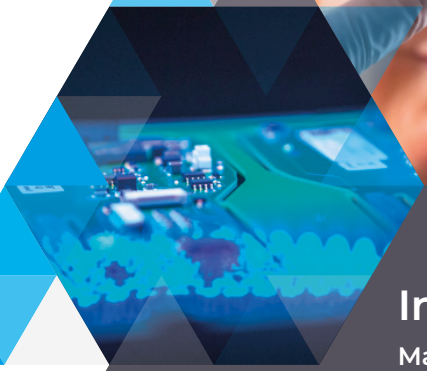
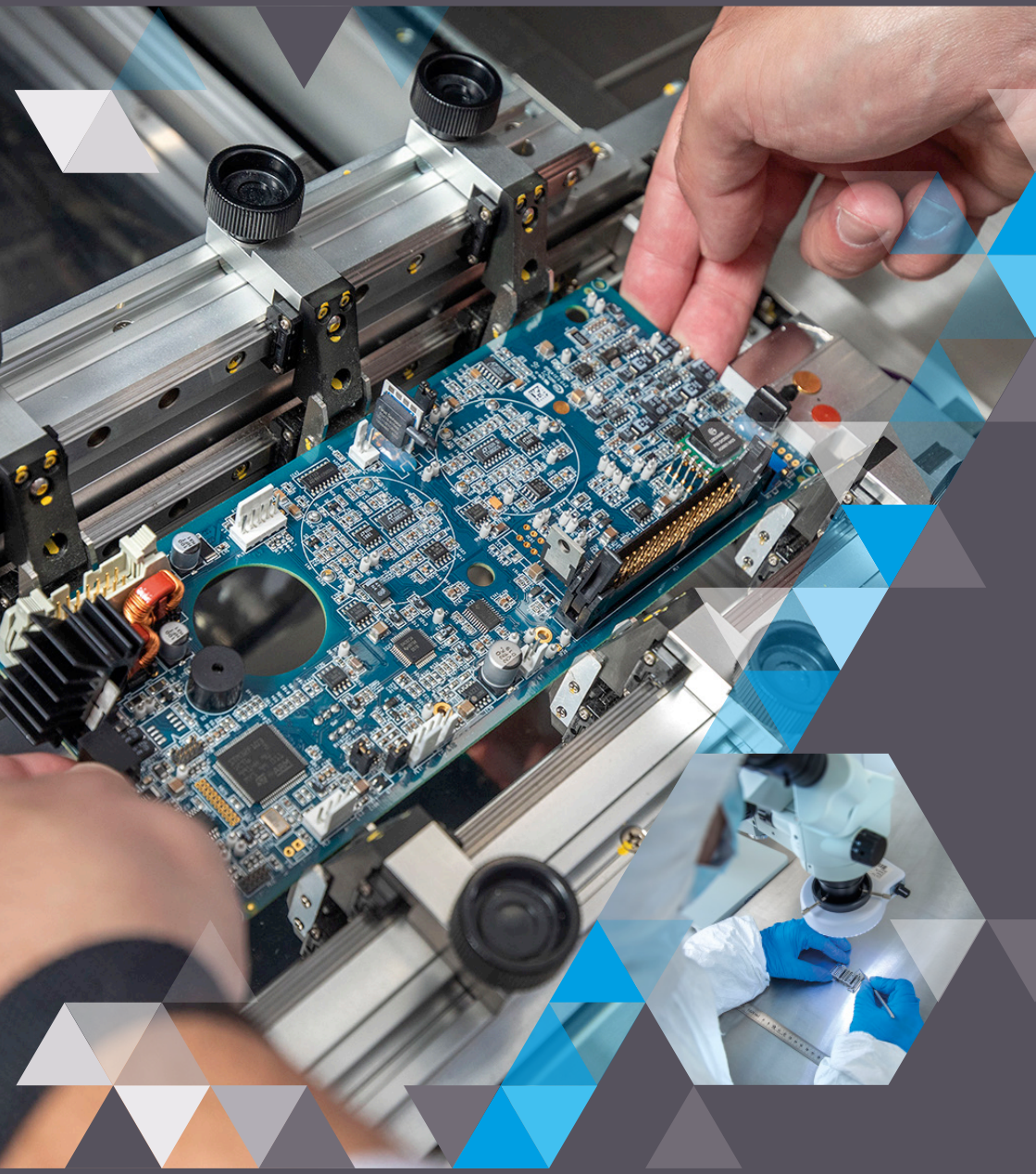
Gooch & Housego

CHANGING THE WORLD WITH PHOTONICS



Interim Report

March 2022



Interim Report

March 2022

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Key Financials

Period ended 31 March	H1 2022	H1 2021	Change
Revenue	£54.1m	£58.5m	(7.4)%
Adjusted profit before tax*	£3.6m	£4.9m	(26.6)%
Adjusted basic earnings per share*	11.8p	15.7p	(3.9p)
Net debt excluding IFRS 16	£5.9m	£4.7m	£1.2m
Net debt including IFRS 16	£12.0m	£12.1m	£(0.1)m
Statutory profit before tax	£1.2m	£0.7m	82.2%
Statutory basic earnings per share	6.9p	2.1p	4.8p
Interim dividend per share	4.7p	4.5p	0.2p

*Adjusted for amortisation of acquired intangible assets and non-recurring items.

Adjusted profit before tax

£3.6m

2021 £4.9m

Revenue

£54.1m

2021 £58.5m

Interim dividend per share

4.7p

2021 4.5p

Key Points

- Record order book at the half year end of £119.9m (31 March 2021: £92.8m), an increase of 29.2% or 25.6% at constant currency. H1 order intake was 1.42 times H1 revenue.

- Strong and sustained demand in our main target markets. High demand for industrial lasers, in particular from semiconductors; G&H has increased market share in a growing market. Medical lasers continue to benefit from the return of elective surgery.

