

Gooch & Housego PLC

Preliminary Results for
Year ended 30th September 2010



Chairman: Dr Julian Blogh **CEO:** Gareth Jones **CFO:** Andrew Boteler

November 2010

Company Overview

- Headquartered in the UK, but with a strong US presence, Gooch & Housego is a leader in many of the fields in which it operates.
- Gooch & Housego has a unique range of photonics capabilities encompassing precision optics, crystal optics, thin-film coatings, acousto-optics, electro-optics and fibre optics.
- By adding opto-mechanical, electronic and software engineering Gooch & Housego is able to provide its customers with integrated solutions.
- In markets where the trend is for the main players to become systems integrators these capabilities make Gooch & Housego a partner of choice.

Headcount: 459

Global locations

6 manufacturing facilities (4 US, 2 UK)
2 R&D centres
4 Sales Offices

Geographical revenues:

	2010	2009
US	50%	60%
Asia Pacific	20%	13%
Europe	30%	27%

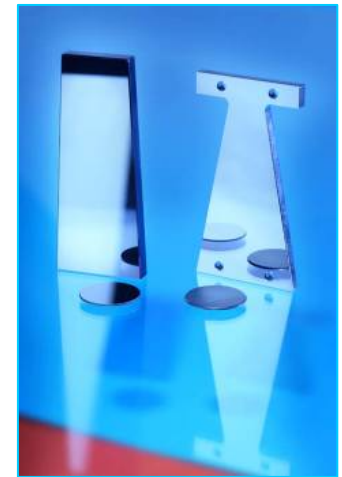
86% of sales outside the UK

Revenue by currency:

USD	72%
GBP	21%
Euro	7%

Highlights of 2010

- Revenue up by 23% to £44.7 million
- Strong recovery in core Industrial market, up by 37%
- Combined Aerospace & Defence and Life Sciences sectors grew by 17%
- Normalised profit before tax increased by 94% to £6.0 million
- Net debt reduced by 58% to £5.2 million
- Order book grew by 55% to a record £23.5 million at the year end
- Proposed final dividend of 2.0p per share



Overcoming the Challenges

Increasing output to meet unprecedented levels of demand was the greatest challenge in 2010. This was achieved, and our customers' needs met, by increasing manufacturing capacity and introducing innovative solutions that changed the way we do business.

People

- ➔ headcount increased by 42 (10%)
- ➔ primarily in manufacturing
- ➔ new management skills introduced

Manufacturing equipment

- ➔ modest increase in capex

Supply-chain

- ➔ outsourcing = flexibility and cost reduction

Contract manufacturing

- ➔ outsourced electronics manufacturing
- ➔ headcount reduced by 16 (4%)

Strategic partnerships

- ➔ access to materials and technology

Market Trends

Industrial

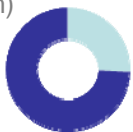
- Strong recovery (sales up 37%)
- Consumer led
- Mobile phones and computing driving demand
- Sharp upturn in semicon and microelectronics sector
- China is the “engine room” of growth
- All geographical markets benefiting
- Record demand for Q-switches

Life Sciences

- Similar trends to aerospace & defence
- Optical techniques for diagnostics and surgery
- G&H helping customers to: -
 - improve performance
 - reduce costs
 - get products to market quickly
- Significant opportunities in diagnostics

Aerospace & Defence
2010 revenue : £11.3m
(2009 : £10.5m)

+8% growth



25% of group revenues

	%FY 10A revenue	%FY 09A revenue	%FY 08A revenue
Industrial	52%	47%	77%
Research	12%	15%	13%
Life Sciences	11%	9%	4%
Aerospace & Defence	25%	29%	6%

Life Sciences
2010 revenue : £4.9m
(2009 : £3.4m)

+42% growth



11% of group revenues

Aerospace & Defence

- Rapid adoption of photonics technology
- Upgrades to existing platforms
- Defence primes becoming systems integrators
- Outsourcing of sub-assemblies
- G&H provides capability in a fragmented market

Scientific Research

- Less fluctuation in demand than other sectors
- Current projects reaching maturity
- Next generation systems at conceptual design stage
- Significant medium-term opportunities

