SOLID STATE PLC

2 July 2019

Solid State plc
("Solid State", the "Company" or the "Group")
Final Results for the year ended 31 March 2019

Solid State plc (AIM: SOLI), the AIM listed manufacturer of computing, power and communications products, and value added distributor of electronic components, is pleased to announce its Final Results for the year ended 31 March 2019.

Highlights in the period include:

Financial:

	2019	**2018**	**Change****
Revenue	£56.3m	£46.3m	+22%
Adjusted profit before tax*	£3.5m	£3.0m	+18%
Reported profit after tax	£2.7m	£2.2m	+19%
Adjusted diluted earnings per share	35.9p	30.9p	+16%
Gross profit margin	29.1%	27.5%	+154bps
Adjusted operating margin	6.5%	6.6%	-7bps
Dividends	12.5p	12p	+4%

*Profit before tax adjusted for acquisition and re-organisation costs, amortisation of acquisition intangibles, share based payments, non-recurring tax credits and the associated tax effect of the other adjustments.
** Calculated based on the reported figures in £'000 in the primary statements rather than the figures in £'m.

Operational:

- Acquisition of Pacer Group, taking the Group into the complementary opto-electronics market;
- Delivered significant increase in sales, with the Value Added Distribution ('VAD') division delivering close to 25% organic growth;
- Re-focusing the Manufacturing division, to concentrate on higher 'added value' business, which has translated into a richer mix of business with better gross margins;
- New value added facility in Weymouth, facilitating the growth of higher margin products and services; and,
- Continued investment in medium term research and development to deliver increased higher margin services and manufacturing solutions such as battery packs for robotics and new security accredited computing products.

Post period end:

- Extension of Microchip franchise; and,
- Appointment of Nigel Rogers as independent Non-Executive Director.

Commenting on the results and prospects, Tony Frere, Chairman of Solid State said:

"The financial year ended 31 March 2019 has seen the Group deliver its best ever performance in terms of both revenue and profit from the core business and make significant progress against its strategic objectives.

"Our strategy is to deliver growth both organically and through acquisition. These results illustrate our success in both aspects, and our continued commitment to deliver on this strategy and our aspiration to double the size of the business.

"The Group open order book at 31 May 2019 was up 56% on the prior year at £35.9m. The acquisition of Pacer has been a large contributor, however like for like, the proforma open order book was still up 20%. This gives the Board confidence that the Group remains on track to deliver in-line with our expectations."

Capital Markets Lunch:

A presentation of the results and an update on prospects will be held on Monday 8 July 2019 in the City. Those keen to attend should contact Tom Cooper on tom.cooper@walbrookpr.com or 0797 122 1972.

Investor Site Visits:

Solid State conducts site visits for investors at its Redditch head office where operations for both the value added distribution and manufacturing operations can be seen. Those interested in attending should contact Tom Cooper on tom.cooper@walbrookpr.com or 0797 122 1972.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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Notes to Editors:

Solid State plc (SOLI) is a value added electronics group supplying industrial and military markets with ruggedised/durable components, assemblies and manufactured units for use in harsh environments. The Group's mantra is – 'Trusted technology for demanding applications'.

Operating through two main divisions: Manufacturing (Steatite) and Value Added Distribution (Solid State Supplies & Pacer); the Group specialises in complex engineering challenges often requiring design-in support and component sourcing for computing, power, communications, electronic and optoelectronic products.

Headquartered in Redditch, Solid State employs over 200 staff across the UK with a branch office in the USA, serving specialist markets in oil & gas production, transportation, medical, construction, security, military and field maintenance.

Solid State was established in 1971 and admitted to AIM in June 1996. The Group has grown organically and by acquisition – having made 10 acquisitions.

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CHAIRMAN'S STATEMENT

Overview of the year

The financial year ended 31 March 2019 has seen the Group deliver its best ever performance in terms of both revenue and profit from the core business and make significant progress against its strategic objectives. Our strategy is to deliver growth both organically and through acquisition. These results illustrate our continued commitment to deliver on this strategy.

In addition to the acquisition in November 2018 of Pacer Technologies Limited ('Pacer'), the holding company for the Pacer Group of companies, our Value Added Distribution ('VAD') division contributed record organic growth in revenues and profits. This complemented the significant improvements seen in the Manufacturing division's operating margins, which have been delivered by refocusing into three key business units and concentrating on adding value to the products and services offered. The business units are aligned with their customers and markets and serviced by centres of excellence in the respective physical locations. This progress against our strategy sets the foundations for the future growth of the Group.