- A&D affected by customer driven delays and new programmes not yet progressing to volume phase. Recent A&D order intake has been strong, including £4 million upgrade of optical imaging system for the UK MOD's Challenger upgrade programme.

- Revenue has been constrained by pandemic related factors. COVID related staff absences impacted our US and UK sites and there were supply chain shortages. Substantial investment has been made to increase capacity and good progress has been made with recruitment of operators and securing our supply chain.

- Adjusted profit before tax down due to lower volumes and investment in R&D and manufacturing capacity.

- Group remains in a strong financial position. A new five year revolving credit facility ($40m committed/ $30m uncommitted) was put in place in March.

- Interim dividend of 4.7p per share (2021: 4.5p) reflecting positive outlook.

- Clear route to mid-teens returns in the near term through organic growth, internal investment and our well-established acquisition strategy.

CEO Comment

Mark Webster, Chief Executive Officer of Gooch & Housego, commented:

"During the first half of the financial year there has been strong demand for the Group's technologies and capabilities and our order book has achieved another record level. However, in common with many industrial businesses revenue was constrained by COVID related staff absences and supply chain disruption.

"We have made substantial investment to increase production capacity in areas where there has been strong demand, primarily through the hiring and training of new operators and building resilience within our supply chain. COVID cases have fallen markedly since the second quarter and absences have returned to normal levels. As a result we expect trading levels to accelerate in the second half.

"The Company remains committed to our long term strategic goals of diversification and moving up the value chain. We intend to vigorously pursue these goals through internal investment and where appropriate acquisitions.

"Full year expectations are unchanged and the long-term outlook for our technologies and capabilities in all our target sectors remains very strong."

Operating and Financial Review

PERFORMANCE OVERVIEW

Order intake for the six month period was 142% of revenue, compared with 109% of revenue for the second half of FY 2021, reflecting the accelerating growth in demand for our products and services. At 31 March 2022 our order book was at a record level of £119.9m (31 March 2021: £92.8m), an increase of 29.2%, or 25.6% at constant currency, compared with the same time last year.

In the first half of the financial year we have seen continued strong demand from our industrial laser and semiconductor markets. Demand for hi-reliability fibre couplers remains robust. In our Life Sciences markets demand for our medical laser products used extensively in cosmetic surgery has returned strongly, offsetting reductions in shipments for some of our medical diagnostic products that returned to good, but more normalised levels of demand post pandemic.

Our A&D revenues declined compared with the prior period. Whilst revenues to our commercial aerospace customers are starting to recover, we saw a number of customer-induced delays for our Boston site's programmes. Revenues in the first half were also impacted by reductions in demand for our optical arrays used on Unmanned Aerial Vehicle platforms as we completed deliveries on those programmes, whilst future expected ground vehicle programmes have not yet transitioned to the production delivery phase. Recent order intake for A&D has been strong, including a £4 million contract to upgrade optical systems on the UK MOD's Challenger tank upgrade programme.

In common with many businesses our output in the reported period was constrained as a result of COVID related absences both within our own teams and those of our suppliers. We have also been impacted to some degree by supply chain shortages especially for electronic components from Asia. COVID infection rates at our sites have fallen substantially since the end of the second quarter of the financial year and absence rates have now returned to normal levels.

Labour markets remain competitive in both US and UK and this has 'gated' the rate at which we have been able to add staff to service our growing order book. Real progress in the hiring and training of operators has been made in the first half of the financial year. There has been wage and material inflation across the period, but the Company is passing on those additional costs in the form of price increases across most of its portfolio.

REVENUE

Six months ended 31 March	2022	2021	
	£'000	£'000	% Change
Industrial	27,743	26,570	4.4%
Aerospace & Defence	13,127	18,440	(28.8)%
Life Sciences	13,264	13,450	(1.4)%
Group Revenue	54,134	58,460	(7.4)%

PRODUCTS AND MARKETS – INDUSTRIAL

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

Overall, sales of products into our industrial markets in the six months to 31 March 2022 grew by 4.4%, or 4.7% when measured on a constant currency basis, compared with the equivalent period last year. We saw strong growth in industrial lasers, in particular for lasers used in the manufacture of semiconductors. Our revenues to these markets would have been even higher if we had been able to add productive capacity more quickly in our primary Acousto-Optic site and at our contract manufacturer's facility. Both were 'gated' by the hiring and training of new staff and good progress has been made in this regard across the first half of the financial year. We therefore anticipate a stronger performance in the second half. We expect demand levels especially from the semiconductor markets to remain strong.

High levels of COVID absences at our Czech sub contract partner used for the manufacture of typically 40% of our Hi-Rel fused fibre couplers constrained output in the first half of the financial year. Demand remains robust and a higher proportion than in the past of these fused fibre

couplers are destined for space satellites which command a higher price and margin. We expect an improved performance in the second half.

PRODUCTS AND MARKETS – AEROSPACE & DEFENCE (A&D)

Product quality, reliability and performance are paramount in this sector, playing to G&H's strengths, along with our commitment to provide value. We have solid, well established positions in target designation and range finding, ring laser and fibre optic gyroscope navigational systems, infrared and RF countermeasures, periscopes and sighting systems, opto-mechanical subsystems used in unmanned aerial vehicles (UAVs) and space satellite communications. We are working with our partners on the development of new directed energy weapon systems that are increasingly specified as part of the defensive suites of both naval and land platforms.

The trend in funding priorities in both the US and Europe continue to favour G&H products and capabilities. The need for all weather, precision guidance and targeting generates the demand for the product capabilities that G&H can offer. The current conflict in the Ukraine is also generating a recognition of the continuing importance of armoured vehicles in the modern military environment, and in that area G&H provides some of the most advanced optical sighting systems as evidenced by our recent receipt of a £4m order to support the UK MOD's programme to upgrade the Challenger MBT platform.

