-underlying charge of £10.4m, including £6.7m impairment charge against goodwill and other intangible assets, driven by increase in the Group's cost of capital. Reported loss for the year of £2.3m.
- Despite implementing price increases during the year, input cost inflation continues to impact the business with some lag in recovery.
- Net debt increased to £19.1m, reflecting inventory investment to alleviate supply chain shortages.
- FY2023 outlook targeting revenue and adjusted PBT growth, though at a lower level than previously assumed, through accelerated R&D investment focused on key growth markets and the addition of further capacity to service strong demand.
- Full year FY2022 dividend increased to 12.6p, reflecting strength in order book and medium-term positive outlook for the business.
- New CEO appointed and a review of the Group's strategy has begun, with outcomes expected to be communicated with the half year results.

Charlie Peppiatt, Chief Executive Officer, commented:

"While mindful of the uncertain macroeconomic and geopolitical landscape, G&H is positioned for growth with a robust order pipeline across all our end markets.

"I am confident we will generate growth in our financial and operational performance in 2023 as we re-establish the foundations and direction to progress to become a resilient and agile higher margin business over the coming years."

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Analyst Meeting and Webcast

A meeting for analysts will be held today at 9.30am at the offices of Buchanan, 107 Cheapside, London EC2V 6DN. To register attendance, please contact Buchanan at G&H@buchanan.uk.com.

A live audio webcast of the meeting will be available via the following link:
https://webcasting.buchanan.uk.com/broadcast/6360da52c1db5d073071d3ee

Following the meeting, a recording of the webcast will be made available for replay at the Group's website at https://gandh.com/investors/.

2023 Expected Financial Calendar

Annual General Meeting	22 February 2023
Interim Results announcement	June 2023
Financial Year End	30 September 2023
Announcement of results for the year ended 30 September 2022	December 2023

Chairman's Statement

Group Overview

I have been pleased with the strength in demand for the Group's products and services across all three of our markets. That demand has pushed the Group's order book to record levels and reflects the hard work of our engineering and sales team in building close and mutually productive relationships with our customers. Our customers trust us to support them in the development of their most sophisticated, next generation products across all of the markets that we serve. We are well positioned to benefit from the increasing use of our photonic technologies to solve their most technically challenging needs.

Whilst the Group has experienced significant headwinds in the year to 30 September 2022 from supply chain issues and labour shortages, we have continued to invest to establish firm foundations upon which to deliver future growth in our productive capacity, both in-house and with our supply chain partners.

Our ambitious programme to streamline our manufacturing facilities is now starting to deliver. The significant investment we have made in our precision optics centre of excellence in Ilminster means that we are now able to offer our customers a broader range of capabilities and the ability to provide them with more advanced, integrated design consistent with our strategic objective of securing more sub-system and system business. At the same time the establishment of a fibre optics hub at our Boston MA facility is reducing overheads and allows us to secure longer term order book visibility for that site. I am delighted with the performance of our Asian contract manufacturing partner. They have assumed the manufacture of many of the acousto-optic products formerly made in our Ilminster facility and in the final months of the financial year have achieved an impressive ramp in product output as they migrate from initial qualification build into full-scale volume production. We intend to build upon this relationship by migrating further mature products in the future.

The Environment and our Communities

We are proud of the contribution that photonic technologies and our products are making in the migration to a more sustainable and healthier world. We are also focused on our own impact on the environment. We track carbon emissions as one of our key performance indicators and have achieved a very impressive 27.2% reduction in our emissions in the year, thanks to the investments we have made in solar energy generation at all of our UK manufacturing sites and our policy of progressively switching to purchasing energy from renewable sources. We have a programme in place to achieve year-on-year reductions in our energy usage and emissions in support of our target to be net zero on Scope 1 and 2 emissions by 2035.

We also recognise the importance of supporting the communities in which we operate. As well as providing high quality, skilled jobs we encourage our employees to support local charities, often matching with G&H monies the amounts they raise.

The Board

After ten years with G&H, firstly as a non-executive director and then for the last eight years as CEO, Mark Webster retired at the end of the financial year. Mark led the Group's transformation and expansion into new market opportunities, especially in the Life Sciences and A&D sectors, and more recently navigated the business through challenging international economic times including the COVID pandemic.

We were delighted to appoint Charlie Peppiatt as CEO to succeed Mark. Charlie brings a wealth of experience from his career in global hi-tech businesses supplying into the Medical, Industrial and A&D sectors, most recently at TT Electronics plc and before that at Stadium Group plc and Laird plc. I believe Charlie is uniquely qualified to lead the Group in exploiting the significant opportunities arising from the continued growth of the photonics sector.

Dividend
Given the strength of the Group's order book and the long-term positive outlook for the business, the Board is proposing a final dividend of 7.9 pence per share for approval at the Company's Annual General Meeting on 22 February 2023, giving a total of 12.6 pence for the year. Payment of the dividend will be made on 24 February 2023, to shareholders on the register as at 20 January 2023.

People
I would like to thank our employees for their commitment to the business. The Group has undertaken significant change as a result of its manufacturing facility streamlining projects only made possible by our employees' hard work and dedication. At the same time, the constraints we have seen in the year from the very competitive labour markets and further supply chain shortages put extra pressures on our teams. I am also pleased we have been able to welcome so many new recruits to the G&H team due to the strength of the Group's order book and our work to increase our productive capacity. We are proud to be able to provide high quality employment opportunities to people at all stages in their career in the locations in which we operate.

Outlook
Looking ahead, the prospects for G&H are good. We are well positioned in our growth markets. Our restructuring programmes have reduced the Group's cost base. Whilst the business faced some significant challenges during the year from supply chain issues and the very competitive labour markets in both the UK and US, in the latter stage of the year we have succeeded in adding significant additional capacity and that ongoing investment will bear fruit in the coming years. In FY2023, we are targeting growth in revenues and adjusted PBT, though at a lower level than previously assumed.

Our technology and products are world class, our customer positions are strong and with the support of our skilled and talented employees I am confident we will be able to deliver upon our financial growth targets.

Gary Bullard
Chairman
6 December 2022

Chief Executive Officer's Statement

Introduction

I am delighted to have joined G&H in September 2022 at such an important time in the Group's development. In my first few weeks with the business I have been able to visit all of our principal locations and have been struck by the dedication, motivation and deep technical skills of our teams. It is clear that G&H products are recognised by our customers for their superior technical capability and quality which few other companies can match. However, I am also conscious that our operational delivery to those customers over the last year has not met the high standards we aspire to and I will be focused on ensuring we quickly resolve the operational constraints that have impacted the business during FY2022.

I intend to complete a review of the Group's strategy over the coming months and will provide further details once that has been concluded. Already I can see that the business is well positioned in a number of growth markets with superior products and capabilities meaning we should be able to secure a growing share of those attractive end markets. The Group's production facilities are well invested with advanced hi-tech equipment and the business has established productive relationships with its existing customers, as well as positive engagements with many new customers, as we seek to collaboratively develop the next generation of photonic products.

I am proud that G&H products are playing a part in building a better more sustainable world. Many of our products contribute directly to the reduction of energy consumption and the more efficient use of materials. In our own facilities we are also making great strides in reducing our impact on the environment. In FY2022 we achieved a 27.2% reduction in our emissions as we work towards our goal of being net neutral on our Scope 1 and 2 emissions by 2035.

Business Performance

During the financial year 2022 G&H achieved revenue of £124.8m, representing an increase of 0.6% over previous year (FY2021: £124.1m), or excluding the impact of foreign exchange a reduction of 3.7%. Adjusted profit before tax was £8.1m, a reduction of 35.4% over last year (FY2021: £12.6m). At the same time, and in common with many other businesses in our sector, we saw high levels of customer demand which increased the Group's order book to £147.7m, an increase of 51% or 35.3% at constant currency.