Financial Highlights

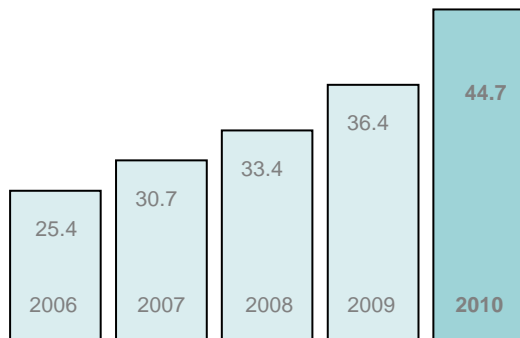
For the year ended 30 September 2010

Revenue £m

+23%

£44.7m

(2009: £36.4m)

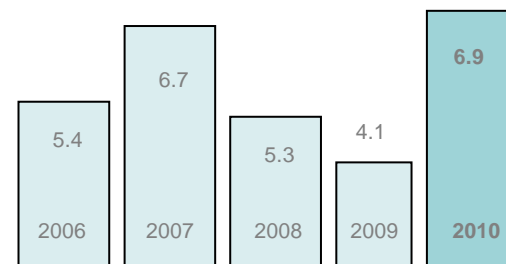


Headline operating profit £m

+66%

£6.9m

(2009: £4.1m)

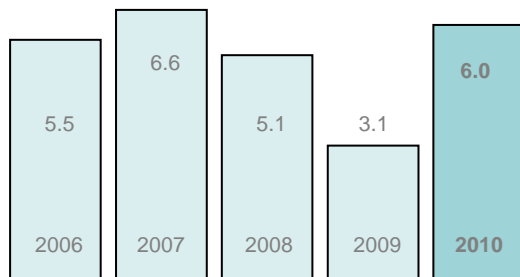


Headline profit before tax

+94%

£6.0m

(2009: £3.1m)

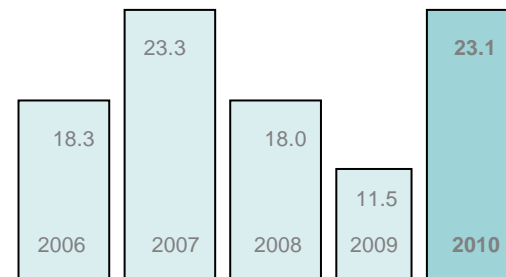


Headline earnings per share (pence)

+101%

23.1p

(2009: 11.5p)



The term "headline" is used to illustrate the impact of eliminating non-recurring and non trading items on the Groups results. These items are the amortisation of acquired intangible assets, the recognition of deferred tax assets and in 2009, one off costs associated with the Group's restructuring activities and the sale of property.

At a glance KPI's

For the year ended 30 September 2010 unless otherwise stated.

<p>Revenue growth Growth in total revenue compared to prior period.</p> <p>£44.7m +23% (2009: £36.4m)</p>	<p>Profit growth Growth in headline profit before tax compared to prior period.</p> <p>£6.0m +94% (2009: £3.1m)</p>
<p>New business growth Growth in revenue in Aerospace & Defence, Life Sciences Markets</p> <p>£16.2m +17% (2009: £13.9m)</p>	<p>Order book visibility Order cover for next financial year, compared to prior period</p> <p>£22.4m +74% (2009: £12.9m)</p>
<p>EPS growth Annual growth in headline earnings per share compared to prior period.</p> <p>23.1p +101% (2009: 11.5p)</p>	<p>Cash conversion Cash from operating activities, as a percentage of headline profit from operations, compared to prior period.</p> <p>£10.1m giving a cash conversion of 171% (2009: £7.9m giving a cash conversion of 285%)</p>
<p>Interest cover The ratio of headline profit from operations to finance costs.</p> <p>8.2 times +105% (2009: 4.0 times)</p>	<p>Net debt Gross debt associated with working capital facility and acquisition loans less cash on hand.</p> <p>£5.2m -58% (2009: £12.1m)</p>

Year to 30 September	2010 £'000	% Change	2009 £'000
Revenue	44,683	23%	36,414
Gross profit	18,691	42%	13,209
Operating expenses	(11,828)	27%	(9,330)
Operating profit before amortisation of acquired intangible assets	6,863	77%	3,879
Acquired intangible assets amortisation	(934)	(15%)	(1,095)
Operating profit	5,929	113%	2,784
Operating profit margin %	13.3%		7.6%
Net finance costs	(833)	(54%)	(1,361)
Profit before income tax	5,096	n/a	1,423
Income tax expense	(405)	n/a	(463)
Profit for the period	4,691	n/a	960
Basic earnings per share	24.4p	n/a	5.0p