Achievements in 2018/2019

Notable achievements in 2018/2019 to advance our strategy included:

- delivering significant increase in sales, with the Value Added Distribution division delivering close to 25% organic growth;
- successful completion of acquisition of the Pacer Group of companies taking the Group into the opto-electronics market, which is complementary to our existing product offering, enabling the enlarged Group to provide a more complete service to our customers in our diverse markets;
- re-focusing the Manufacturing division, to concentrate on higher 'added value' business, which has translated into a richer mix of business with better gross margins;
- new value added facility in Weymouth, facilitating the growth of higher margin products and services. Development of our value-added service offering and customer qualifications will support our margins going forward;
- continued investment in medium term research and development to deliver increased value-added services and manufacturing solutions such as battery packs for robotics and new security accredited computing products.

The Chief Executive's strategic report provides further details on these achievements and the progress we have made in executing our strategy.

Financial overview

Group revenue from continuing operations of £56.3m was up 22% on the prior year (2018: £46.3m). Our VAD division has gained market share, delivering 25% organic revenue growth over the prior year. As reported at the half year, Manufacturing revenues are marginally down on the prior year at £25.9m (2018: £26.6m), however, the focus on delivering higher value added activity has meant that the volume shortfall has been more than mitigated at a gross margin and PBT level with a 16% improvement in the gross margin to 35.6% (2018: 30.6%).

The Group achieved a gross margin of 29.1% in the year compared to 27.5% in 2018. This improvement reflects the impact of the changing mix of sales in the Manufacturing division, with a greater proportion of high value added projects more than offsetting the dilutive impact of the increased share of VAD revenues.

During the year we have continued to invest significantly in development activity within both the new value added services facility in Weymouth, following the acquisition of Pacer, and in the Manufacturing division capabilities. This has resulted in a strengthening mix of higher value added activity in the year and a strong open order book. We expect this will provide commercial opportunities for the Group in the coming financial year and beyond.

The reported and adjusted profit after tax reflect a record year at £2.7m (2018: £2.2m) and £3.1m (2018: £2.7m) respectively. This translates into fully diluted reported earnings per share from continuing operations and adjusted earnings per share from continuing operations of 30.7p (2018: 26.0p) and 35.9p (2018: 30.9p) respectively.

The Group balance sheet has continued to strengthen and shows net assets of £19.9m (2018: £18.0m) with net debt of £2.0m (2018: net cash £0.6m). Given that we took on £6m of term debt to fund the Pacer acquisition and the expansion of our value added capabilities during the year, we are very pleased with the cash generation in the last quarter of the year. Our underlying operating cash conversion for the year was 109% (2018: 122%) and reported operating cash conversion was 168% (2018: 54%).

As reported previously, we have continued to make strategic investments in inventory (in particular battery cells and processors) to exploit commercial opportunities and to mitigate the risks associated with extending lead times, Brexit and the US, China trade dispute. The investments made have enabled the Group to pursue commercial opportunities and continue to ship products to customers despite lengthening lead times. This was critical to delivering the organic growth and securing a number of higher value added programmes. We closed the year with inventories at £9.6m (2018: £6.8m), reflecting the stock taken on with the Pacer acquisition and in part holding some contingency stock ahead of the originally proposed Brexit date of 29 March 2019.

Solid State PLC has paid a dividend every year since it joined AIM in 1996. The Board is recommending a final dividend of 8.3p, which added to the interim dividend of 4.2p per share paid on 15 February 2019, gives a total dividend for the year of 12.5p per share (2018: 12p) an increase of 4.2%. The total dividend is 2.9 times covered in 2019, based on adjusted profit after tax from continuing operations (2018: 2.6 times). The final dividend will be paid, subject to shareholder approval at the Annual General Meeting to be held on 4 September 2019, on 19 September 2019 to shareholders on the register at the close of business on 30 August 2019. The shares will be marked ex-dividend on 29 August 2019.

The Board has agreed to continue with its dividend policy whereby it will look to increase the dividend as growth in profitability is delivered whilst targeting a dividend cover in the region of 2.50-3.00 times adjusted earnings.

Senior management and corporate governance

The Board was very pleased to welcome Nigel Rogers to the Board as a new independent Non-Executive Director. Nigel brings a wealth of experience and will add a fresh perspective driving the continued progress of the Group. In addition, Nigel will chair the remuneration committee.