Despite the market trends supporting the longer-term growth of G&H's A&D business, revenue declined by 28.8% during the first six months of FY2022, compared with the equivalent period last year (28.9% constant currency). In the first half of FY2021 our Torquay business completed deliveries of laser communication systems to NEC/JAXA for use in their LUCAS (Laser Utilising Communication System) that demonstrated the viability of laser systems for high speed and scaleable space communication. Whilst this development revenue did not recur in the current half-year reporting period our work on the project provides the technology core for several significant tenders that we are currently submitting to customers for satellite based communication systems.

Our Boston business delivered lower revenue than the prior period principally as a result of customer induced programme delays. The impact of COVID isolation on our customers' ability to accept product shipments from our facility was significant and unavoidable given the need for their

inspection sign off prior to our shipment. Despite the disappointing revenue performance of our Boston site in the period, its order book at the end of March 2022 was almost 50% higher than the equivalent period last year.

Encouragingly we are seeing recovery in demand from our commercial aerospace customers after the significant downturn during the pandemic. We are working to increase our productive capacity especially in our Moorpark, California facility this financial year. Our principal customers have indicated that they will consume the extra capacity as soon as it is brought on line.

Overall we expect a stronger second half and A&D remains an area of significant long term growth potential for G&H.

PRODUCTS AND MARKETS – LIFE SCIENCES

G&H's three principal Life Sciences revenue streams are derived from diagnostics applications (the design, development and manufacturing of diagnostic systems and fibre-optic modules based around our optical coherence tomography (OCT) technology), surgery / treatments (electro-optics and acousto-optics for medical lasers) and biomedical research (acousto-optics for microscopy applications).

Our Life Sciences / Biophotonics revenues were down 1.4% (reported and constant currency) in the six months to 31 March 2022, compared with the very strong prior period comparator. We have seen further recovery in demand for our components used in laser surgery, especially elective cosmetic surgery, which fell away during the pandemic. Offsetting this growth revenues from the sale of our medical diagnostic equipment which had benefitted in particular from high demand for modules used in ventilator systems were down compared with H1 2021. Demand for these units have returned to good, but more normal, pre-pandemic levels.

Our medical diagnostic design team based in our ITL business in Ashford have secured important orders for the development of our customers' next generation systems and these are expected to migrate to production over the coming two/three years. We are recruiting new software and mechanical design engineers to provide further capacity for additional customer development projects. Plans are also in place to invest in our ITL business in the US in order to provide a US based design and manufacturing offering to our customers in that market.

STRATEGY

At Gooch & Housego we create sustainable value by leveraging our products and capabilities to diversify in to new markets. We are focussed on moving up the value chain, generating a greater portion of the Group's revenues from subassemblies and systems. We are delivering this strategy by focusing on three strategic priorities.

Focused R&D investment: In the first six months of the current financial year, G&H invested £4.1m in targeted R&D. This was a 4.7% increase on the same period last year demonstrating G&H's continued commitment to investing in targeted R&D programmes.

Our main investment areas are the next generation of precision lasers and laser systems, optical sensing for harsh environments, OCT medical diagnostics, laser surgery, space satellite communications, opto-mechanical systems for UAVs and armoured vehicles and direct energy systems. In the period the following projects made notable progress: key components for state of the art extreme ultra-violet lithography lasers used in the production of nano-electronics, market leading Germanium Acousto-Optic modulators for use in semiconductor manufacturing, thermal overlays of our traditional optical sighting systems for armoured vehicles and laser based satellite communications. Our R&D teams are working with our customers on the application of our existing Optical Coherence Tomography capabilities in to new cancer and cardio vascular disease detection applications.

We will continue to invest in novel, cutting edge technologies in order to drive future revenue growth across all of our target sectors.

Operational Excellence: our ambitious site rationalisation programme was completed in the reporting period. Final product line transfers from our Baltimore facility to our Boston facility were finalised and our production teams in Boston are now servicing those products from within the existing Boston manufacturing footprint. Likewise our Precision Optics centre of excellence in Ilminster is now manufacturing product transferred from our St Asaph production facility, liaising closely and effectively with the optical systems design team that have been retained in a new facility in St Asaph. As previously reported the transfer of production of our established acousto-optic products from Ilminster to our Asian contract manufacturing partner is complete. Their initial ramp up to volume manufacture of our

products has been completed and we are now supporting them to achieve yet greater volumes to help service the very significant demand we are seeing for our acousto-optic products. To that end we have located our own supply chain, quality and engineering staff permanently in their production facility.

Following the successful transfer of many of our acousto-optic products to our contract manufacturing partner we are also working to establish them as a further supply source for our hi-rel fibre couplers. In time they will become a third source for these products supplementing our own in-house production as well as that of our existing European supplier. The production transfer is progressing well and our contract manufacturing partner is currently completing the qualification of their production lines against the very demanding criteria set by our customers. We expect our partner to contribute to G&H supply of these products from early FY2023.

We will continue to review our higher volume, established products with a view to transferring them to our contract manufacturing partner. Our UK and US sites will focus on newer, innovative products that require higher local input from our engineering team.

Revenue in the first half of the financial year has been constrained by pandemic factors. COVID related absences have impacted our production sites in the UK and US and key suppliers during the period. A competitive labour market in the UK and US has been a 'gating' factor on increasing capacity. COVID related absences have declined since the middle of the second quarter. During the first half good progress has been made hiring and training new operators. We expect these measures to result in increased output in the second half of the financial year and an improved performance.

From the beginning of this financial year we have invested additional resources in to our supply chain team including quality engineers who undertake a programme of physical visits to our suppliers' facilities to ensure they adhere to the product specification and quality levels that we demand of them. They also explore with our suppliers potential cost reduction opportunities. Whilst our supply chain has in general experienced some disruption from COVID absences and cost input inflation the relationships we have established with them put us in a good position to meet the our goal of maintaining continuity of supply in the current challenging market conditions.

