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**MELLES GRIOT**

**Analysts' Visit - June 21st 2004**



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## Business Definition

Melles Griot designs, manufactures, sources, distributes and services photonics related components and subsystems. We offer flexible solutions to the global marketplace that serve to create light, control its efficient use, and reliably hold or position photonics devices. We serve Original Equipment Manufacturers, Institutional Research, Product Development, and Capital Equipment applications.

*The Practical Application of Light*

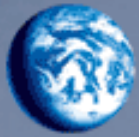
[www.mellesgriot.com](http://www.mellesgriot.com)



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## Elements of Our Vision

- Provide employees with clear purpose and direction, an inspiring climate, clear objectives and structured team forums to achieve two-way communications
- Be a leading supplier of *Enabling Component Technologies* that serve our defined market space
- Supply, in partnership with our customers, a continuing stream of high quality, next-level technology solutions for OEM users
- Streamlined & efficient business structures and processes to result in SG&A / margin advantages over our competitive peer group - Improving CFROI > Cost of Capital over cycle
- Focused investment (Capex, R&D, human capital) on 3 core businesses
  - (1) Lasers    (2) OEM Optics    (3) Catalog Distribution

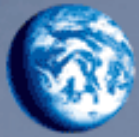


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## At A Glance

Percent of FY03 revenue

<b>Business Segments</b>	OEM	78%
	Institutional	19%
	Capital Equipment	3%
<b>Global Footprint</b>	North America	50%
	Europe	30%
	Asia	20%
<b>Primary Markets</b>	Microelectronics	27%
	Photonics	26%
	Metrology	20%
	Biotech	17%
	Other	10%
<b>Customer Profile</b>	Top 10	18%
	Top 50	38%
	Top 250	67%

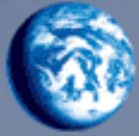


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## Applications Served

- Semiconductor Equipment/Microelectronics
  - Printed circuit board inspection
  - Memory repair
  - Inspection; patterned wafers, flat panel displays
  - Photomask alignment and inspection
- Photonics
  - Distributors and competitors
  - Manufacturing (rapid prototyping)
- Metrology
  - Spectroscopy including FTIR, Raman
  - Particle analysis, precision alignment
- Biotechnology
  - Ophthalmology
  - Genomics
  - Confocal microscopy
  - Cytometry





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## Summary Business Drivers

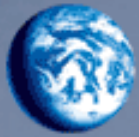
- Semiconductor capital equipment business cycles
  - Driven by chip demand – ultimately consumer spending, confidence
  - Currently strong demand in Flat Panel Displays and Digital Imaging
- Biotech spending
  - Driven by government agency spending, tax environment (R&D)
- Research spending
  - Driven by government funding, defence spending, university funding
- Retention / attraction of skilled labour
- New products / technology – differentiation, leverage
  - As a result of R&D activity & by adding third party products to the portfolio
- Ongoing Capex
- Competitive positioning -- M&A activity, cost drivers, economies of scale, customer v.i. vs outsourcing
- Supply chain issues – competitors as suppliers, off-shore sourcing



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## Elements of Strategic Plan

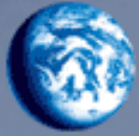
- Increasingly focus on core businesses
  - Lasers; established customer base
  - Optics; generally high margins in specialty areas
  - Components Distribution; few competitors focused on this space
- SG&A management – streamlined business structures and single management hierarchy in all areas
- Adding value by delivering the ‘next technology’ to customer partners
  - Solid state lasers to replace gas lasers
  - Deep UV optics to replace UV optics
- Possible expansion into low-end materials processing
  - Laser solutions
  - Significant market potential, but requires technology development (or acquisition) and service / support structures