This weaker trading performance was the result of significant headwinds in our production facilities as they attempted to increase output from a new footprint to our industrial and medical laser markets where demand was very strong and which provided the opportunity to offset programme driven reductions in our A&D facing businesses. In the first half of the year our manufacturing facilities were materially impacted by COVID absences while the very tight labour markets in both the UK and US meant that we were unable to make the necessary increases to our in-house production teams. At the same time, we experienced a number of supply chain shortages especially in the area of electronic components.

However, in the second half of the year we were able to achieve better success in adding to our production teams thanks to increased flexibility and innovation in the ways in which we sought to attract new recruits to the business.

Nevertheless, due to the constraints on output, the programme of investment in both our operations and R&D functions, input cost inflation and the conclusion in the prior year of a number of profitable A&D programmes meant that the Group's overall margins declined. The continued competitive nature of hiring, training and retaining the required level of staff in key technical and production positions remains a challenge in the current labour market and this is expected to continue into the first half of 2023. At the same time our supply chain remains unpredictable and whilst we have generally been successful in passing on the effects of input cost inflation to our customers we remain very alert to the impact of the continuing current high inflation environment that our businesses are operating in.

Our markets

Industrial demand continues to be strong, especially the semiconductor and industrial laser markets, where underlying market growth was complemented by very good uptake of new G&H products launched in those market areas. Demand for our hi-reliability fibre couplers remained robust, with the use of those products in the growing satellite communications market complementing the long-standing undersea cable business.

Life Sciences performed resiliently and we saw significant growth in demand for our products used in medical lasers with particularly strong growth for devices that support aesthetic procedures in the Asian market. We are currently adding productive capacity in our Cleveland facility to help address this growing need. At the same time demand for our medical diagnostic products was broadly stable compared with the prior year.

Volumes in our Aerospace & Defence ("A&D") markets declined significantly as a result of a number of programmes being completed in late FY2021 and early FY2022, most significantly for the supply of sighting systems for armoured vehicles. Whilst the business has been successful in securing a number of new programme wins, most notably the upgrade of the optical sensor suite for UK's Challenger platform, those programmes have not yet migrated into volume production. At the same time programme volumes supplied from our Boston site declined, but this business finished the year with an order book some 58% higher than the same time last year and is therefore substantially covered for its coming year revenues.

The transfer of our acousto-optic products from our Ilminster facility to our Asian contract manufacturing partner is now complete and despite some delay this supplier achieved a significant ramp up in output in the final quarter of the year. We are now qualifying that same partner for the manufacture of hi-reliability fibre couplers and expect them to complete that to become a third source for the manufacture of this growing product line in the coming financial year. We are looking at further opportunities to outsource several other established products in the future.

We have continued to invest in our technology roadmaps and are working closely with many of our customers on their next generation products. New products contributed £17.9m of revenue in FY2022 (FY2021: £18.1m).

The Group took deliberate steps to invest in higher levels of inventory as a risk reduction exercise given the difficult supply chain environment we continue to face and we expect these safety stock levels to be maintained during the coming financial year. Consequently, the Group's net debt increased to £12.8m, excluding lease liabilities, or £19.1m when lease liabilities are added. Our leverage as measured for our banking covenant stands at just 0.7x, which places G&H in a strong position to pursue our strategic goals.

Strategic Goals

The Group's medium-term strategic goal of diversifying into the A&D and Life Science markets has demonstrated considerable success over the past few years with around half of the Group's revenues now coming from those two markets, counter-balancing our exposure to the more cyclical segments of certain parts of the Industrial market. Those two markets also have specific regulatory and compliance barriers to entry that make them attractive to G&H.

We use our research and development resources to help us secure a greater proportion of our business from sub-assemblies and systems. In order to do so, we are increasingly focusing our engineering skills from across the Group to demonstrate our ability to develop more complex designs. For example, by combining the hardware and firmware capabilities of our optical systems design team in St Asaph with the electronics and software skills of our Ashford engineering team we are able to offer next generation multi-band sights incorporating laser range finding and advanced image overlay for use in next generation optical systems for military vehicles. Our continuing investment in state-of-the-art equipment to manufacture and coat precision optics means that we are able to offer our customers an expanded range of services and in turn we are being invited to tender for more complex, innovative optical assemblies by both existing and new customers.

We have and will continue to substantially improve our software, firmware, electronic and mechanical engineering capabilities. This was in large part initiated through the acquisition of Integrated Technologies Limited ("ITL") and its facility in Ashford, Kent has provided a platform for the creation of a systems engineering hub.

Moving up the value chain through greater vertical integration by expanding our modules, subsystems and full photonics solutions offering represents a significant opportunity for the Group. We will continue to substantially improve our software, firmware, electronic and mechanical engineering capabilities through our innovation hubs.

Nevertheless, I intend to complete a review of the Group's strategy over the coming months to ensure that the business is focussed in the right product development areas and aligned to customer-led growth drivers. I also intend to review investment levels to assess this is at the level required to develop higher margin product lines in a timely manner to support the business' growth aspirations.

Our Operations

The Group has continued to record low levels of lost time accidents and below the average for our sector. Across all our sites we remain focused on ensuring that G&H is a safe, engaging, diverse and inclusive place to work.

During the year, we have operated in very competitive labour markets working hard to both retain and, where required, to add to our production teams. For much of the year we found that our recruitment activities were only sufficient to replace attrition but in the second half of the financial year we started to achieve net increases in our production team strength. We have further roles to fill to meet required output levels and have hired specialist in-house recruiters to help us expedite this critical task.

During the year, John Andzulis joined the business as our new Chief Operating Officer. John has a wealth of industry knowledge having held senior operational leadership roles for Ametek, Novanta, Thermo Fisher Scientific and Rochester Precision Optics. Under John's leadership our Operations team have been focused on establishing the operational capabilities needed to improve our on-time delivery performance, drive continuous improvement activities to increase efficiency and achieve the growth in overall capacity required to enable us to deliver our record order book and meet future growth requirements.

We have invested to help ensure our Asian contract manufacturing partner executes on the growing volumes we are transferring to them. We currently have four team members permanently located at their facility assisting them with new product qualification, scheduling the output of our products being manufactured there and the quality of the product delivered on our behalf to customers. We have also added to our team of supplier quality engineers who are charged with executing upon a risk-based audit programme of our supply chain which over time will help to reduce supply chain risks across our portfolio.

Research and Development (R&D)

G&H continues to work closely within the photonics ecosystem and with a number of key partners to develop their next generation products. During FY2022 we introduced 54 new products and delivered £17.9m of revenue.

Some of our principal areas of new business opportunities are:

- Leading photonic components and modules for extreme ultra-violet (EUV) lithography equipment in semiconductor fabrication and other advanced microelectronics processing.
- Fibre-optic modules and sub-systems for lidar sensing in wind energy.
- Fibre-optic and opto-mechanical sub-systems for next-generation space to ground satellite communication.
- Biomedical imaging systems for cancer and cardiovascular disease detection.
- Photonics system solutions for ophthalmology scanning equipment.
- Optical components for gimbals in UAV military platforms.
- Multi-band periscopes and sighting systems for armoured vehicles.

Corporate Responsibility

The Board is accountable to its shareholders and is committed to the highest standards of corporate governance. To this end the Group has adopted the UK Corporate Governance Code (2018). In order to ensure the Group is meeting the most up to date standards, regular reviews of policy are held by the relevant committees of the Board of Directors. During the year the Board undertook a self-assessment to identify opportunities for improvement and incorporate a greater focus on ESG.

G&H is committed to creating a safe, engaging, diverse and inclusive place to work for the Group's employees and all stakeholders. We continue to establish a culture that proactively works towards reducing harm and promotes equality, diversity and inclusion across the Group. The Group remains focused on providing equal employment opportunities for all and aims to improve diversity at all levels of the organisation. Our recruitment partners have been instructed to ensure that they include female candidates in all shortlist applications and we are actively engaged with encouraging International Women in Engineering. We are currently recruiting for a new non-executive director from a female only short list.