Opportunities and prospects for 2019/2020

The Group is well positioned for growth in 2019/2020 across its business units with well diversified revenue streams.

Having completed the re-organisation and re-focusing of the Manufacturing division, the division is well placed to deliver revenue growth and improved operating margins, leveraging the hard work which has been done in the last two years.

The supply chain challenges we have seen with certain extending lead times, and cell manufacturers limiting supply to approved pack manufacturers, only present higher barriers to entry in our markets. Our strong established relationship with our supply chains positions our Group well for future growth.

The macro economic environment from the US China trade war to the ongoing Brexit negotiations present a level of risk and uncertainty to the business environment in which we operate. However, our breadth of technical knowledge, service levels from our specialist teams, scale of our operations, strong balance sheet, governance and quality standards gives the Board confidence that the Group is well positioned to respond quickly to the challenges and opportunities that lie ahead. The Board consider that the Group's diversified structure gives it resilience and places it in a far stronger position than our smaller unlisted competitors within our customers' supply chains.

Acquisitions remain a key part of our strategy, and following the successful completion of the acquisition of Pacer during the second half of the financial year, we continue to actively seek further acquisitions through our pipeline of opportunities. However, we will only make acquisitions where they are fully aligned with the Group's strategy. The focus when looking at acquisitions is to ensure they develop our product offering; broaden the market sectors we serve and underpin or enhance our gross profit margins.

Current year trading has been ahead of the corresponding period last year, although the order intake during the first quarter of our new financial year has been softer than expected, we believe as a result of the unwind of Brexit stocking. However, as the open order book remains solid this gives the Board confidence that the Group remains on track to deliver in-line with our expectations. The Group open order book at 31 May 2019 was £35.9m (31 May 2018: £23.0m) up 56% on the prior year primarily due to the acquisition of Pacer. The like for like proforma open order book is up 20%.

Finally, on behalf of the Board, I would like to welcome the Pacer team to the Solid State PLC group, acknowledge the significant contribution of all our staff to the Group's continued progress and thank them accordingly. This is a people business which relies on the dedication of our colleagues across the Group; this is acknowledged and appreciated.

A B Frere
Chairman

CHIEF EXECUTIVE'S STRATEGIC REPORT

Introduction to Solid State PLC

Comprised of two divisions but with a shared mission, strategy and consistent business values, Solid State Group thrives on the trusted advisor relationship with our customers. We provide technology solutions, primarily designed for demanding applications, safely, reliably and swiftly; freeing those customers to focus on their core business with confidence.

Our mission and strategy to deliver growth

Our mission is "*To remain at the forefront of electronics technology, delivering reliable, high quality products and services. Adding value at every opportunity, from enquiry to order fulfilment; consistently meeting customer and partner expectations.*"

Our stated strategy is to supplement organic growth with selective acquisitions within the electronics industry which will complement our existing Group companies and over time enable us to achieve improved operating margins through the delivery of operational efficiencies, scale and distribution.

Our strategy to deliver this has three key elements:

1) investment in our people, our technical knowledge and resources to ensure we remain at the forefront of electronics technology. To constantly seek opportunity to add value meeting our customers' unmet needs and as such maintaining long term relationships as the trusted advisor and subject matter experts.
2) targeting strategic acquisitions which are aligned with our core capabilities and provide access to new markets or deepen our knowledge, ability and enhance the value we can add to our customers; and,
3) continue to develop our strategic partnerships with customers and suppliers within the electronics industry, building our portfolio of value added services.

The Group is focused on the supply and support of specialist electronics equipment through its Value Added Distribution ('VAD') and Manufacturing divisions. The VAD division is a market leader in delivering innovative, valuable, technical solutions for customers seeking specialist, electronic and opto-electronic components and displays.

The Manufacturing division is a market leader in the design, development and supply of high specification rugged computers, custom battery packs providing portable power and energy storage solutions and advanced communication systems, encompassing wideband antennas and high performance video transmission products.

The market for the Group's products and services is driven by the need for bespoke electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extreme and volatile humidity, temperature, pressure and wind is vital. The drivers of value in our markets include safety, technical performance, efficiency improvements, cost savings, and environmental monitoring.

Value Added Distribution ('VAD') division

The Group's traditional VAD division is focused on serving the needs of the electronics original equipment manufacturing (OEM) and the contract electronics manufacturing (CEM) communities in the UK, principally from its base in Redditch.