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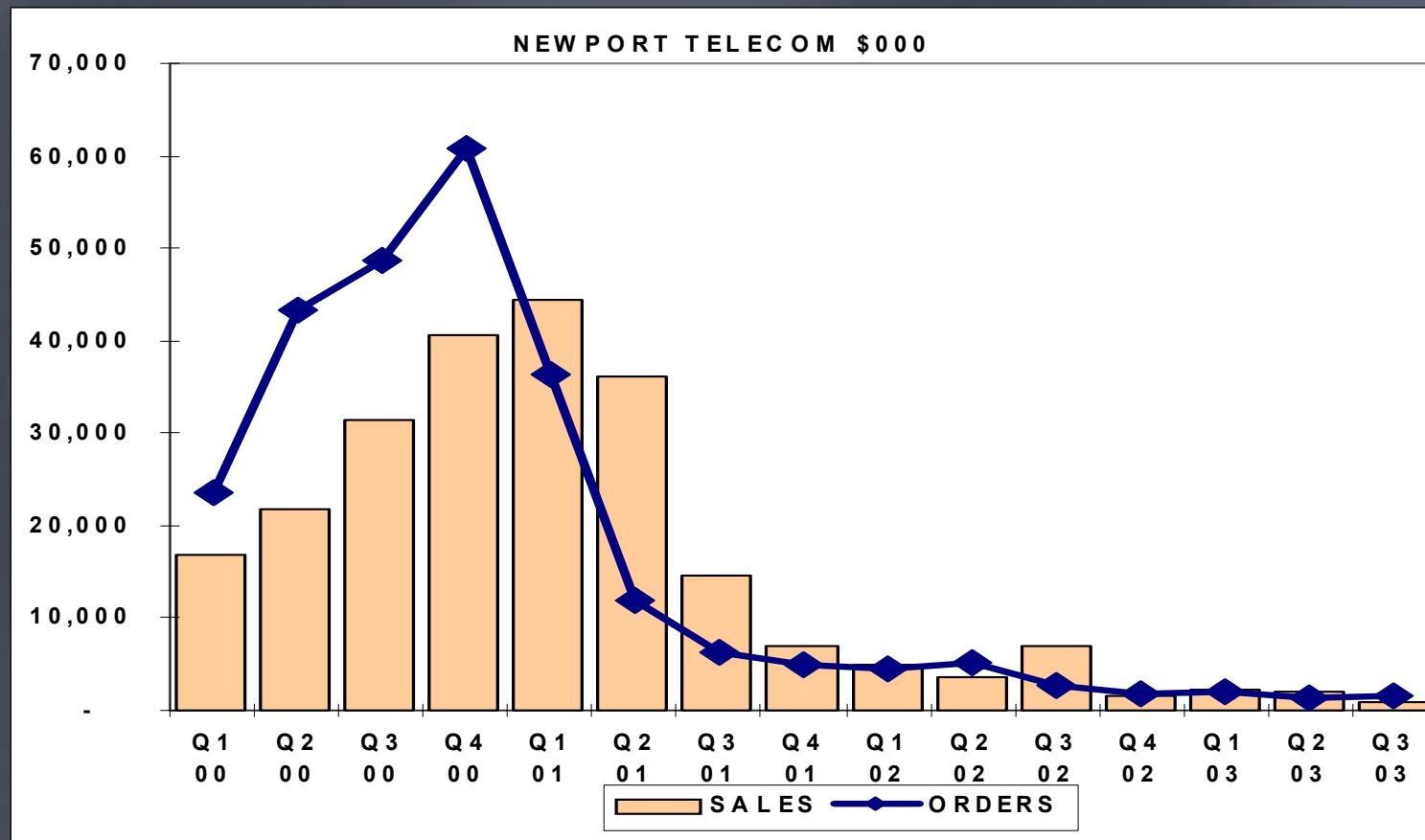
## Impact of Downturn

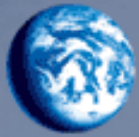
- Some volatility/immaturity in previous cycles...
- ...severe downturn in telecoms & semicon from H2 2001
  - Primacy of margin management/cost recovery equation
  - Headcount reduced by a third - several RIFs...but no legal issues
  - Salaries frozen Oct 01-03, several mandated factory shutdowns
  - OEM optics consolidation (Photonics/Rochester)
  - Exited offices in Bay Area, downsized in CO, Sweden
- Capital spend kept at depreciation levels during downturn
- R&D maintained at 5%-6% sales - long term product viability
- Working capital reduced by 32% - June 01 to Sept 03
- Trading cash positive - \$8.2m over 2 years to September 03
- SG&A cost base reduced by 30% over same period
- “Less worse” performance than peer group on many metrics