G&H is committed to conducting our business in an environmentally responsible and sustainable manner. With the appointment of our new non-executive director we intend to establish an ESG subcommittee of the Board responsible for monitoring the Group's achievement against its ESG targets. We are investing in order to generate our electricity in a sustainable manner and to reduce our overall energy usage. Each of our sites has an energy reduction plan that it is working to. In the year we reduced our scope 1 and 2 carbon emissions by 27.2% and major step forward in achieving our target of being net neutral on this measure by 2035. The executive directors and senior leadership team now have specific environmental management and carbon reduction goals in their remuneration schemes.

Outlook

The demand fundamentals across all three of our primary markets in FY2022 was strong and this has continued into the start of the new financial year.

In A&D we secured significant new programme wins and we can see that the conflict in Ukraine has reinforced the continuing importance of armoured systems in modern warfare. We are starting to receive opportunities from programmes that will replenish equipment provided to Ukraine.

In Life Sciences our medical diagnostics business was broadly flat as volumes on elective surgery treatments and cancer care products compensated for declines in ventilator systems which had benefited from the pandemic. In the medical laser market demand was strong for our components used in aesthetic procedures responding to significantly growing demand, especially from Asia.

We saw a sustained recovery in the demand for specialist industrial lasers, as new technologies to support the 5G infrastructure and Internet of Things applications continue to expand, along with the greater use of new more flexible materials in microelectronic manufacturing and strong worldwide requirements for advanced semiconductors continue to drive growth.

Strategic geopolitical tensions between East and West has accelerated the selective re-shoring of strategically important capabilities such as semiconductor production which in turn is fuelling the demand for the fit out of new hi-tech semiconductor factories. We expect this demand driver to remain in place through the medium-term providing G&H with further growth opportunities as well as offering some offset should end consumer demand in the more traditional industrial equipment market start to soften.

These factors all contributed to the Group's order book rising to a record level of £147.7m at the end of the year, an increase of 35.3% on a constant currency basis. Despite the strength of the order book which remains well above historic levels across the business and provides excellent visibility for 2023, we still face some significant operational headwinds in the near term. The labour markets in both the UK and US remain highly competitive leading to ongoing supply side challenges that continue to frustrate the recruitment of the required talent, especially in certain technical positions.

Whilst price increases have been passed onto customers in FY2022 to address the input cost increases, cost inflation continues to impact the business. Due to the nature of the ongoing inflation dynamics there is some lag in recovery and prices need to be under constant review to recover these costs.

While mindful of the uncertain macroeconomic and geopolitical landscape, G&H remains well positioned for growth with a robust pipeline across all our end markets. We anticipate higher production in 2023 and a refocus on pricing to offset inflation as we convert our record order book. The business will invest to ensure G&H can capitalise on the accelerating deployment of photonics technologies into continuously expanding areas of the Industrial, Life Sciences and A&D markets underpinning the future growth potential of the Group. As a result, in FY2023 we are targeting growth in revenues and adjusted PBT, though at a lower level than previously assumed.

I am confident we will generate growth in our financial and operational performance in 2023 as we re-establish the foundations and direction to progress to become a resilient and agile higher margin business over the coming years.

Charlie Peppiatt
Chief Executive Officer
6 December 2022

Operations Review

Industrial

Revenue	**£64.6m (2021: £55.6m)**
Adjusted Operating Profit	**£8.4m (2021: £7.1m)**
Operating Profit	**£7.3m (2021: £4.5m)**
Percentage of Revenue	**51.7% (2021: 44.8%)**

Market Drivers

- National security considerations driving in-country investment in semiconductor and other electronics manufacturing facilities.
- New more flexible materials in microelectronic manufacturing.
- Next generation products such as EUV lithography lasers for nanoelectronics and new design germanium modulators.
- Increasing investment in continental connectivity of data centres to satisfy growing internet use.
- Greater use of our hi-reliability fibre optic technology in space satellites.
- Increased investment in wind farms and border and infrastructure asset protection, both using a version of our 'laser engine' sensing technology.

Performance

Overall, sales of products into our Industrial markets grew by 16.2% (10.5% excluding foreign exchange) compared to the prior year. We saw further growth in our Industrial laser and semiconductor revenues thanks to the continuing investment in additional semiconductor facilities, partially driven by growing concerns about dependence upon supply from some Asian sources. The roll out of new technologies such as 5G, along with greater use of new materials in microelectronic manufacturing, continue to provide underpinning demand. Demand for our recently developed germanium acousto-optic modulator product is very strong. Having completed all development activities on this product we are now focused on ramping our build capacity. The outsourcing of 'runner' AO Q-switch production to our South East Asian manufacturing partner has proven successful with them significantly increasing their output in the final quarter of the financial year. This is enabling us to more effectively compete in the increasingly price sensitive Asian Q-switch market. We are now in the process of outsourcing some fibre optic product to supplement the acousto-optic product already transferred.

Revenue from our sensing markets declined marginally during the year as a result of the status of the end customer programmes. Nevertheless, the underlying trend remains in our favour with photonics sensing products increasingly seen as the way to protect and improve the efficiency of infrastructure assets. For example, G&H products are used extensively to improve the performance of wind turbines used for clean energy generation and the focus on switching to energy created from renewable sources provides G&H with sustainable demand for its products in this area. We expect the increased deployment of wind turbines in the US to generate clean energy to act as the next significant growth driver for our sensing modules used in this application. In early FY2023 we have received further significant orders for our sensing modules used in infrastructure protection and this provides good early visibility to support the expected revenue growth in this area in FY2023.

Volumes for our hi-reliability fibre couplers used in undersea cable networks remained at the raised level seen in FY2021. There is strong demand due to a sustained market drive for the transmission of more and more data for both business and personal consumption and the greater use of the same technology in space satellites. Our strong customer relationship with the principal fibre laying companies mean that we are well placed to maintain or increase our share of a growing market and the technology demonstration completed with NEC/JAXA established our credibility as a supplier of modules for laser-based space communication systems.

Applications

- **Industrial lasers** for materials processing applications. G&H supplies Q-switches and other acousto-optic, electro-optic and fibre optic products.
- **Semiconductor** for lithography and test and measurement applications.
- **Metrology** for laser-based, high-precision, non-contact measurement systems.
- **Optical communications** specifically for high reliability and high-performance applications.
- **Remote sensing** for applications including asset protection, perimeter security, strain, temperature and pressure sensing.
- **Scientific research** the largest proportion being nuclear fusion research and energy – laser technology is being used to recreate the conditions found in the core of the sun.

Growth Strategy

- To work in collaboration with our customers to invest in R&D and process engineering in order to develop products that meet their most demanding needs.
- To bring to the market new products and to ensure that we remain at the cutting edge of technology in this important area. During FY2022 G&H introduced six new products in Industrials generating £7.9m of revenue. We have transitioned into production on a multi-year contract with a laser system company supplying the next generation of Extreme UV lithography lasers for production of atomic level nanoelectronics.
- To focus on niche markets that play to the strengths of G&H, principally those that demand high levels of quality and reliability, typically requiring technically challenging design and engineering input incorporating a range of our products. Those markets may require survivability in harsh environments.
- To expand into and develop new geographical markets offering high growth opportunities, through leveraging and expanding the Group's global sales organisation. During the year we added to our Asian sales team so as to be able to exploit the growing market demand we see in that region.
- To continue to focus our energies and investment on making the transition from a components supplier to a manufacturer of subassemblies, instruments and systems, where appropriate.
- To maintain the strong relationships we have with our customers' development teams to ensure we are their preferred choice for supporting them in developing their next generation products.