During the year we completed the acquisition of the Pacer Group of companies ('Pacer'). Pacer is a leading value added distributor of opto-electronic components which complements the existing VAD product portfolio. During the year Pacer invested in a new value added services facility in Weymouth which includes a Class 7 clean room giving the Group an industry leading capability.

The division represents a select number of suppliers who manufacture semiconductors, related electronic and opto-electronic components, modules and displays. The division has an in depth understanding of these products and as such can offer outstanding levels of commercial and technical support to its customers.

The products offered are from globally recognised manufacturers and include those for the I.O.T (internet of things), embedded processing, control, wireless and wired communications, power management, optical emitters and sensors, and LED lighting.

The division has expertise in high-reliability components for Military and Aerospace applications. The division's quality management system is accredited to the International Aerospace standard AS9120.

The VAD division understands the need to provide the highest level of service to its customers and has a clear focus on supporting the electronic and opto-electronic design community. Wherever possible the VAD division offers services for customers who require their programmes pre-loaded onto hardware or their products prepared to go direct to the production line. All of these services are carried out in our bespoke electrostatic discharge (ESD) safe facility in line with our AS9100 certification. This is an offering many of our competitors are unable to provide.

Manufacturing division – Computing, Power and Communications business units

Our Manufacturing division operates from sites in Redditch, Crewkerne and Leominster. It's a market leader in the design, development and supply of rugged and industrial computers, portable power and energy storage solutions, advanced communication systems, including wideband antennas and high-performance video transmission products, where necessary our facilities and personnel are cleared by the UK Government to allow secure work.

The facility in Crewkerne, is the Group's centre of excellence for Power products; the facility in Redditch, focuses primarily on the delivery of Computing products; and the facility in Leominster houses the Communications business unit, which includes our antenna design, production and test facilities.

The facility in Leominster also houses the Group's environmental test chamber and vibration testing capabilities, in addition to our near-field antenna test chamber, which supports in-house development and is also made available to third parties looking to utilise the state of the art chamber on a chargeable basis. These facilities provide the Group with class leading test and measurement capabilities which are utilised across all the manufacturing business units.

Computing business unit

The Computing business unit designs, manufactures and tests rugged and industrial computing solutions, serving a wide range of markets including Industrial, Military, Transportation, Surveillance and Broadcasting. Success has been achieved through specialisation in industrial computer design and integration, custom chassis builds, production, test and certification and customisation of Windows Embedded IoT and related software products.

Our product offering includes computers and displays, time and positioning solutions, motherboards and modules. Our capabilities extend from the provision of single board computer modules to turnkey integrated systems with significant value added content in the design, production, testing and commissioning.

The business unit has strong and long standing commercial relationships directly with key suppliers in Asia and the USA. Sustained digital marketing initiatives are leading to increased demand from diverse markets with emphasis on driving the level of value added content.

Power business unit

The Power business unit provides portable power and energy storage solutions. This includes battery pack assembly, power control, electronic design, and advanced battery testing. Working from initial design through qualification and United Nations (UN) certified testing, production, support and disposal at end of life, the business unit is well positioned to respond to an increasing demand for mobile and static power solutions where there is a specific requirement for high reliability, harsh environment and, above all else, safe systems.

The business unit has over 30 years' experience in the supply of batteries and mobile power solutions into some of the world's most demanding environments. Its battery packs are used in a range of sectors including: Oil and Gas, Military and Security, Aerospace, Environmental and Oceanographic, Safety and Industrial OEMs.

The operation has seen the successful integration of the latest ISO 9001-2015 standard that is complemented by the 18001 health and safety accreditation and approval to build equipment intended for use in potentially explosive atmospheres under the ATEX directive. These are all key considerations for our business to business customers operating in various markets such as Aerospace, and the Oil and Gas (O&G) markets.

Communications business unit

This business unit provides custom solutions that include bespoke antenna design, advanced high bandwidth radios including related peripheral technology and domain knowledge from the in-house product support team that has direct end user experience.

The radios are in service primarily with Special Forces users for ground based and increasingly unmanned platforms both aerial and maritime providing situational awareness solutions. We constantly seek opportunity to enhance the base line radio product with customised packaging for harsh environments and leveraging our in house antennas capabilities.

The Antenna group provides advanced ultra-wide band systems addressing demand from a worldwide customer base. Our antennas are utilised in a range of applications including electronic warfare, meteorological sensors and test and measurement applications. With over 40 years of experience, the business unit is at the forefront of antenna design and manufacture.