Key Points

- Normalised profit before tax £6.0m compared to £3.1 in 2009.
- Reported profit after tax of £4.7m compared to £1.0m for the same period in 2009
- Basic earnings per share of 24.4p per share (2009: 5.0p)
- Revenue for the year increased by £8.3m, or 23% over the corresponding period last year.
- Currency impact was neutral and all growth has been achieved organically.
- Gross margin has improved to 41.8% (2009: 36.3%).
- Administration costs increased by £1.3m.
- Adjusted interest cover 8.2 times (2009 : 4.0 times)
- Effective tax charge of 8% (2009: 32.5%).
- Proposed final dividend of 2.0p per share

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES	Profit from operations		Net finance costs		Taxation		Earnings per share	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 pence	2009 pence
Reported	5,929	2,784	(833)	(1,361)	(405)	(463)	24.4p	5.0p
Amortisation of acquired intangible assets	934	1,095	-	-	-	-	4.5p	3.5p
Recognition of deferred tax asset	-	-	-	-	(1,124)	-	(5.8p)	-
Restructuring & redundancy costs	-	603	-	-	-	-	-	3.1p
Profit from sale of properties	-	(337)	-	-	-	-	-	(1.8p)
Costs associated with debt re-financing	-	-	-	330	-	-	-	1.7p
Adjusted	6,863	4,145	(833)	(1,031)	(1,529)	(463)	23.1p	11.5p

Key Points

- Adjusted profit from operations for the period amounted to £6.9m, compared to £4.1m in 2009, reflecting, largely, the strong demand from the semiconductor and microelectronics markets, that form part of our industrial business segment, together with the full benefit of the cost savings made in 2009.
- The net tax charge for the period was £0.4m (2009: £0.5m), representing an effective tax rate of 8% (2009: 32.5%). The reduction in the reported effective rate is due to the recognition of deferred tax assets in respect of unutilised tax losses and share options. On a normalised basis the effective tax rate would be 30%.
- Adjusted earnings per share for the year to 30 September 2010 was 23.1p (2009 : 11.5p) and increase of 101%

Year to 30 September	2010 £,000	2009 £'000
Cash flows from operating activities	8,835	7,706
Cash flows from investing activities		
Acquisition of subsidiary	-	(12,437)
Purchase of property, plant and equipment	(873)	(696)
Sale of property, plant and equipment	7	463
Other	(79)	(480)
	(945)	(13,150)
Cash flows from financing activities		
Proceeds from borrowings	-	12,168
Repayment of borrowings	(2,409)	(2,554)
Interest paid	(750)	(912)
Dividends paid to ordinary shareholders	-	-
	(3,159)	8,702
Net increase / (decrease) in cash, cash equivalents and overdrafts	4,731	3,258
Exchange losses	(72)	(174)
Increase / (decrease) in cash, cash equivalents and overdrafts	4,659	3,084

Key Points

- Despite funding the rapid growth of our business, the business has achieved excellent cash flow.

- Positive cash position of £5.7m (2009: £1.1m).

- Net operating cash flow of £8.8m (2009: £7.7m).

- Operating cash flows 171% of operating profit (2009: 285%).

- Working capital has remained carefully managed in a time of rapid expansion.

Balance Sheet

		2010 £,000	2009 £'000
Non- current assets	Tangible assets	15,783	16,634
	Intangible assets	15,291	16,858
	Other	2,949	1,421
Total		34,023	34,913
Current assets	Inventories	7,281	6,691
	Trade & other receivables	7,595	6,296
	Cash & cash equivalents	8,285	6,714
	Other	168	345
Total		23,329	20,046
Current liabilities	Trade & other creditors	(6,912)	(4,184)
	Borrowings	(4,981)	(8,071)
	Other	(369)	(428)
Total		(12,262)	(12,683)
Non current liabilities	Borrowings	(8,545)	(10,751)
	Other	(878)	(727)
Total		(9,423)	(11,478)
Net assets		35,667	30,798
Shareholders equity		35,667	30,798

Key Points

Net assets increased by 16% through organic growth.

Net debt reduced by 58% to £5.2m.

Gross borrowings reduced by 28% to £13.5m

Borrowings 38% of net assets.