Value enhancing acquisitions: G&H continues to evaluate acquisition opportunities that have the potential to accelerate delivery of the Company's strategic objectives. Having established a presence in its target markets, G&H remains focused on moving up the value chain in each of those markets. We have a clearly defined set of criteria against which we assess potential acquisition targets. Our focus areas continue to be in the markets of Life Sciences and Aerospace & Defence although we also consider acquisition targets in the Industrial market space if they have particular technologies that are attractive to us.

During the period we have had a number of discussions with the management teams of target companies to better assess their suitability to become part of the G&H Group and the synergistic opportunities that would result. We remain optimistic that these conversations will result in the addition of new businesses to the Group in the near future. The Group has a strong balance sheet and access to significant debt facilities meaning we are in a strong position to execute on transactions quickly.

Diversification: The recent pandemic demonstrated the success of G&H's strategy of balancing the business more evenly between its three markets offering natural protection against cyclicality in any particular sector. During the pandemic when our Industrial and Commercial Aerospace markets declined, our presence in Life Sciences and Defence markets helped to offset the overall impact on Group revenues. In the current financial year we are seeing very strong recovery in our Industrial and Medical Laser markets which now offset a temporary programmatic reduction in our Defence revenues as well as the return to more normal demand levels for our medical diagnostic equipment. We will continue to look to acquisitions to help us further diversify the business and support the long-term sustainable growth of the business.

Moving up the Value Chain: We continue to use our research and development resources to help us secure a greater proportion of our business from sub-assemblies and systems further supporting our transition from being a component supplier to a solutions provider. For example by combining the 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 investments in state of

the art equipment to manufacture and coat precision optics mean 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.

PRINCIPAL RISKS AND UNCERTAINTIES

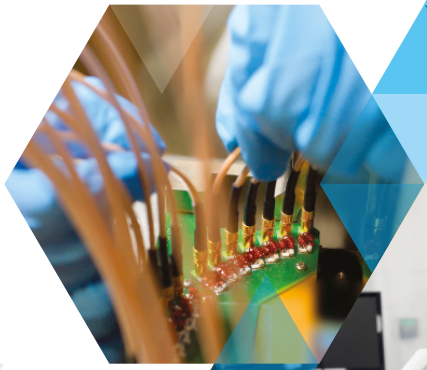
The principal risks and uncertainties to which the Group is exposed and our approach to managing those risks are unchanged from those identified on page 47 of our 2021 Annual Report. Whilst the risk to the business from the pandemic appears to be abating and COVID related absences in our facilities reduce, we remain alert to the impact of potential further disruption arising from new variants of the virus.

The post pandemic recovery in many of our markets has resulted in increased demand for skilled employees resulting in competitive labour markets in both the UK and US. In order to retain and attract employees we have increased levels of pay for some skill groups beyond the general company-wide salary awards made to our staff at the beginning of the calendar year.

Employment pressures have also impacted our suppliers who seek to pass on wage inflation in their supply prices to G&H. In some cases pandemic related absences have also meant they have been unable to supply to us. We take measures to protect ourselves from these risks by maintaining buffer stocks of key components where necessary although these are not always sufficient protection in the case of protracted delays. Our supply chain teams also seek to put in place long-term agreements with our suppliers which help to lock in pricing for longer and provide some near term protection against inflationary pressures.

In the medium term our supply chain teams work with our engineering team to identify and qualify alternative sources of supply to mitigate the risk from sole source suppliers. In general, we are able to pass on cost inflation to our customers in the form of higher prices.

The situation in the Ukraine has not had a material impact on the Group which had very limited exposure to customers and suppliers in Russia and the Ukraine prior to the conflict. The enhanced sanctions regime implemented by UK Government has had no impact on G&H.



ALTERNATIVE PERFORMANCE MEASURES

In the analysis of the Group's financial performance alternative performance measures are presented to provide readers with additional information. The interim report includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business. Items excluded from the adjusted results, together with their prior period comparatives, are set out below.

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Profit before tax		Taxation		Profit after tax		Earnings per share	
Half Year to 31 March	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 pence	2021 pence
Reported	1,574	1,175	(353)	(505)	1,221	670	504	(132)	1,725	538	6.9	2.1
Amortisation of acquired intangible assets	927	1,091	-	-	927	1,091	(217)	(214)	710	877	2.8	3.5
Restructuring costs	1,445	3,134	-	-	1,445	3,134	(252)	(615)	1,193	2,519	4.8	10.1
Deferred tax on goodwill	-	-	-	-	-	-	(675)	-	(675)	-	(2.7)	-
Adjusted	3,946	5,400	(353)	(505)	3,593	4,895	(640)	(961)	2,953	3,934	11.8	15.7

Adjusted profit before tax was £3.6m, a decrease of 26.6% on the prior year (H1 2021: £4.9m). This reduction in profit reflects lower revenues as a result of the constraining effects on the Group's output of COVID absences both in house and within our supply chain and other pandemic effects.

CASH FLOW AND FINANCING

In the six months ended 31 March 2022, G&H generated cash from operations of £3.2m, compared with £9.7m in the same period of 2021. A strategic investment of £3.3m was made in inventory to support the ramp up of output expected in the second half of the year in response to record order book levels. There was a net inflow of £0.1m from the movement on receivables and payables.

Capital expenditure on property, plant and equipment was £3.0m in the period (2021: £3.3m). Further investments have been made at our Ilminster facility for advanced measuring systems to help achieve the very tight tolerances required by our customers of the precision optics supplied to them.

We have also invested in our Boston site to reconfigure the production areas to integrate the production lines previously located at our Baltimore facility. In the period we invested in a new Customer Relationship Management system to assist our sales team in the efficient pursuit of new orders.