Our purpose built 18,000 sq. ft facility in Leominster includes a world class near-field test chamber that sets the business apart from competitors and allows the business unit to remain as a pre-eminent provider of ultra-wideband/high power antenna solutions.

Group trading overview

The Solid State Group has delivered significant organic growth in revenues which have been augmented by the acquisition of Pacer. The combination of the two has resulted in the delivery of record profits in the period.

The Pacer acquisition takes the Value Added Distribution division into the parallel market of opto-electronics which complements the established electronics product offering, giving the VAD division significant scale, market reach and penetration which it has not had previously.

The Manufacturing division has consolidated its activities, establishing technical centres of excellence with an appropriate cost base to service our core sectors of Computing, Power and Communications. This underpins the business. Refocusing its efforts where we have the expertise and product offerings that add real value to our customers has delivered the recovery to double digit operating returns.

Business risks have been considered and, where practical, mitigated. However, the macro economic risk associated with Brexit uncertainty, the Chinese economy and related US/China trading relations and the associated impact on foreign exchange is very difficult to predict and therefore mitigate fully. Whilst we sell predominately to the UK, our customers do sell into the global markets including Europe and Asia and some have reported challenges on new project awards.

In addition to the above we continue to see shortages and very long lead times on certain critical components, in particular battery cells and computer processors. The strength of our balance sheet together with smart purchasing actions have enabled us to successfully mitigate lead times and shortages. However, this continues to be a challenge requiring active management and necessitates increased stock levels.

Divisional business review

Value Added Distribution ('VAD') division

The financial year 2018/19 saw the completion of a significant acquisition of the Pacer Group and exceptional organic growth in the existing business.

This is the second year that the team has delivered exceptional organic growth in the VAD division with revenues up 25% (2018: 19%) on a like for like basis, albeit that we believe we benefitted from some Brexit stocking in the last quarter of the year and the previously reported one-off order for circa £1.0m. Pleasingly gross margins have been maintained.

The growth in revenue and profits demonstrate the success of the strategic plan and its tactical implementation, with initiatives such as the sourcing and obsolescence business now making a significant contribution to the VAD division.

The addition of the VPT Franchise to the VAD division's product portfolio in Q1 had a major impact on the year with sales well ahead of budget. This product line represents a continuing major opportunity for the division with the leading edge indicator of design-in activity showing high levels of activity.

Following the acquisition of Microsemi by Microchip, our distribution franchise with Microsemi has been extended to include all Microchip products post year end. This provides significant new product lines and opens up an opportunity to sell the extended offering to our customers and targets.

The acquisition of the Pacer business brings with it, new markets and expertise, particularly in the areas of opto-electronics and value added assembly, whilst the significant display expertise enhances that already available in the Group. As part of the integration of Pacer in to the VAD division, a clear strategy has been defined and communicated to all Pacer staff to ensure that it embarks on a high growth path over the coming years.

The VAD division is benefiting from access to an enlarged and wider customer base than had been previously available. Cross selling initiatives are already bearing fruit, and efficiencies through integration have been put in place where practical.

Marketing activity increased towards the end of the financial year to promote the broader product offering of the enlarged VAD division, supporting the need for an enlarged design-in pipeline to feed the future sales growth.

The VAD division continues to recognise the value of, and to invest in, its staff with various ongoing professional development initiatives. The business has been successful in attracting several specialist and highly skilled engineers into its design-in and field based customer support function enhancing the prospects of it winning further franchises.

Operational metrics remain well controlled with underlying stock turn exceeding 5 times per annum and the VAD open order book at 31 May 2019 at a record level £23.6m (2018: £11.3m) following the pacer acquisition. The senior management team of the VAD division remain optimistic about the prospects for the 2019/20 financial year and expect it to be another strong year.

Manufacturing division and business unit summaries

The Manufacturing division has focused on premium work, adding value when opportunity has allowed to drive improved operating performance, and put in place a foundation for future sustainable profitable growth.

We focused the division to meet customer needs, establishing three business unit centres of excellence in; Computing (in our Redditch facility), Power (in our Crewkerne facility) and Communications (in our Leominster facility).

At the beginning of the financial year, as part of the implementation of re-focusing of the division, we consolidated some of the division's engineering and computing sales teams, realising some operational efficiencies which, in conjunction with a more strategic approach to supply chain management, and continued careful control and review of our fixed cost base, has enabled the operating margins to be improved by 16% in the year to 11% (2018: 9.5%).