Working capital £8.0m (2009: £8.8m)

US\$ acquisition loan

Principal \$15.88m

Term – three and a half years commencing 7 October 2008

Repayable by :

One instalment of \$575k

Five half yearly instalments of \$1.7m

Final instalment of \$6.8m

Interest rate at margin of 3% over US LIBOR

Current balance \$11.5m

Working capital facility

Total facility available \$10m

Term - committed for 3 years from 7 October 2008

Interest margin at a rate of 2% over UK base

Currently \$4m drawn down

Sterling acquisition loan

Principal £3.56m

Term - three and a half years commencing 7 October 2008

Repayable by :

Six half yearly instalments of £119k

Final instalment of £2.85m

Interest rate at a margin of 2.5% over UK LIBOR

Current balance £3.1m

Banking covenants

Tested under the following conditions :

- Adjusted net cash flow to total borrowings paid
- Adjusted net debt to EBITDA
- EBITA to borrowing costs
- Capital expenditure

Reported under covenants since January 2009 and have been in compliance throughout.

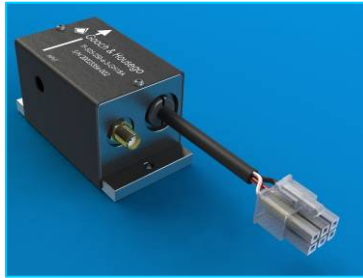
Appropriate headroom to operate within covenants

Strategy

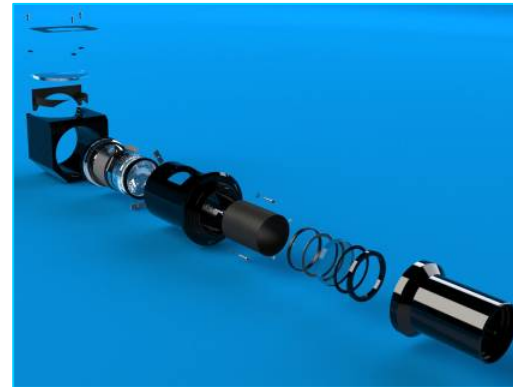
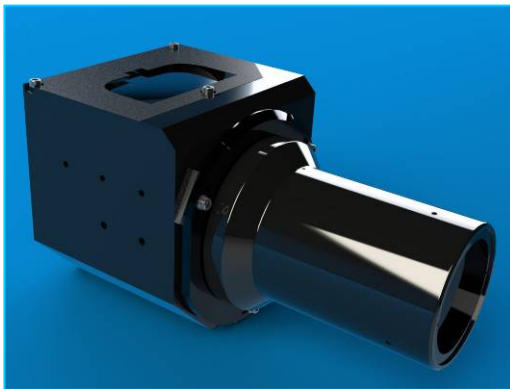
- Gooch & Housego will continue to pursue a strategy of diversification, targeting specific market sectors where optical technologies are being rapidly adopted
- Through internal R&D we will develop new, higher added-value products via the integration of optical technologies with electronics and software to create sub-assemblies and systems
- Consolidation opportunities exist in the fragmented photonics market
- Gooch & Housego has an established track record of acquiring world-class optics businesses
- Acquisitions are not needed to deliver continued growth, but.....
 - Appropriate bolt-on acquisitions may enable strategic objectives to be achieved more quickly
 - A number of potential targets have been actively considered in recent years
 - A couple of these targets are currently being prepared for sale

Outlook

- Demand in the Industrial sector is still rising
- There is considerable scope for growth in Aerospace & Defence and Life Sciences
- Customer forecasts are upbeat despite economic uncertainties in the US and Europe
- The order book is continuing to rise
- The trend to move up the value-chain looks set to continue
- Increasing output and reducing lead times will continue to be priorities for 2011
- The initiative to develop our supply-chain is ongoing
- Bolt on acquisitions will be carefully considered as a further route to growth



Appendices



Market Overview

In recent years G&H has successfully pursued a strategy of diversification, aimed at adding new **large** and **high-growth** markets whilst retaining a dominant position in its traditional industrial laser sector.

G&H is a niche provider of low volume, high value optoelectronic materials, components & systems

Our strategy is to be the leading or dominant player in the markets in which we operate

Market Sector: Industrial

Applications: *Semiconductor & microelectronics
General manufacturing using lasers e.g. automotive, consumer goods ...
Telecommunications*

Market Sector: Research

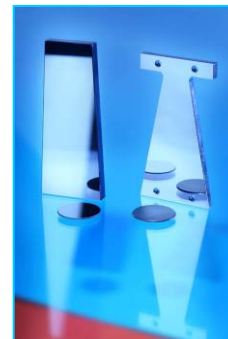
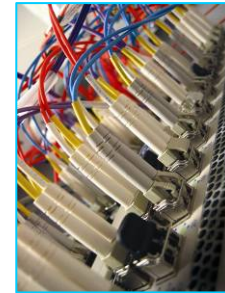
Applications: *Government funded 'big science' projects (NIF, synchrotron etc)
Universities*