On 31 March 2022 the Group entered in to a new $40m five year term revolving credit facility with a further $30m flexible acquisition facility available to support the Group's acquisition strategy. At the end of March the balance drawn on the revolving credit facility was $19.6m (September 2021: $14.8m).

At 31 March 2022 the Group's net debt totalled £12.0m (30 September 2021 – £9.2m) including lease liabilities of £6.1m (30 September 2021 – £6.6m). Consistent with the Group's borrowing agreements, which exclude the impact of IFRS 16, Leases, our leverage ratio was 0.3 times at 31 March 2022 (31 March 2021: 0.3 times).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

During the reporting period we have finalised the installation of new solar photo-voltaic energy generation systems at both our Ilminster and Ashford facilities. These two systems have the capacity to generate approximately 450 kWp, adding to the self-generated electricity that our Torquay site's solar panels have provided for the last few years. We have also developed plans for each of our sites to reduce the energy they consume supporting this through additional capital expenditure where necessary. In the first half of the year the Group's greenhouse gas emissions reduced by 32.3% compared with the comparator period thanks to our site consolidation programme and the sourcing of 100% of our purchased electricity in the UK from renewables sources.

In order to strengthen the linkage between the Board and the wider workforce Jim Haynes, one of our non-executive directors, was appointed as the director with responsibility for workforce engagement. Jim has held a number of sessions with employee representative groups at our sites and feedback from those sessions is addressed. It is pleasing to note that our employees recognised and appreciated the support measures put in place by the Group during the pandemic. It is also clear that many office-based staff enjoy the greater flexibility given to them for home working which the Group is keen to support where appropriate to their particular role.

We are delighted to be offering additional apprenticeship roles at our Precision Optics centre in Ilminster. These apprentices will be working in our centre's production areas and will be trained to set up and operate our state of the art precision optics cutting, polishing and coating equipment. We look forward to them taking their place in a few years' time within our production management teams.

DIVIDENDS

Given the positive outlook for the Group, the Board has declared an interim dividend of 4.7 p per share (2021: 4.5p). This dividend will be payable to shareholders on the register as at 24 June 2022 on 29 July 2022.

PROSPECTS AND OUTLOOK

There is strong and sustained demand across the Company's target markets and our order book stands at a record level. The order book includes significant new programme wins for next generation products in the field of acousto-optic modulators, electronic optical sighting systems and medical lasers. The growth in the order book has continued since the half year. We have invested in substantial additional capacity, in particular at our site in Fremont, CA which services the semiconductor market, Cleveland, OH which services the medical laser market and Ilminster, Somerset which services the A&D optics market. These are the areas where growth in order book demand has been the most significant. Absence levels in our facilities have returned to normal levels and output levels are increasing as a result of the investment made in the first half of the year.

We continue to invest in our highly productive R&D team. Our engineering resources are focused on working with our customers on their next generation development programmes. There are a number of near term opportunities which include developing the next generation of extreme ultra violet lasers for the manufacture of nanoelectronics; using our laser based satellite communication technology in new constellation satellite systems and exploiting our optical coherence tomography capability in cardiovascular disease detection. The establishment of our UK precision optics centre of excellence in Ilminster is resulting in awards for new, more complex optical assembly work providing us with more valuable and longer-term revenue opportunities.

We have entered in to a new five-year debt facility. Our balance sheet is robust, with low net debt and we are in a good position to continue to invest in our target sectors. The Board's confidence in the trading prospects of the Group are reflected in an increased interim dividend for the year.

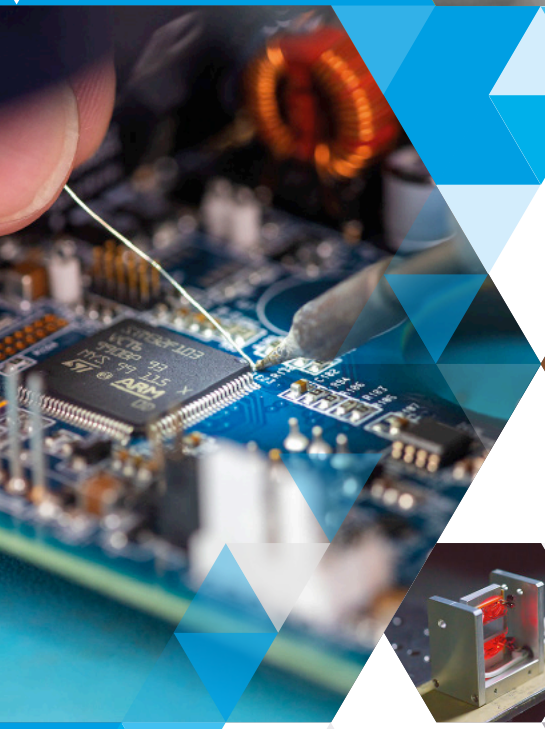
The Company remains committed to our long term strategic goals of diversification and moving up the value chain. We intend to vigorously pursue these goals through internal investment and where appropriate, acquisitions.

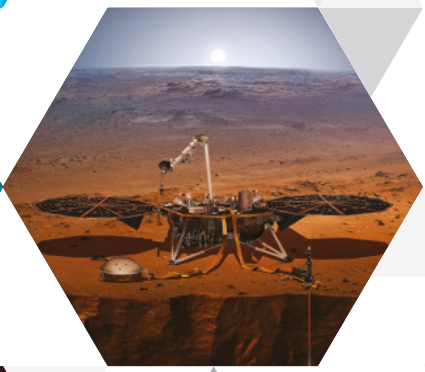
Full year expectations are unchanged and the long-term outlook for our technologies and capabilities in all our target sectors remains very strong. We have a clear route to mid teen returns through organic growth, internal investment and our well-established acquisition strategy.