A&D

Revenue	**£30.6m (2021: £41.1m)**
Adjusted Operating (loss) / profit	**£(2.7)m (2021: £3.1m)**
Operating (loss) / profit	**£(3.4)m (2021: £0.6m)**
Percentage of Revenue	**24.5% (2021: 33.1%)**

Market Drivers

- A&D is transitioning to photonic components and systems across a broad range of sub-sectors to secure size, weight, power and reliability benefits.
- IR optical arrays deliver targeting, range finding, navigation and surveillance capabilities for the growing UAV market.
- Similar capability combined with photonic sensor suites are now being used across a range of remotely controlled A&D systems for land, sea and air.
- Space satellite systems developed by G&H have the ability to be deployed across a range of standard satellite, constellation satellite and near space UAV systems.
- Optical systems used in armoured vehicles are being developed with additional digital capability.
- Directed energy systems require optical and laser expertise where G&H excel.

Performance

Our A&D revenues declined by 25.6% during FY2022, compared with the equivalent period last year, and 29.0% on a constant currency basis. In the prior year, we completed deliveries of optical sensor systems on several significant vehicles programmes and our new contract wins have not yet migrated to the volume production phase. However, our order book for our A&D business is strong, increasing 41.4% on a constant currency basis during FY2022. We have secured a significant position on the UK MoD's Challenger upgrade programme as well as important new programme wins for our Boston business.

We are also opening new customer positions for our gimballed optical arrays from our Keene, NH business in both Europe and Asia. At the same time the Ukraine conflict is driving an increase in quoting activity as European nations look to replenish military vehicle stocks being supplied to the Ukrainian armed forces.

After recording significant programme revenues in FY2021 on the NEC/JAXA laser-based communication programme, work has continued with that customer but at a lower level. The focus with that customer is now on high power optical amplifiers. We are also working with another partner on amplifiers for laser transmitters/receivers that would be integrated in to unmanned aerial vehicles (UAVs) providing optical communications both with other UAVs and with the ground. Whilst these projects are currently still at prototyping stage we are positioning ourselves strongly with a number of customer primes in a market space that is expected to develop significantly in the coming few years.

Our teams are also closely engaged on the development of Directed Energy Systems with a number of prime contractor customers. G&H's expertise in coating the large optics that are positioned at the heart of these systems means that we are well positioned to secure recurring production revenues once development activities are complete.

In the commercial aerospace market we have seen some recovery in volumes following the lows of FY2020 and FY2021. We believe as we increase our capacity at our Moorpark, CA facility we will be able to secure a larger share of the available market.

Applications

- **Target designation and range finding** used on both land-based and airborne systems.
- **Guidance and navigation** components for ring laser gyroscope and fibre optic gyroscope inertial navigation systems.
- **Countermeasures** for ground-based systems and airborne platforms.
- **Space photonics** G&H is leveraging its heritage of ultra-high reliability components for space applications in order to address the growing market for laser-based space communications.
- **Periscopes and sighting systems** for land based armoured fighting vehicles.
- **Opto-mechanical subsystems** for unmanned aerial and ground vehicles.
- **Directed Energy systems** for military platform and infrastructure defence applications**.**

Growth Strategy

- To continue to invest to move up the value chain from being a components supplier to a subsystems provider. Our customers are changing their business models and are looking for further outsourcing opportunities to companies such as G&H that are capable of providing broader solutions.
- Further upgrading of our manufacturing processes and engineering in order to meet the needs of our customers. The continued investments made in new surface polishing and coating equipment for our Precision Optics centres are evidence of our intent to secure further market share in this sector.
- To introduce a greater number of new products, including products which look to fill a market need, in a managed and cost-effective way, as well as take on projects with a high technical content initiated by our customers. During FY2022 G&H introduced thirty-nine new products and generated £6.3m of revenue from new products that addressed the A&D market including space satellite laser-based communication systems, new sighting systems and IR lens assemblies for UAVs.

Life Sciences/Biophotonics

Revenue	**£29.7m (2021: £27.4m)**
Adjusted Operating Profit	**£4.0m (2021: £4.2m)**
Operating Profit	**£3.7m (2021: £3.5m)**
Percentage of Revenue	**23.8% (2021: 22.1%)**

Market Drivers

- Strong growth in laser enabled aesthetic procedures especially from Asia.
- A larger, more affluent worldwide middle class influenced by social media and eager to access cosmetic and aesthetic procedures.
- A strong, government driven programme within China to develop an indigenous life sciences sector, reducing its dependency upon Western equipment and technologies.
- A growing aging population demanding a shift towards early diagnosis rather than later, more serious treatment of undetected conditions.
- More point of care and personalised medicine drives demand for volume diagnostic products.
- New applications for optical coherence technologies.

Performance

Our Life Sciences/Biophotonics revenue grew by 8.2% in the year to 30 September 2022, compared with the prior year. When measured at constant currency this represents growth of 5.3%. Medical diagnostic demand remained broadly flat compared to the levels seen in FY2021 with new customer programmes compensating for a reduction in volumes of the product designed to improve respiratory function as part of a ventilator system which had benefited particularly from the pandemic.

Our ITL business which serves this medical diagnostic market secured important new orders from customers seeking our expertise to productionise medical diagnostic product concepts. In line with our established business model, we expect a number of these programmes to migrate to recurring production revenues once the initial work to develop producible product has been completed. We have expanded the medical diagnostics R&D group to meet the demand and we are exploiting the electronic and mechanical engineering capability of the ITL team to support other development activities in G&H's A&D business sector.

Through ITL's small sister company in the US we are seeking to secure additional revenues from the large North American medical diagnostic market. We have recently opened a new larger facility for that team which will mean we can better serve incremental demand from ITL's North American customers who frequently prefer product made in the USA.

Demand for our specialist medical laser products, was very strong in the year both from our established US and European markets but also more significantly from Asia. Medical lasers using our components are able to provide new cosmetic procedures to patients, for example to significantly clear acne scarring. Volumes increased by just over 10% in the year, excluding foreign exchange and we project future strong growth in FY2023 in this area, supported by additional capacity that we are bringing on line in our Cleveland, OH facility.

Applications

- **Optical coherence tomography (OCT)** primarily used in retinal imaging for the diagnosis of glaucoma and macular degeneration, but also now used in the detection of cardiovascular disease and cancer diagnostics.
- **Laser surgery** used in a wide range of applications including prostate surgery, scar correction, cataract surgery, freckle, mole and tattoo removal as well as wrinkle reduction and teeth whitening.
- **Microscopy:** Modern, laser-based techniques are revolutionising the field of microscopy.
- **Medical diagnostic instruments:** G&H has a range of capabilities including full product development, design, manufacturing, certification and after sale service for the commercialisation of high-quality medical diagnostic, in vitro diagnostic (IVD) devices, precision analytical, electro-mechanical and laboratory instruments.

Growth Strategy

- To continue to invest in R&D projects in close collaboration with our customers, to develop the existing portfolio of products and to ensure that they remain competitive. During FY2022 G&H introduced nine new products and generated £3.7m of revenue from products that address its life sciences/biophotonics market, especially in the medical instrumentation market.
- Where appropriate to sell the full range of our Life Sciences/Biophotonics products to a wider range of customers.
- To invest in new business development and engineering resources located in our ITL North American facility to secure a greater share of the large North American medical diagnostic market.
- To utilise our systems capability to present our breadth of technologies as part of subsystems or systems.
- To make strategic acquisitions that are synergistic and complementary to our existing Life Sciences/Biophotonics business, to help us build “critical mass” in this sector. G&H continues to seek acquisition opportunities and has the financial resources to execute on that strategy as it develops.