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## Telecom - Down & Out





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## Disposal of UK Telecoms Facility

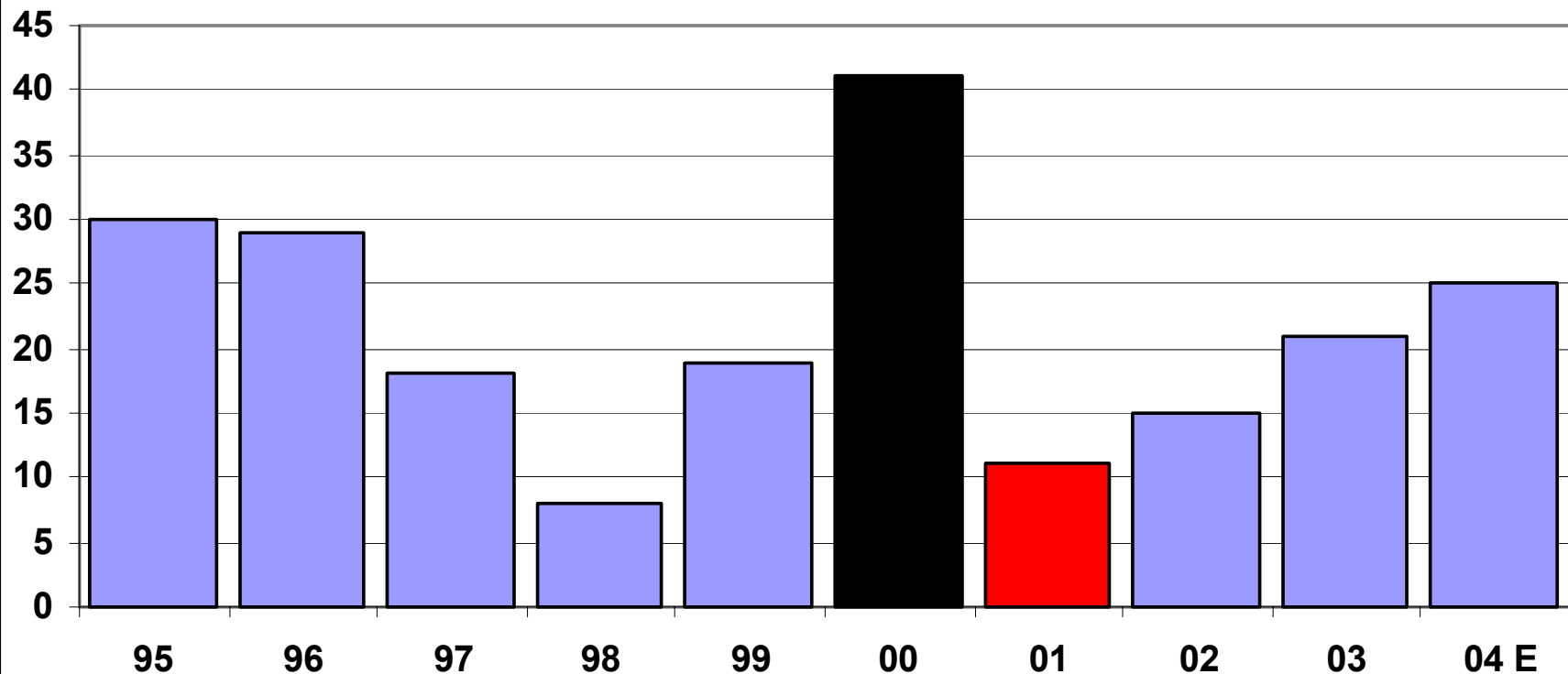
- Telecom served by nanopositioning, optics - Fibre alignment
  - Driver - growth in bandwidth & manufacturers' need to automate
- Over-investment then crash & burn from Q3 01
  - re-sold equipment (@12c/\$) distorted research market
- Unlit fibre/financial restructuring delayed recovery - 2006?
- MG Ltd factory - loss run rate \$1.8m p.a.
  - closure cost c \$3.3m plus max \$4m lease exposure
- Sold for cash 31 March 04 ~ asset value (Terms confidential)
  - Buyer - Thorlabs Inc (privately held in NJ, \$45m sales 02)
  - Assumed lease liability/employees: distribution agreement
- Excellent deal for stakeholders