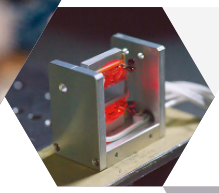
Mark Webster
Chief Executive Officer

Chris Jewell
Chief Financial Officer

7 June 2022







Group Income Statement

Unaudited interim results for the 6 months ended 31 March 2022

	Note	Half Year to 31 March 2022 (Unaudited) Underlying £'000	Non-underlying £'000	Total £'000	Half Year to 31 March 2021 (Unaudited) Underlying £'000	Non-underlying £'000	Total £'000	Full Year to 30 Sep 2021 (Audited) Total £'000
Revenue	4	54,134	-	54,134	58,460	-	58,460	124,074
Cost of revenue		(36,791)	-	(36,791)	(39,575)	-	(39,575)	(82,753)
Gross profit		17,343	-	17,343	18,885	-	18,885	41,321
Research and development		(4,118)	-	(4,118)	(3,933)	-	(3,933)	(8,147)
Sales and marketing		(3,994)	-	(3,994)	(3,962)	-	(3,962)	(8,342)
Administration		(5,554)	(2,372)	(7,926)	(6,169)	(4,225)	(10,394)	(20,235)
Other income and expenses		269	-	269	579	-	579	804
Operating profit	4	3,946	(2,372)	1,574	5,400	(4,225)	1,175	5,401
Net finance costs		(353)	-	(353)	(505)	-	(505)	(721)
Profit before income tax expense		3,593	(2,372)	1,221	4,895	(4,225)	670	4,680
Income tax expense	6	(640)	1,144	504	(961)	829	(132)	(1,276)
Profit for the year		2,953	(1,228)	1,725	3,934	(3,396)	538	3,404
Basic earnings per share	7	11.8p	(4.9p)	6.9p	15.7p	(13.6p)	2.1p	13.6p
Diluted earnings per share	7	11.7p	(4.8p)	6.9p	15.6p	(13.5p)	2.1p	13.5p

Group Statement of Comprehensive Income

Unaudited interim results for the 6 months ended 31 March 2022

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Profit for the period	1,725	538	3,404
Other comprehensive (expense) / income			
(Losses) / gains on cash flow hedges	(33)	59	(468)
Currency translation differences	1,104	(2,890)	(1,621)
Other comprehensive income / (expense) for the period	1,071	(2,831)	(2,089)
Total comprehensive income / (expense) for the period	2,796	(2,293)	1,315

Group Balance Sheet

Unaudited interim results for the 6 months ended 31 March 2022

Group Balance Sheet	31 Mar 2022 (Unaudited) £'000	31 Mar 2021 (Unaudited) £'000	30 Sep 2021 (Audited) £'000
Non-current assets			
Property, plant and equipment	38,446	38,354	37,945
Right of use assets	4,908	6,064	5,230
Intangible assets	51,098	51,572	50,835
Deferred tax assets	1,861	1,466	1,883
	96,313	97,456	95,893
Current assets			
Inventories	31,816	28,226	28,150
Trade and other receivables	24,466	23,861	28,310
Cash and cash equivalents	8,951	15,286	8,352
	65,233	67,373	64,812
Current liabilities			
Trade and other payables	(15,618)	(17,704)	(19,324)
Borrowings	(66)	(64)	(65)
Lease liabilities	(1,485)	(1,647)	(1,588)
Tax liabilities	(1,229)	(282)	(481)
	(18,398)	(19,697)	(21,458)
Net current assets	46,835	47,676	43,354
Non-current liabilities			
Borrowings	(14,813)	(19,951)	(10,903)
Lease liabilities	(4,575)	(5,684)	(5,039)
Provision for other liabilities and charges	(1,444)	(1,705)	(1,447)
Deferred tax liabilities	(7,132)	(6,376)	(7,582)
	(27,964)	(33,716)	(24,971)
Net assets	115,184	111,416	114,276
Shareholders' equity			
Called up share capital	5,008	5,008	5,008
Share premium account	16,000	16,000	16,000
Merger reserve	7,262	7,262	7,262
Cumulative translation reserve	7,158	4,785	6,054
Hedging reserve	(168)	392	(135)
Retained earnings	79,924	77,969	80,087
Equity Shareholders' Funds	115,184	111,416	114,276

Statement of Changes in Equity

Unaudited interim results for the 6 months ended 31 March 2022

Statement of Changes in Equity	Share capital account £'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 period	-	-	-	538	-	-	538
Other comprehensive expense for the period	-	-	-	-	59	(2,890)	(2,831)
Total comprehensive income / (expense) for the period	-	-	-	538	59	(2,890)	(2,293)
Share based payments	-	-	-	356	-	-	356
At 31 March 2021 (unaudited)	5,008	16,000	7,262	77,969	392	4,785	111,416
At 1 October 2021	5,008	16,000	7,262	80,087	(135)	6,054	114,276
Profit for the period	-	-	-	1,725	-	-	1,725
Other comprehensive (expense) / income for the period	-	-	-	-	(33)	1,104	1,071
Total comprehensive income / (expense) for the period	-	-	-	1,725	(33)	1,104	2,976
Dividends				(1,928)			(1,928)
Share based payments	-	-	-	40	-	-	40
At 31 March 2022 (unaudited)	5,008	16,000	7,262	79,924	(168)	7,158	115,184

Group Cash Flow Statement

Unaudited interim results for the 6 months ended 31 March 2022

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Cash flows from operating activities			
Cash generated from operations	3,216	9,720	16,822
Income tax refunded / (paid)	823	(476)	(575)
Net cash generated from operating activities	**4,039**	**9,244**	**16,247**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	-	(3,250)	(3,250)
Purchase of property, plant and equipment	(3,004)	(3,340)	(5,399)
Sale of property, plant and equipment	3	-	38
Purchase of intangible assets	(966)	(524)	(844)
Interest received	2	1	1
Interest paid	(295)	(465)	(505)
Net cash used in investing activities	**(4,260)**	**(7,578)**	**(9,959)**
Cash flows from financing activities			
Drawdown of borrowings	4,258	-	-
Repayment of borrowings	(758)	(4,736)	(14,093)
Repayment of lease liabilities	(796)	(899)	(2,047)
Dividends paid to ordinary shareholders	(1,928)	-	(1,127)
Net cash generated by / (used in) financing activities	**776**	**(5,635)**	**(17,267)**
Net increase / (decrease) in cash	**555**	**(3,969)**	**(10,979)**
Cash at beginning of the period	**8,352**	**19,734**	**19,734**
Exchange gains / (losses) gains on cash	44	(479)	(403)
Cash at the end of the period	**8,951**	**15,286**	**8,352**