Financial Review

Overview of the Year

Despite strong levels of demand seen during the year across all three of our market segments, the Group encountered significant constraints in putting in place the capacity needed to deliver on this record order book, especially in the first half of the financial year. COVID absences continued to impact our facilities and there was further tightness in many areas of our supply chain which meant that we were frequently unable to deliver to our customers on time and in full. As a result, the Group was unable to offset from those areas of the business seeing significantly increasing orders the declines it experienced elsewhere from some programmes, especially in its A&D markets, coming to an end. Consequently, whilst revenues increased on the prior year by 0.6%, on a constant currency basis they declined by 3.7%.

In the second half of the financial year the actions put in place to increase capacity meant that revenue grew by 21.6% on a constant currency basis providing a solid platform for further revenue growth in FY2023.

We saw further growth from our Industrial markets and revenues from our Life Sciences products and services remained at the high levels seen in the previous financial year. In our A&D sector revenues declined compared to the prior year given the phasing of programme deliveries, especially our deliveries of sighting systems on to armoured vehicles programmes. However, the year saw the business secure some significant new programmes in this area most notably in connection with the MoD's Challenger upgrade programme.

Our order book stood at £147.7m at the end of the financial year and intake exceeded revenue by 20.5% in the second half of the year providing good visibility for future revenue growth.

The decline in A&D volumes combined with our continuing investment meant that the Group's adjusted profit before tax reduced to £8.1m (2021: £12.6m) representing a margin of 6.5% (2021: 10.2%). Adjusted profit before tax is a key alternative performance measure by which the Board evaluates the Group's performance as it better represents the underlying trading of the Group with restructuring costs and amortisation and impairment charges associated with acquired intangible assets excluded from this measure.

During the year we redefined the cash generating units (CGUs) to which the Group's goodwill and other assets are allocated and their recoverable amounts assessed by references to those CGUs' future forecast cashflows. This change arose as a result of the transition of our Operations team from a technology based model to a regionally based model. Many of the Group's support functions also operate on a regional rather than capability based model. The CGUs identified for the financial year were, therefore, our UK sites, our US sites and our ITL sites given the different nature of our ITL business from the remainder of the Group.

The non-underlying charges excluded from our adjusted profit before tax totalled £10.4m. The most significant item related to an impairment charge of £6.7m taken in respect of goodwill and acquired intangible asset balances held within our UK Cash Generating Unit. This was driven by an increase in the discount rate applied to future expected cashflows as a result of recent increases in both the costs of borrowing and the assessment of market risk. Had the discount rate applied remained the same as the prior year, no impairment charge would have been recorded. Further details of alternative performance measures are provided later in this review. After the impact of adjusting items the Group's full year statutory loss before tax was £2.3m compared with a profit of £4.7m in the prior year.

During the year we have taken steps to invest further amounts in our strategic safety stocks in order to better protect our production programmes from the pressures we are currently seeing in our global supply chains. Given the increased trading volumes in the final quarter of the financial year our receivable balance also increased compared to the prior year end and this has supported strong cash collections in the first period of trading of the new financial year. Whilst there was some offset from payables across the year, the Group invested a further £10.0m in working capital in the financial year (2021: reduction of £0.5m). Investment in our production facilities continued with total capital investments of £8.6m made in the year (2021: £6.2m). Our net debt excluding lease liabilities totalled £12.8m (2021: £2.6m) representing leverage of just 0.7x meaning we remain well placed from our debt facilities to fund our acquisition strategy. We expect the Group's net debt levels to reduce across FY2023.

Revenue

REVENUE				
	2022		2021	
Year ended 30 September	**£'000**	**%**	£'000	%
Industrial	**64,553**	**51.7%**	55,552	44.8%
A&D	**30,553**	**24.5%**	41,089	33.1%
Life Sciences/Biophotonics	**29,696**	**23.8%**	27,433	22.1%
Group Revenue	**124,802**	**100.0%**	124,074	100.0%

Revenue for the year totalled £124.8m. Revenues from our semiconductor and Industrial laser markets delivered further strong growth. Demand for hi-reliability fibre couplers also continued to grow. These were partly offset by minor reductions in revenues to our sensing markets, although recent programme wins mean we are well placed to grow our revenues in this market in the coming financial year.

Our Life Sciences/Biophotonics business delivered year-on-year growth of 8.2% (5.3% at constant currency). Our medical diagnostics business declined slightly as COVID driven demand for our respirator product declined. This was more than offset by strong demand for our products used in medical lasers especially for cosmetic applications.

In A&D significant optical system deliveries on several armoured vehicle programmes completed in the previous financial year whilst significant deliveries on our newly won programmes do not commence until the coming financial years. At the same time our work with NEC/JAXA on laser-based space communication technologies completed in 2021 and whilst we are now active in quoting in to new programmes that will build upon the technology that has now been proven as a result of that work revenues were not recurring in FY2022.

Operating Profit

Adjusted operating profit was £8.8m compared with £13.3m in the prior year. Gross margins declined by £2.3m. As noted above, the principal drivers of the reduction were the completion of deliveries in the prior year on a number of armoured vehicles programmes and the consequent decline in revenues in in A&D in FY2022. The teams responsible for delivering these programmes which require significant engineering and contract management resource are retained in the business and have been instrumental in securing significant new contract wins in FY2022 that will deliver revenue in the coming trading periods.

In FY2021 we also completed our final work on the JAXA/NEC space communications programme. Whilst laser-based space communications is an important future growth market for G&H and we are involved in prospecting for future programmes with our retained engineering teams, revenues in this area declined in the period.

At the same time the investments we are making in our Precision Optics centre of excellence in Ilminster are continuing. This comprises further state of the art equipment enabling the site to secure more complex optical assembly work from our customers. The integration of product lines from the Glenrothes and St Asaph sites in to our Ilminster facility and the consequent extension of lead times offered to customers mean that the fruits of this investment have not yet been seen in incremental revenue. However, the output of the Ilminster site is now increasing and we are confident that incremental business will follow as our offered lead times reduce.

The continuing investment in the business was also evident in our spend on research and development activities. This increased by £1m, or £0.7m on a constant currency basis. The majority of this increase was in our US A&D business where we see good further growth opportunities. The investment helped in securing a 58% increase in the order book of our Boston business. The Group's further investment in its productive capacity resulted in an increase in its total headcount from 869 at September 2021 to 901 at September 2022.

The Group's statutory operating loss was £1.6m (2021: profit £5.4m) after a charge for items excluded from adjusted operating profit of £10.4m (2021: £7.9m) including £1.2m (2021: £5.9m) in respect of the Group's manufacturing footprint consolidation programme, costs related to the CEO succession of

£0.6m, and £8.6m in respect of the amortisation and impairment of intangible assets arising on business acquisitions (2021: £2.1m).

The Group recorded an impairment charge of £6.7m on the carrying value of its goodwill and other acquired intangible assets held in respect of its UK CGU. This was as a consequence of an increase in the Group's weighted average cost of capital which has been driven higher by increased costs of borrowing in the market.

A reconciliation between adjusted profit and statutory profit is shown below.

Alternative Performance Measures

Alternative performance measures are presented in these financial statements as management believe they provide investors with a means of evaluating the performance of the Group on a consistent basis. These alternative performance measures exclude the impact of non-underlying items on the Group's financial results. The Group's alternative performance measures and their reconciliation to IFRS measures are shown in the table below.