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# Recovery in Semiconductor/Microelectronics

**COST OF NEW FABs BEGINNING CONSTRUCTION \$BN**



Source - Semicon Intl Jan 2004



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## Semiconductor/Microelectronics

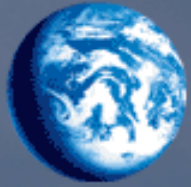
- Rising optical sales from Rochester facility
- Added “next wave” DUV capability during downturn
- Trend to outsource - scarce engineering skills lost in last downturn
  - Opportunity for MG design and production of “optical engines”
- Accept & manage cycles
  - Move of OEM optics to provide diversification at Rochester facility
  - Optics group partner - Tamagawa



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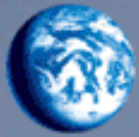
## Trading Summary

- Sales P1-8 are +17% on FY03
  - Market share in Ion, DPSS
- Order intake running at 111% sales
- Profits in 5 of last 6 months
- Signs of a general Industry recovery - Mar 04 peer analysis
  - All companies show solid sequential/year on year growth
  - Where stated, book-to-bills are > 1
  - Industry is still well shy of “record” levels
  - Margins firming up
  - Swing back into profit at Cohr, MG, GSLI
- Industry consolidation
- Light at end of tunnel - solid prospects for continued recovery



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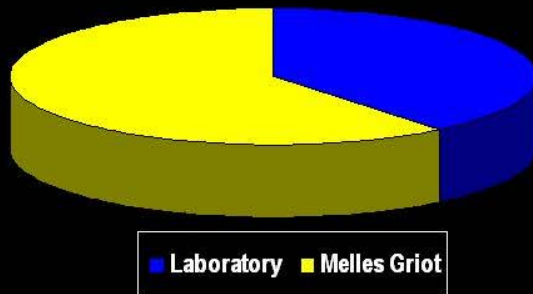
# **EXECUTIVE SUMMARY**



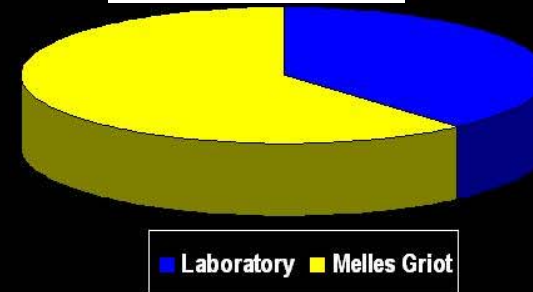
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## Barloworld Scientific Turnover