Notes to the Group Cash Flow Statement

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Profit before income tax	1,221	670	4,680
Adjustments for:			
- Amortisation of acquired intangible assets	927	1,091	2,081
- Amortisation of other intangible assets	593	567	1,275
- Loss on disposal of property, plant and equipment	12	-	95
- Depreciation	3,396	3,282	7,030
- Share based payments	40	356	735
- Amounts claimed under the RDEC	(113)	(174)	(280)
- Finance income	(2)	(1)	(1)
- Finance costs	355	506	722
Total adjustments	5,208	5,627	11,657
Changes in working capital			
- Inventories	(3,294)	1,528	1,888
- Trade and other receivables	4,427	1,676	(2,655)
- Trade and other payables	(4,346)	219	1,252
Total changes in working capital	(3,213)	3,423	485
Cash generated from operating activities	3,216	9,720	16,822

Reconciliation of net cash flow to movements in net debt

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Increase / (decrease) in cash in the period	555	(3,969)	(10,979)
Drawdown of borrowings	(4,258)	-	-
Repayment of borrowings	1,678	5,635	16,140
Changes in net debt resulting from cash flows	(2,025)	1,666	5,161
New leases	(12)	(503)	(510)
Non cash movements	(261)	(8)	(393)
Translation differences	(447)	1,522	1,236
Movement in net debt in the period / year	(2,745)	2,677	5,494
Net debt at start of period	(9,243)	(14,737)	(14,737)
Net debt at end of period	(11,988)	(12,060)	(9,243)

Analysis of net debt

	At 1 Oct 2021 £'000	New leases £'000	Cash flow £'000	Exchange movement £'000	Non-cash movement £'000	At 31 Mar 2022 £'000
Cash at bank and in hand	8,352	-	555	44	-	8,951
Due within one year						
Debt	(65)	-	32	-	(33)	(66)
Lease liabilities	(1,588)	(4)	920	(18)	(795)	(1,485)
Due after one year						
Debt	(10,903)	-	(3,532)	(350)	(28)	(14,813)
Lease liabilities	(5,039)	(8)	-	(123)	595	(4,575)
Net debt	(9,243)	(12)	(2,025)	(447)	(261)	(11,988)

Notes to the Interim Report

1. BASIS OF PREPARATION

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

The Group remains significantly within its debt facility covenants and is forecasting to be cash generative in the second half of the financial year. These cash flow projections show that the Group has sufficient funding available to withstand plausible downside scenarios, and therefore the financial statements have been prepared on a going concern basis.

The Interim Report was approved by the Board of Directors and the Audit Committee on 7 June 2022. The Interim Report does not constitute statutory financial statements within the meaning of the Companies Act 2006 and has not been audited.

Comparative figures in the Interim Report for the year ended 30 September 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 comparative figures to 31 March 2021 are unaudited.

The Interim Report will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 7 June 2022. Copies will be available to members of the public upon application to the Company Secretary at Dowlish Ford, Ilminster, Somerset, TA19 0PF.

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

2. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2021.

3. FINANCIAL RISK MANAGEMENT

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at 30 September 2021. There have been no changes to the risk management policies since the year end.

4. SEGMENTAL ANALYSIS

For half year to 31 March 2022	Aerospace & Defence £'000	Life Sciences / Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	14,554	14,964	30,206	-	59,724
Inter and intra-division	(1,427)	(1,700)	(2,463)	-	(5,590)
External revenue	13,127	13,264	27,743	-	54,134
Divisional expenses	(14,603)	(10,569)	(22,937)	465	(47,644)
EBITDA[1]	(1,476)	2,695	4,806	465	6,490
EBITDA %	(11.2)%	20.3%	17.3%	-	12.0%
Depreciation and amortisation	(1,234)	(784)	(1,457)	(514)	(3,989)
Operating profit before amortisation of acquired intangible assets	(2,710)	1,911	3,349	(49)	2,501
Amortisation of acquired intangible assets	-	-	-	(927)	(927)
Operating profit	(2,710)	1,911	3,349	(976)	1,574
Operating profit margin %	(20.6)%	14.4%	12.1%	-	2.9%
Add back non-recurring items	469	188	788	927	2,372
Operating profit excluding non-recurring items	(2,241)	2,099	4,137	(49)	3,946
Adjusted operating profit margin %	(17.1)%	15.8%	14.9%	-	7.3%

4. SEGMENTAL ANALYSIS CONTINUED

For half year to 31 March 2021	Aerospace & Defence £'000	Life Sciences / Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	18,440	14,742	30,519	-	63,701
Inter and intra-division	-	(1,292)	(3,949)	-	(5,241)
External revenue	18,440	13,450	26,570	-	58,460
Divisional expenses	(18,466)	(10,694)	(23,618)	433	(52,345)
EBITDA[1]	**(26)**	**2,756**	**2,952**	**433**	**6,115**
EBITDA %	-	20.5%	11.1%	-	10.5%
Depreciation and amortisation	(1,284)	(652)	(1,199)	(714)	(3,849)
Operating profit before amortisation of acquired intangible assets	(1,310)	2,104	1,753	(281)	2,266
Amortisation of acquired intangible assets	-	-	-	(1,091)	(1,091)
Operating profit	**(1,310)**	**2,104**	**1,753**	**(1,372)**	**1,175**
Operating profit margin %	(7.1%)	15.6%	6.6%	-	2.0%
Add back non-recurring items	1,503	435	1,196	1,091	4,225
Operating profit excluding non-recurring items	193	2,539	2,949	(281)	5,400
Adjusted operating profit margin %	1.0%	18.9%	11.1%	-	9.2%