Market Sector: Biomedical & Life Sciences

Applications: *Surgery
Diagnostics*

Market Sector: Aerospace & Defence

Applications: *Civil and military aircraft
Space
Sensors for security and surveillance
Weapons systems*



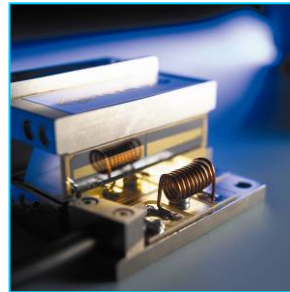
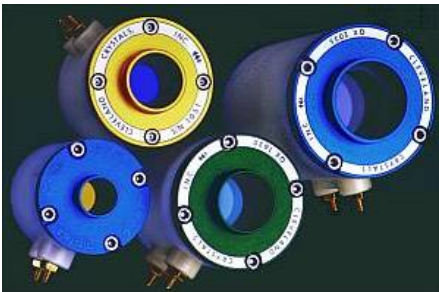
Capabilities

Uniquely broad portfolio of truly world-class capabilities and technologies:

- Ultra Precision Optical components
- Optical coatings – capable of operating in the worlds most powerful laser systems
- Fibre optics – for the aerospace, biomedical, laser and telecoms applications
- Acousto optics – for laser switching, sensors and imaging
- Electro optics – for laser switching
- Optical crystals – for acousto optic, electro optic and non linear optical applications
- Light measurement instrumentation – radiometric and spectroscopic instruments
- Hyperspectral imaging systems – for biomedical, industrial and defence applications

AND

The ability to integrate an and all of the above, to provide our customers with a one-stop solution to all their optical needs



Product examples

Product: Acousto-optics Q-SWITCH

Used in: Industrial, medical & defence laser systems
Applications: Laser materials processing (marking, welding, drilling, cutting..); laser surgery; countermeasures
Status: Market leader

Product: Electro-optics Q-switch POCKELS CELL

Used in: Research & industrial laser systems
Applications: Materials science, materials processing
Status: Market leader

Product: Super Polished Mirrors

Used in: Ring Laser Gyroscopes, high energy laser systems, synchrotron radiation sources
Applications: Guidance & navigation systems, directed energy (laser) weapons, fundamental research
Status: Market leader

Product: Ultra-High Reliability Fibre-optic Components

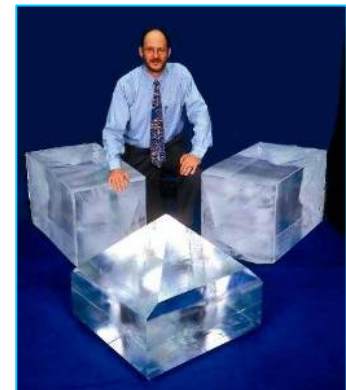
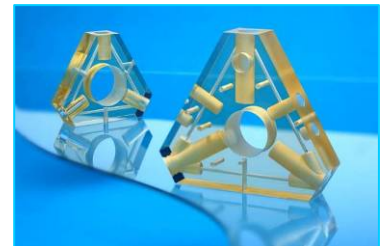
Used in: Telecoms, aerospace, space & Hi Rel
Applications: Undersea telecoms links (e.g. trans-Pacific, trans-Atlantic); aircraft control & data systems
Status: Market leader

Product: Ultra-Large optical crystals

Used in: World's most powerful lasers
Applications: Nuclear fusion research aimed at future fusion energy provision (clean, carbon free etc)
Status: Market leader (sole supplier)

Product: Optoelectronic systems (comprising optics, mechanics, electronics & software)

Used in: Biomedical, aerospace, satellite, & defence systems
Applications: Ophthalmology , laser rangefinders and target designators, countermeasures
Status: Unique ability to combine in house components to meet customer need for integrated solutions.



SHAREHOLDER	HOLDING AS AT 15/11/2010	% HOLDING
Gooch & Virgin Family Holding	4,068,459	21.12%
BlackRock Investment Management	2,164,169	11.23%
Rensburg Sheppard Investment Management	984,247	5.11%
Scottish Widows	838,281	4.35%
Standard Life Investments	819,394	4.25%
Schroder Investment Management	586,400	3.04%
Total of shareholdings over 3%	9,460,950	49.10%
Other holdings	9,803,410	50.9%
Total Share capital	19,264,360	