We continue to make strategic capital investments in a number of areas of the business with focus on technology to provide enhanced efficiencies and technical capabilities and improve productivity. This includes automation within our Power business unit, software tools for our Communications business unit, and EMC & environmental testing capabilities that will serve all areas of the business, enhancing our 'in-house' capabilities, building our competitive advantage and delivering value for our customers.

We have focussed on building the quantity and quality of our order book to position the business for future growth. The open order book at 31 May 2019 has increased to £12.3m (2018: 11.8m).

Computing business unit

The Computing business unit has seen a continued increase in the demand for Artificial Intelligence (AI) / Artificial Internet of Things (AIoT) solutions that are image/video centric, which plays to our strengths. The business unit is particularly well positioned to address the growing trend for 'Edge Computing' and related harsh environment applications with a range of fanless high powered, long life computing solutions.

The business unit remains well diversified across market sectors and technologies. In-line with our strategy to seek new markets for our offering we have secured an important order for a new security accredited product for a UK Government client that will deliver revenue in the 2019/2020 financial year with additional associated prospects, demonstrating the progress against our strategy of investment in our technical value added capabilities.

TEMPEST is a National Security Agency specification and a NATO certification referring to a cyber security accreditation on information systems through preventing leaking emanations, including unintentional radio or electrical signals, sounds, and vibrations. The business is seeing and responding to increased demand for TEMPEST compliant computing solutions leveraging the in house computing , mechanical and domain knowledge at the Redditch facility.

During the year the business unit introduced a new series of own brand 19" rack mount servers including entry level and high end chassis solutions with respective features and pricing competitively matched. These new own branded products and a well defined product road map that will see further releases in the coming 18 months to position our computer business for future growth.

In addition, we have resolved and delivered some long standing technically challenging military projects that we were committed to deliver. We have met our obligations and delivered against the customers' requirements maintaining a strong relationship that will bode well for future co-operation with these 'blue chip' defence prime contractors.

Power business unit

In our Power business we are agnostic of cell chemistries, giving us the freedom to be the subject matter expert, as a 'trusted advisor' to our customers, selecting the most appropriate chemistry for the customers' requirements. Likewise, in our selection of the optimum battery management solution. This has enabled us to make headway in designing higher value added solutions while diversifying our markets and customer base. This is demonstrated with initial sales into the retail technology and medical sectors where we have not traditionally been strong, to complement the Oil and Gas and Aerospace & Defence sectors which are areas of traditional strength.

Battery cell manufacturers continue to limit the supply of product to approved third party pack providers and are extending lead times across the industry in order that they can service the needs of the electric vehicle (EV) market. This means that our longstanding and trusted relationships with the leading cell manufacturers are even more important and this, together with the barriers to entry that also exist, mean we are well positioned to leverage opportunities in this market place.

The focus for future growth remains on high reliability, harsh environment applications where we can add value. New applications in robotics solutions are being targeted in varied market sectors including land based, sea and subsea. The business unit is taking care to select markets for portable power and energy storage solutions that have not been commoditised as a result of the EV market's demand's for ever diminishing pricing on the cell chemistries.

Communications business unit

The Communications business unit encompasses antenna products and advanced radio products and is split into the Antennas team and the Radio team. The business unit's technology is world class with two thirds of sales from the Leominster facility being exported worldwide.

While the absolute level of business has fallen over the prior year, as expected, the Communications business unit has made significant progress in developing a portfolio of more standard 'off the shelf' / 'run rate' antenna products which are underpinning more sustainable revenues to augment the bespoke programmes which the business has traditionally undertaken. This includes provision of antennas for test and measurement applications within the burgeoning 5G market.

The Radio team has established business relationships with complementary companies providing mission planning computers, digital mapping solutions and optical sensors positioning the business as a subsystem provider of both the data links and situational awareness product. This will allow this part of the Communications business unit to move up the value chain, generating larger contracts and increased contribution to the division. This year we have made progress in the early stages of developing the pipeline of international opportunities to overlay the traditional domestic demand for an integrated communications solution where we are expanding our product offering and looking to gain market share.

Financial Review

In order to provide a fuller understanding of the Group's ongoing underlying performance, we have included a number of adjusted profit measures as supplementary information, on a consistent basis with that reported by the financial analysts that review our business. As detailed in note 8, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items.