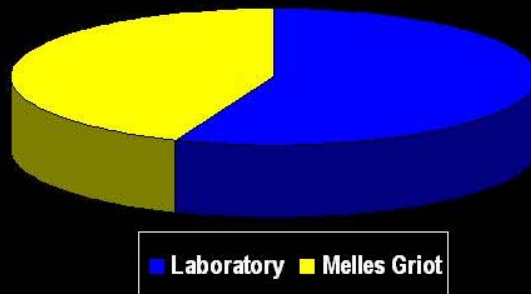
2000 - £143M



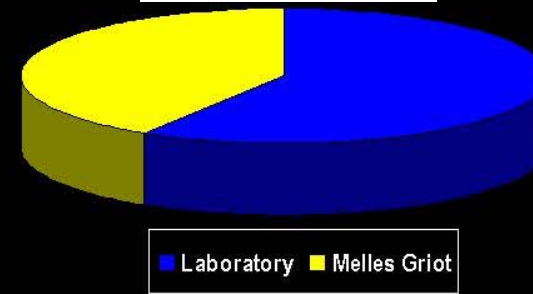
2001 - £161M

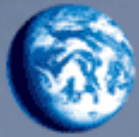


2002 - £148M



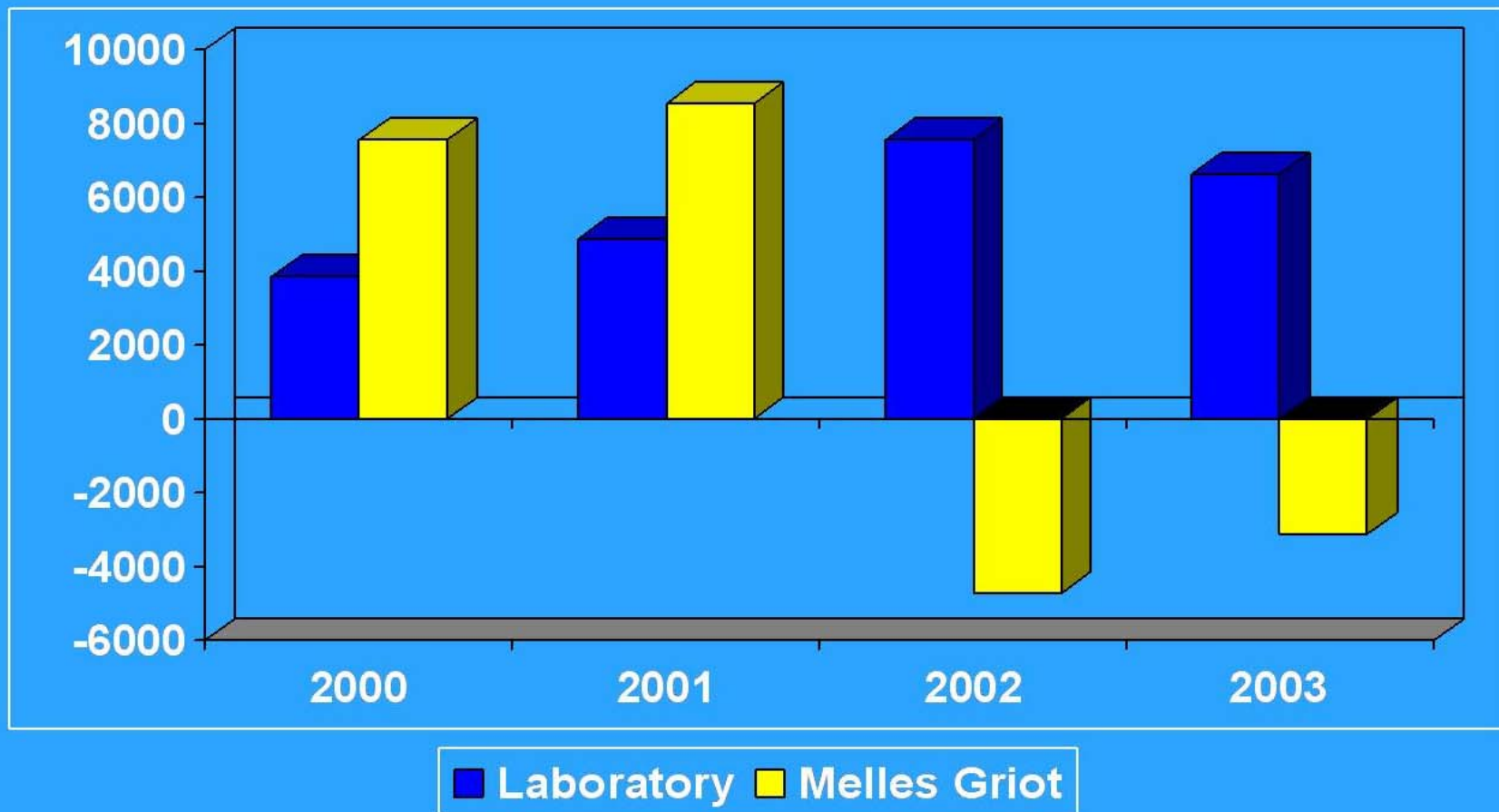
2003 - £139M

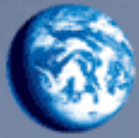




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## Barloworld Scientific Operating Profit - £000's





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## Executive Summary

- Sustained recovery through H2
- Cyclical upturn in Melles Griot
- Laboratory back on course after anomalous Q1
- Improved exit rate should ensure good progress in 2005
- Melles Griot profitable throughout the full year and with strengthening demand
- Laboratory : steady as we grow
- Selective Laboratory acquisitions back on the agenda as returns exceed COC