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Profit before tax		Taxation		(Losses) / Earnings per share		Operating cash flow	
Year ended 30 September	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 pence**	2021 pence	**2022 £000**	2021 £000
Reported	**(1,557)**	5,401	**(717)**	(721)	**(2,274)**	4,680	**264**	(1,276)	**(8.0p)**	13.6p	**6,084**	16,822
Amortisation of acquired intangible assets	**1,903**	2,081	**-**	-	**1,903**	2,081	**(412)**	(460)	**6.0p**	6.5p	**-**	-
Impairment of goodwill and intangible assets	**6,726**	-	**-**	-	**6,726**	-	**(288)**	-	**25.7p**	-	**-**	-
Restructuring and site closure	**1,179**	5,860	**-**	-	**1,179**	5,860	**(235)**	(1,151)	**3.8p**	18.8p	**526**	5,102
CEO succession	**613**	-	**-**	-	**613**	-	**(87)**	-	**2.0p**	-	**-**	-
Deferred tax on goodwill	**-**	-	**-**	-	**-**	-	**(695)**	-	**(2.8p)**	-	**-**	-
Tax charge arising from restatement of UK Deferred tax at 25%	**-**	-	**-**	-	**-**	-	**127**	519	**0.5p**	2.1p	**-**	-
Adjusted	**8,864**	13,342	**(717)**	(721)	**8,147**	12,621	**(1,326)**	(2,368)	**27.2p**	41.0p	**6,610**	21,924

Net Finance Costs

The net underlying interest expense was £0.7m (2021: £0.7m) reflecting similar levels of average borrowing between the two years.

Tax

The tax credit for the year was £0.3m (2021: charge £1.3m) with an underlying tax charge of £1.3m (2021: £2.4m) after excluding a credit on non-underlying items of £1.6m. This resulted in an underlying effective tax rate of 16.3% (2021: 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 rate reflects a combination of the varying tax rates applicable throughout the countries in which the Group operates, principally the UK and the USA.

Earnings Per Share

Basic adjusted earnings per share reduced by 33.7% to 27.2p (2021: 41.0p), reflecting reduced trading volumes in the year. Basic earnings per share reduced to a loss of (8.0p) (2021: 13.6p). This reduction was due to the impairment charge recorded against some of the Group's goodwill balances as well as the reduced trading volumes.

Cash Generation

Cash flow generated from operating activities was £6.1m, down from £16.8m in the prior year. During the year the Group invested £10.0m in additional working capital. This included a further £5.6m of inventory to help protect the Group's production programmes from the current supply chain tightness and a further £4.4m in the net receivables/payable position reflecting the higher levels of trading in the final quarter of FY2022 compared to the same time last year. Cashflows for tangible and intangible fixed asset additions totalled £8.6m (2021: £6.2m). The Group continued to invest in production equipment as well as an upgrade to its ERP systems and a new Customer Relationship Management system to help with a more coordinated approach to our engagement with customers across our global sales team. The payment of dividends in the year totalled £3.1m. The investment in working capital levels together with the further additions to the Group's business systems and production equipment meant drawings against the Group's debt facility increased by $6.4m to $21.3m. The Group closed the year with net debt of £19.1m (2021: £9.2m), or £12.8m (2021: £2.6m) when lease liabilities are excluded.

Balance Sheet

The Group's total equity at the end of the year was £118.5m, an increase of £4.3m over the prior year. This comprised a decrease of £5.1m from retained earnings, a £0.7m increase to reserves in relation to share schemes and a net increase of £8.6m arising from foreign exchange and hedging movements.

During the year, additions to property, plant and equipment amounted to £6.7m (2021: £5.4m) and to intangible assets £1.9m (2021: £0.8m).

Dividend Policy

The Board has a progressive dividend policy. In determining the level of dividend the Board considers not only the adjusted earnings cover, but also looks to the future expected underlying growth of the business and its capital and other investment requirements. The Group's balance sheet position and its expected future cash generation are also considered. The Board also takes in to consideration the Group's Principal Risks, which are set out in the Annual Report. The Group's ability to pay a dividend is impacted by the distributable reserves available in the parent Company, which operates as a holding company, primarily deriving its net income from dividends paid by its subsidiary companies. At 30 September 2022, Gooch & Housego PLC had sufficient distributable reserves to pay dividends for the foreseeable future.

Given the strength of the Group's order book and the positive outlook for the forthcoming trading period the Board is proposing a final dividend of 7.9 pence per share (2021: 7.7p), giving a total of 12.6 pence per share (FY2021: 12.2p) for the year when combined with the 4.7 pence per share paid as an interim dividend in July 2022 (FY2021: 4.5p).

Funding and Liquidity

The Group's operations are funded through a combination of retained profits, equity and borrowings. Borrowings are raised at Group-level from the Group's banking partner and lent to the subsidiaries. At 30 September 2022 the Group had available undrawn committed and uncommitted facilities of $48.7m. The Group's borrowings are in the form of a US$ denominated Revolving Credit Facility (RCF). The RCF matures in March 2027.

The Group's leverage is expressed in terms of its net debt/adjusted EBITDA ratio. Under the Group's credit facility the figure for net debt used in this ratio excludes IFRS 16 lease liabilities and other IFRS 16 impacts. The Group's main financial covenants in its bank facilities states that net debt must be below 2.5 times adjusted EBITDA, and adjusted EBITDA is required to cover interest charges, excluding interest on pension schemes, by at least 4.5 times. At 30 September 2022 net debt/adjusted EBITDA was 0.7 times (30 September 2021: 0.1). Interest cover at 30 September 2022 was 24.6 times (30 September 2021: 34.2 times).

The Group maintains sufficient available committed borrowings to meet any forecast funding requirements.

Financial Risk Management

The Group's main financial risks relate to funding and liquidity, interest rate fluctuations and currency exposures. The Group uses financial instruments to manage financial risks arising from underlying business activities.

Foreign Currency

The Group's policy is to reduce or eliminate, whenever practical foreign currency transaction risk. The principal currency exposure is the USD. The Group hedges expected foreign currency cash flows wherever possible.

The following are the average and closing rates of the foreign currencies that have the most impact on the translation of the Group's Income Statement and Balance Sheet into GBP.

	2022	2021
Income Statement	**Average rate**	
USD/GBP	1.28	1.37
Euro/GBP	1.18	1.15
Balance Sheet	**Closing rate**	
USD/GBP	1.12	1.35
Euro/GBP	1.14	1.16

The Group's revenue is more sensitive to exchange rate movements than its profit. A one cent change in the average Dollar exchange rate would have a £0.7m effect on revenue but less than £0.1m effect on profit. The Group's results are not significantly affected by movements in the Euro exchange rate.

Group Income Statement
For the year ended 30 September 2022

	Note	30 September 2022 Underlying	Non-underlying (Note 4)	Total	30 September 2021 Underlying	Non-underlying (Note 4)	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	**124,802**	**-**	**124,802**	124,074	-	124,074
Cost of revenue		**(85,741)**	**-**	**(85,741)**	(82,753)	-	(82,753)
Gross profit		**39,061**	**-**	**39,061**	41,321	-	41,321
Research and development		**(9,181)**	**-**	**(9,181)**	(8,147)	-	(8,147)
Sales and marketing expenses		**(8,697)**	**-**	**(8,697)**	(8,342)	-	(8,342)
Administration expenses		**(12,879)**	**(3,695)**	**(16,574)**	(12,294)	(7,941)	(20,235)
Impairment of goodwill and acquired intangible assets		**-**	**(6,726)**	**(6,726)**	-	-	-
Other income		**560**	**-**	**560**	804	-	804
Operating profit	2	**8,864**	**(10,421)**	**(1,557)**	13,342	(7,941)	5,401
Finance income		**-**	**-**	**-**	1	-	1
Finance costs		**(717)**	**-**	**(717)**	(722)	-	(722)
Profit before income tax expense		**8,147**	**(10,421)**	**(2,274)**	12,621	(7,941)	4,680
Income tax expense	3	**(1,326)**	**1,590**	**264**	(2,368)	1,092	(1,276)
Profit / (loss) for the year		**6,821**	**(8,831)**	**(2,010)**	10,253	(6,849)	3,404
Basic earnings per share		**27.2p**	**(35.2p)**	**(8.0p)**	41.0p	(27.4p)	13.6p
Diluted earnings per share		**27.0p**	**(35.0p)**	**(8.0p)**	40.5p	(27.0p)	13.5p