Revenues

Group revenues from continuing operations of £56.3m were up 22% on the prior year (2018: £46.3m) delivered from a combination of organic growth of £4.3m or ~10% and acquisitive growth of £5.7m or ~12%.

During the year the Value Added Distribution division delivered organic revenue growth in excess of 25% which when added to the £5.7m of revenue from the acquisition of Pacer results in the division now representing £30.4m / 54% (2018: £19.7m / 43%) of Group revenue.

The Manufacturing division reported revenue of £25.9m (2018: £26.6m) which was marginally down on prior year. This reduction in revenue was as a result of some re-scheduling of orders in the Power business unit from Q4 2018/19 to Q1 2019/20. Deliveries to these customers have now resumed at expected levels. The focus this year has been on quality of value added activity which has meant that this marginal reduction in revenue was more than mitigated at a gross margin and profit before tax level.

Gross profit

Gross profit for the year is up £3.7m to £16.4m (2018: £12.7m) reflecting margins recovering to 29.1% (2018: 27.5%) driven by improved margins in the Manufacturing division.

VAD margins have been maintained at 23.5% on revenues which are up 54%, which when combined with the significant improvement in the Manufacturing margins to 35.6% (2018: 30.6%) result in Group margins improving 1.6% in spite of the potentially dilutive impact of the increased share of VAD activity.

VAD contributed £7.2m (2018: £4.6m) of gross margins which was up 57% over the prior year. The increase reflects our success in growing revenue through the acquisition of Pacer and winning larger volume contracts. In addition the investments we have made in developing our added value services at the Weymouth facility, and our obsolescence sourcing and long term storage offerings which add tangible value to our customers mitigating the margin pressure. We now have the class leading value added services capability which, looking forward, are expected to increase the product portfolio and enable the VAD division to enhance its margins as these services develop.

The Manufacturing division contributed £9.2m (2018: £8.1m) of gross margin which is up 14% on the prior year. The gross margin percentage has recovered to 35.6% (2018: 30.6%) primarily as a result of a change in mix of sales with the higher sales of high value added product being achieved across all the business units. The focus on higher value added activity has resulted in some extended commercial negotiations but now positions us well for profitable future growth.

Sales and general administration expenses

Sales and general administration expenses of £13.5m increased by £3.3m from £10.2m in 2018. This increase primarily reflects £2.5m increase in operating costs, £1.5m of which are a result of the Pacer acquisition plus overhead inflation of ~ £0.25m plus investment in staff and third party sales resources of ~ £0.75m.

The remaining overhead increase reflects additional share based payments charges £0.2m and additional depreciation and amortisation of £0.6m.

Adjusted sales and general administration expenses from continuing operations increased by £3.0m to £12.7m (2018: £9.7m).

As reported last year, the VAD division invested in additional resources in order to deliver the organic growth in 2018/19 which combined with the Pacer overheads has resulted in the division's adjusted sales and general administration expenses increasing from £3.3m to £5.5m.

The Manufacturing division's adjusted sales and general administration expenses have increased to £6.3m from £5.6m. This reflects the full year impact of the amortisation of intangibles in conjunction with cost inflation.

Adjusted Head Office sales and general administration costs have remained relatively stable at £0.9m (2018: £0.8m).

Within sales, general and administrative expenses the reported depreciation and amortisation from continuing operations in the year was £1.4m which is up £0.5m from £0.9m in 2018 primarily due to the additional depreciation post the Pacer acquisition, increased amortisation of capitalised R&D and the amortisation of the Pacer acquisition intangibles. Adjusted depreciation and amortisation from continuing operations (excludes the amortisation of acquisition intangibles) has increased to £1.2m (2018: £0.7m).

Operating profit

Adjusted operating margins are stable year on year at 6.5% with reported operating profit from continuing operations up 16% to £2.9m (2018: £2.5m). Adjusted operating profit is up in excess of 20% to £3.7m (2018: £3.0m) reflecting the growth in revenue and the improved margins. The adjustments to operating profit are set out in further detail in note 8.

We have recognised no net credit within operating profit in respect of Research and Development Expenditure Credit (RDEC) (2018: £0.1m) however we have recognised credits within the tax line, where we are eligible for the SME R&D tax scheme. These development programmes are a cornerstone of the Group's future high value add revenue streams.

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2019 are up 16% at 35.9p (2018: 30.9p). Reported fully diluted earnings per share from continuing operations are up 18% at 30.7p (2018: 26.0p).