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

Analysis of revenue by destination

	Half year to 31 Mar 2022 (Unaudited) £'000	Half year to 31 Mar 2021 (Unaudited) £'000
United Kingdom	13,267	15,008
North and South America	19,224	23,093
Continental Europe	11,910	9,159
Asia-Pacific	9,733	11,200
	54,134	**58,460**

5. NON-RECURRING ITEMS

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Profit before tax	1,221	670	4,680
Amortisation of acquired intangible assets	927	1,091	2,081
Restructuring costs	1,445	3,134	5,860
Adjusted profit before tax	3,593	4,895	12,621

The restructuring costs in the period ended 31 March 2022 relate to non-recurring costs arising from our manufacturing streamlining activities, further detail of which is given in the Operating and Financial Review.

6. TAX EXPENSE

Analysis of tax charge in the period

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Current taxation			
UK Corporation tax	356	(105)	722
Overseas tax	(100)	(79)	292
Adjustments in respect of prior year tax charge	(250)	-	(807)
Total current tax	6	(184)	207
Deferred tax			
Origination and reversal of temporary differences	(118)	316	1
Adjustments in respect of prior years	(392)	-	549
Change to UK tax rate	-	-	519
Total deferred tax	(510)	316	1,069
Tax expense per income statement	(504)	132	1,276

The tax charge for the six months ended 31 March 2022 is based on the estimated effective rate of the tax for the Group for the full year to 30 September 2022. The estimated rate is applied to the profit before tax.

The adjusted effective tax rate is 17.8% (H1 2021: 19.6%).

7. EARNINGS PER SHARE

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

	Half Year to 31 Mar 2022 (Unaudited) No.	Half Year to 31 Mar 2021 (Unaudited) No.	Full Year to 30 Sep 2021 (Audited) No.
Number of shares used for basic earnings per share	25,040,919	25,040,919	25,040,919
Dilutive shares	127,937	195,624	239,603
Number of shares used for dilutive earnings per share	25,168,856	25,236,543	25,280,522

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

	Half Year to 31 Mar 2022 (Unaudited)		Half Year to 31 Mar 2021 (Unaudited)		Full Year to 30 Sep 2021 (Audited)	
	£'000	p per share	£'000	p per share	£'000	p per share
Basic earnings per share	1,725	6.9p	538	2.1p	3,404	13.6p
Adjustments net of income tax expense:						
Amortisation of acquired intangible assets	710	2.8p	877	3.5p	1,621	6.5p
Restructuring costs	1,193	4.8p	2,519	10.1p	4,709	18.8p
Adjustment to deferred tax on goodwill	(675)	(2.7p)	-	-	-	-
Restatement of UK deferred tax	-	-	-	-	519	2.1p
Total adjustments net of income tax expense	1,228	4.9p	3,396	13.6p	6,849	27.4p
Adjusted basic earnings per share	2,953	11.8p	3,934	15.7p	10,253	41.0p
Basic diluted earnings per share	1,725	6.9p	538	2.1p	3,404	13.5p
Adjusted diluted earnings per share	2,953	11.7p	3,934	15.6p	10,253	40.5p

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

8. DIVIDEND

The Directors have declared an interim dividend of 4.7p per share for the half year ended 31 March 2022 (2021: 4.5p).

	Half Year to 31 Mar 2022 (Unaudited) £'000	Half Year to 31 Mar 2021 (Unaudited) £'000	Full Year to 30 Sep 2021 (Audited) £'000
Final 2021 dividend paid in 2022: 7.7p per share	1,928	-	1,127
	1,928	-	1,127

9. BORROWINGS

	31 Mar 2022 £'000	31 Mar 2021 £'000	30 Sep 2021 £'000
Current:			
Bank borrowings	66	64	65
Leases	1,485	1,647	1,588
	1,551	1,711	1,653
Non-current:			
Bank borrowings	14,813	19,951	10,903
Leases	4,575	5,684	5,039
	19,388	25,635	15,942
Total borrowings	20,939	27,346	17,595

G&H's primary lending bank is NatWest Bank. The Group's facilities comprise a $40m (£30.4m) dollar revolving credit facility and a $30m (£22.8m) flexible acquisition facility. At 31 March 2022, the balance drawn on the revolving credit facility was $19.6m (£14.9m) (September 2021: $14.8m (£11.0m)) and on the flexible acquisition facility nil (September 2021: nil).

The facilities above are committed until 31 March 2027 and attract an interest rate of between 1.6% and 2.1% above rates specified by the bank dependent upon the Company's leverage ratio, payable on rollover dates.

9. BORROWINGS CONTINUED

The Group's banking facilities are secured on certain of its assets including land and buildings, property plant and equipment and inventory.

Maturity profile of bank borrowings

	31 Mar 2022 £'000	31 Mar 2021 £'000	30 Sep 2021 £'000
Within one year	66	64	65
Between one and five years	14,813	19,951	10,903
	14,879	20,015	10,968

Maturity profile of lease liabilities

	31 Mar 2022 £'000	31 Mar 2021 £'000	30 Sep 2021 £'000
Within one year	1,697	1,921	1,819
Between one and five years	3,605	4,616	4,081
After five years	1,505	1,729	1,544
	6,807	8,266	7,444

10. CALLED UP SHARE CAPITAL

	31 Mar 2022 No.	30 Sep 2021 No.	31 Mar 2022 £'000	30 Sep 2021 £'000
Allotted, issued and fully paid				
Ordinary share of 20p each	25,040,919	25,040,919	5,008	5,008

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