Group Statement of Comprehensive Income
For the year ended 30 September 2022

	Note	2022 £000	2021 £000
(Loss) / profit for the year		**(2,010)**	3,404
Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges		**(1,137)**	(468)
Currency translation differences		**9,774**	(1,621)
Other comprehensive income / (expense) for the year net of tax		**8,637**	(2,089)
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		**6,627**	1,315

Group Balance Sheet
For the year ended 30 September 2022

	2022	2021
	£000	£000
Non-current assets		
Property, plant and equipment	**42,447**	37,945
Right of use assets	**5,063**	5,230
Intangible assets	**47,939**	50,835
Deferred income tax assets	**1,969**	1,883
	97,418	95,893
Current assets		
Inventories	**37,073**	28,150
Trade and other receivables	**35,598**	28,310
Cash and cash equivalents	**5,999**	8,352
	78,670	64,812
Current liabilities		
Trade and other payables	**(22,765)**	(19,324)
Borrowings	**(64)**	(65)
Lease liabilities	**(1,732)**	(1,588)
Income tax liabilities	**(578)**	(481)
	(25,139)	(21,458)
Net current assets	**53,531**	43,354
Non-current liabilities		
Borrowings	**(18,730)**	(10,903)
Lease liabilities	**(4,539)**	(5,039)
Provisions for other liabilities and charges	**(848)**	(1,447)
Deferred income tax liabilities	**(8,291)**	(7,582)
	(32,408)	(24,971)
Net assets	**118,541**	114,276
Shareholders' equity		
Called up share capital	**5,008**	5,008
Share premium account	**16,000**	16,000
Merger reserve	**7,262**	7,262
Cumulative translation reserve	**15,828**	6,054
Hedging reserve	**(1,272)**	(135)
Retained earnings	**75,715**	80,087
Total equity	**118,541**	114,276

Group Statement of Changes in Shareholders' Equity
For the year ended 30 September 2022

	Called up share capital £000	Share premium account £000	Merger reserve £000	Retained earnings £000	Hedging Reserve £000	Cumulative translation reserve £'000	**Total equity £000**
At 1 October 2020	**5,008**	**16,000**	**7,262**	**77,075**	**333**	**7,675**	**113,353**
Profit for the financial year	-	-	-	3,404	-	-	**3,404**
Other comprehensive expense for the year	-	-	-	-	(468)	(1,621)	**(2,089)**
Total comprehensive income / (expense) for the year	**-**	**-**	**-**	**3,404**	**(468)**	**(1,621)**	**1,315**
Dividends	**-**	**-**	**-**	(1,127)	**-**	**-**	**(1,127)**
Share-based payments	-	-	-	735	**-**	**-**	**735**
Total contributions by and distributions to owners of the parent recognised directly in equity	**-**	**-**	**-**	**(392)**	**-**	**-**	**(392)**
At 30 September 2021	**5,008**	**16,000**	**7,262**	**80,087**	**(135)**	**6,054**	**114,276**
At 1 October 2021	**5,008**	**16,000**	**7,262**	**80,087**	**(135)**	**6,054**	**114,276**
Loss for the financial year	-	-	-	(2,010)	-	-	**(2,010)**
Other comprehensive (expense) / income for the year	-	-	-	-	(1,137)	9,774	**8,637**
Total comprehensive (expense) / income for the year	**-**	**-**	**-**	**(2,010)**	**(1,137)**	**9,774**	**6,627**
Dividends	**-**	**-**	**-**	(3,105)	**-**	**-**	**(3,105)**
Share-based payments	-	-	-	743	**-**	**-**	**743**
Total contributions by and distributions to owners of the parent recognised directly in equity	**-**	**-**	**-**	**(2,362)**	**-**	**-**	**(2,362)**
At 30 September 2022	**5,008**	**16,000**	**7,262**	**75,715**	**(1,272)**	**15,828**	**118,541**

Group Cash Flow Statement
For the year ended 30 September 2022

	2022 £000	2021 £000
Cash flows from operating activities		
Cash generated from operations	**6,084**	16,822
Income tax repaid / (paid)	**456**	(575)
Net cash generated from operating activities	**6,540**	16,247
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**-**	(3,250)
Purchase of property, plant and equipment	**(6,669)**	(5,399)
Sale of property, plant and equipment	**-**	38
Purchase of intangible assets	**(1,899)**	(844)
Interest received	**-**	1
Interest paid	**(717)**	(505)
Net cash used in investing activities	**(9,285)**	(9,959)
Cash flows from financing activities		
Drawdown of borrowings	**6,300**	-
Repayment of borrowings	**(1,312)**	(14,093)
Principal elements of lease payments	**(1,584)**	(2,047)
Dividends paid to ordinary shareholders	**(3,105)**	(1,127)
Net cash generated from / (used by) financing activities	**299**	(17,267)
Net decrease in cash	**(2,446)**	(10,979)
Cash at beginning of the year	**8,352**	19,734
Exchange gains / (losses) on cash	**93**	(403)
Cash at the end of the year	**5,999**	8,352

Notes to the preliminary report

1. Basis of preparation

The Preliminary Report has been prepared under the historical cost convention and in accordance with International Accounting Standards.

The Preliminary Report does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006.

Comparative figures in the Preliminary Report for the year ended 30 September 2021 have been taken from the Group's audited statutory financial statements on which the Group's auditors, PricewaterhouseCoopers LLP, expressed an unqualified opinion.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2021, as described in those financial statements.

2. Segmental analysis

The Company's segmental reporting reflects the information that management uses within the business. The business is divided into three market sectors, being Aerospace & Defence, Life Sciences / Biophotonics and Industrial, together with the Corporate cost centre.

The industrial business segment primarily comprises the industrial laser market for use in the semiconductor and microelectronic industries, but also includes other industrial applications such as metrology, telecommunications and scientific research. Further details can be found on pages 10 to 15.

For year ended 30 September 2022	Aerospace and Defence £000	Life Sciences/Bio photonics £000	Industrial £000	Corporate £000	Total £000
Revenue					
Total revenue	32,992	33,190	69,316	-	135,498
Inter and intra-division	(2,439)	(3,494)	(4,763)	-	(10,696)
External revenue	30,553	29,696	64,553	-	124,802
Divisional expenses	(31,220)	(24,640)	(53,437)	107	(109,190)
EBITDA[1]	(667)	5,056	11,116	107	15,612
EBITDA %	(2.2%)	17.0%	17.2%	-	12.5%
Depreciation and amortisation	(2,745)	(1,378)	(3,803)	(614)	(8,540)
Operating (loss) / profit before amortisation of acquired intangible assets	(3,412)	3,678	7,313	(507)	7,072
Amortisation and impairment of acquired intangible assets	-	-	-	(8,629)	(8,629)
Operating (loss) / profit	(3,412)	3,678	7,313	(9,136)	(1,557)
Operating (loss) / profit margin %	(11.2%)	12.4%	11.3%	-	(1.2%)
Add back non-underlying items and amortisation of acquired intangibles	746	273	1,093	8,309	10,421
Adjusted operating (loss) / profit	(2,666)	3,951	8,406	(827)	8,864
Adjusted (loss) / profit margin %	(8.7%)	13.3%	13.0%	-	7.1%
Finance costs	(113)	(56)	(130)	(418)	(717)
(Loss) / profit before income tax expense	**(3,525)**	**3,622**	**7,183**	**(9,554)**	**(2,274)**

2. Segmental analysis (continued)

For year ended 30 September 2021	Aerospace and Defence £000	Life Sciences/Bio photonics £000	Industrial £000	Corporate £000	Total £000
Revenue					
Total revenue	43,619	30,546	59,598	-	133,763
Inter and intra-division	(2,530)	(3,113)	(4,046)	-	(9,689)
External revenue	41,089	27,433	55,552	-	124,074
Divisional expenses	(37,656)	(22,367)	(48,180)	(84)	(108,287)
EBITDA[1]	3,433	5,066	7,372	(84)	15,787
EBITDA %	8.4%	18.5%	13.3%	-	12.7%
Depreciation and amortisation	(2,877)	(1,561)	(2,856)	(1,011)	(8,305)
Operating profit before amortisation of acquired intangible assets	556	3,505	4,516	(1,095)	7,482
Amortisation of acquired intangible assets	-	-	-	(2,081)	(2,081)
Operating profit	556	3,505	4,516	(3,176)	5,401
Operating profit margin %	1.4%	12.8%	8.1%	-	4.4%
Add back non-underlying items and amortisation of acquired intangibles	2,581	738	2,541	2,081	7,941
Adjusted operating profit	3,137	4,243	7,057	(1,095)	13,342
Adjusted profit margin %	7.6%	15.5%	12.7%	-	10.8%
Finance costs	(144)	(36)	(152)	(389)	(721)
Profit before income tax expense	**412**	**3,469**	**4,364**	**(3,565)**	**4,680**

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation

Management have added back the amortisation and impairment of acquired intangibles and goodwill, restructuring costs, site closure costs and CEO succession costs in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of these non-underlying expenses.

All of the amounts recorded are in respect of continuing operations.

2. Segmental analysis (continued)

Analysis of net assets by location:

	2022 Assets £000	**2022 Liabilities £000**	**2022 Net Assets £000**	2021 Assets £000	2021 Liabilities £000	2021 Net Assets £000
United Kingdom	72,870	(33,909)	38,961	85,163	(28,240)	56,923
USA	101,574	(23,472)	78,102	73,858	(18,006)	55,852
Continental Europe	488	(52)	436	660	(64)	596
Asia Pacific	1,156	(114)	1,042	1,024	(119)	905
	176,088	**(57,547)**	**118,541**	160,705	(46,429)	114,276

For the year to 30 September 2022 non-current asset additions were £5.5m (2021: £4.3m) for the UK and for the USA £3.3m (2021: £2.5m). There were no additions to non-current assets in respect of Europe (2021: £nil) or the Asia Pacific region (2021: £nil). The value of non-current assets in the USA was £56.4m (2021: £48.1m) and in the United Kingdom £41.5m (2021: £47.8m). There were no non-current assets in Europe or the Asia-Pacific region.

Analysis of revenue by destination:

	2022 £000	**2021 £000**
United Kingdom	**27,848**	31,339
North America	**47,267**	45,915
Continental Europe	**26,749**	23,383
Asia Pacific and Other	**22,938**	23,437
Total revenue	**124,802**	124,074

3. Income tax expense

Analysis of tax (credit) / charge in the year

	2022 £000	2021 £000
Current taxation		
UK Corporation tax	**399**	722
Overseas tax	**(3)**	292
Adjustments in respect of prior years	**(678)**	(807)
Total current tax	**(282)**	207
Deferred tax		
Origination and reversal of temporary differences	**(422)**	1
Adjustments in respect of prior years	**313**	549
Change to UK tax rate	**127**	519
Total deferred tax	**18**	1,069
Income tax (income) / expense per income statement	**(264)**	1,276

4. Non-underlying items

	2022 £000	2021 £000
Included within administration expenses		
Amortisation of acquired intangible assets	**1,903**	2,081
Impairment of goodwill and acquired intangible assets	**6,726**	-
Restructuring costs	**1,179**	5,860
Other	**613**	-
	10,421	7,941
Included within taxation		
Tax effect of the non-underlying items above	**(1,022)**	(1,611)
Restatement of UK deferred tax balances at 25%	**127**	519
Release of deferred tax on goodwill	**(695)**	-
	(1,590)	(1,092)

Restructuring costs incurred in the year ended 30 September 2022 relate to the ongoing streamlining of our manufacturing operations and outsourcing production of our commodity AO products to a contract manufacturer in Thailand. The costs incurred in the period largely comprised staff costs, severance costs, travel costs and asset write downs at the sites being closed.

Restructuring costs incurred in the year ended 30 September 2021 related to the streamlining of our manufacturing operations and consequent closure of our Baltimore, Glenrothes and St Asaph facilities. We are also outsourcing the production of our commodity AO products to a contract manufacturer in Thailand. The costs incurred in the period largely comprised staff costs, severance costs, travel costs and asset write downs at the sites being closed.

Other non-underlying items relate to costs associated with the chief executive officer succession and principally included payment in lieu of notice and accelerated IFRS 2 costs.

The UK corporation tax rate will increase to 25% with effect from 1 April 2023. Deferred tax balances expected to reverse after that date were restated at 25% in the year ended 30 September 2021, giving rise to an income statement charge of £0.5m. During the year ended 30 September 2022, a further charge of £0.1m was incurred in relation to the tax rate differential between current and deferred tax on timing differences arising in the year.

5. Earnings per share

The calculation of earnings per 20p Ordinary Share is based on the profit for the year using as a divisor the weighted average number of Ordinary Shares in issue during the year. The weighted average number of shares for the year ended 30 September is given below:

	2022	2021
Number of shares used for basic earnings per share	**25,040,919**	25,040,919
Number of dilutive shares	**211,603**	239,603
Number of shares used for dilutive earnings per share	**25,252,522**	25,280,522

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

	2022		2021	
	£000	**pence per share**	£000	pence per share
Basic (losses) / earnings per share	**(2,010)**	**(8.0p)**	3,404	13.6p
Amortisation of acquired intangible assets (net of tax)	**1,491**	**6.0p**	1,621	6.5p
Impairment of goodwill and intangible assets (net of tax)	**6,438**	**25.7p**		
Restructuring costs (net of tax)	**944**	**3.8p**	4,709	18.8p
Other non-underlying items (net of tax)	**526**	**2.0p**	-	-
Release of deferred tax on goodwill	**(695)**	**(2.8p)**	-	-
UK deferred tax rate change	**127**	**0.5p**	519	2.1p
Total adjustments net of income tax expense	**8,831**	**35.2p**	6,849	27.4p
Adjusted basic earnings per share	**6,821**	**27.2p**	10,253	41.0p
Basic diluted (losses) / earnings per share	**(2,010)**	**(8.0p)**	3,404	13.5p
Adjusted diluted earnings per share	**6,821**	**27.0p**	10,253	40.5p

Basic and diluted (losses) / earnings per share before amortisation and other adjustments has been shown because, in the opinion of the Directors, it provides a useful measure of the trading performance of the Group.

6. Dividends

	2022 £000	2021 £000
Final 2021 dividend: 7.7p per share (Final 2020 dividend paid in 2021: nil)	**1,928**	-
2022 Interim dividend of 4.7p per share (2021: 4.5p per share)	**1,177**	1,127
	3,105	1,127

The Directors have proposed a final dividend of 7.9p per share making the total dividend paid and proposed in respect of the 2022 financial year 12.6p. (2021: 12.2 p per share).

7. Cash generated from operating activities

Reconciliation of cash generated from operations

	2022 £000	2021 £000
(Loss) / profit before income tax	**(2,274)**	4,680
Adjustments for:		
- Amortisation of acquired intangible assets	**1,903**	2,081
- Amortisation of other intangible assets	**1,438**	1,275
- Impairment of intangible assets	**6,726**	
- Loss on disposal of property, plant and equipment	**71**	95
- Write back of lease creditor on early termination of lease	**(96)**	-
- Depreciation	**7,102**	7,030
- Share based payment charge	**743**	735
- Amounts claimed under the RDEC	**(200)**	(280)
- Finance income	**-**	(1)
- Finance costs	**717**	722
Total	**18,404**	11,657
Changes in working capital		
- Inventories	**(5,557)**	1,888
- Trade and other receivables	**(5,707)**	(2,655)
- Trade and other payables	**1,218**	1,252
Total	**(10,046)**	485
Cash generated from operating activities	**6,084**	16,822