Cash flow from operations

Cash inflow from continuing operations for the year of £4.9m is up from £1.4m in 2018 primarily due to a cash inflow of circa £0.3m from working capital compared to an outflow of £2.2m in the prior year. Underlying cash flow from operations was up £0.5m at £4.0m (2018: £3.5m) after excluding the net cash benefit from advanced customer payments. This delivers underlying operating cash conversion percentage of 109% (2018: 122%) and reported operating cash conversion percentage of 168% (2018: 54%)

There was a working capital cash outflow in the period due to increased receivables and inventories resulting from increased revenues and investment in inventory. Inventories have increased due to increased lead times on cells and various electronic components and the positioning of customer requested inventory to mitigate the potential Brexit risk at the end of March offset in part by one off customer cash advances which are excluded when calculating underlying cash conversion.

Investing activities

During the year the Group invested £0.6m (2018: £0.4m) in property plant and equipment and £0.3m (2018: £0.3m) in software and research and development intangibles. The increase in capital expenditure reflects investment in the new value added services facility in Weymouth amounting to circa £0.25m investment. This aside the investment has been maintained at the historical run rate level for capital expenditure.

Investment in subsidiaries

The acquisition of 100% of the share capital of Pacer Technologies Limited, the holding company for the Pacer Group of companies, resulted in a cash outflow of £3.8m. The acquisition was financed through new bank facilities provided by the Lloyds (see below financing activities) further details on the acquisition are provided in note 7.

Financing activities

The financing activities reflect the drawdown of £6.0m of acquisition facilities put in place to fund the acquisition of Pacer. We have subsequently repaid £1.8m of borrowings which included the first repayment of the term loan and the repayment in full of the Pacer invoice discounting facility acquired.

As a result of the strong cash generation, post year end in April 2019, the Group has made an early repayment of £2.0m of the highest price element of the term loans taken out in respect of the acquisition of Pacer. Having done this, the Group has been able to extend the undrawn revolving credit facility by £2.0m, maintaining the Group's overall funding flexibility.

Dividend

The Board is proposing to increase the final dividend to 8.3p (2018: 8.0p), giving a full year dividend of 12.5p (2018: 12p). The dividend is 2.9 times covered based on the adjusted profit after tax.

Subject to approval of the final dividend by the shareholders at the AGM on 4 September 2019, the final dividend will be paid on 19 September 2019 to shareholders on the register at the close of business on the 30 August 2019. The shares will be marked ex-dividend on 29 August 2019.

KPIs

In addition to the information provided in the Chairman's Report and this Strategic Report, the Directors use several key performance indicators to manage the business. Non-financial KPIs are not disclosed.

KPI	2019	2018
Sales from continuing operations	£56.3m	£46.3m
Adjusted operating profit from continuing operations	£3.7m	£3.0m
Adjusted profit before taxation from continuing operations	£3.5m	£3.0m
Adjusted diluted EPS from continuing operations	35.9p	30.9p
Underlying cash flow from continuing operating activities	£4.0m	£3.5m
(Net debt) / net cash	(£2.0m)	£0.6m
Open order book @ 31 May	£35.9m	£23.0m

Outlook

The margin improvement achieved by refocusing the Manufacturing division, in conjunction with a significantly stronger open order book puts the Group in a strong position as we start the new financial year, albeit the macroeconomic headwinds continue to be a challenge.

Investment in the Power business unit is positioning the business to win and deliver more complex, higher margin solutions whilst automation is improving productivity. Likewise, the Computing team are targeting opportunities with increased levels of added value to leverage our engineering and production capability. When combined these initiatives place the Manufacturing division in a strong competitive position to deliver profitable growth.

Following the acquisition of the Pacer Group of companies, the enlarged VAD division has the scale, reach and capabilities to attract significant franchises such as VPT which we signed during the year. We have invested significantly in our value added services facility in Weymouth and our sourcing and obsolescence offering, which differentiate our VAD portfolio to provide us with exciting opportunities for the future.

Over the next three years of our five year plan, we will remain focused on securing quality orders as we drive to achieve our goal we set at the beginning of 2017 to double the size of the business through a combination of organic growth and strategic acquisitions. The Board is confident that the achievements of the last year and the growth in our open order book demonstrate that Solid State is making good progress towards achieving its goals and that the prospects for the Group remain very positive.

G S Marsh
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

Continuing Operations	**Notes**	**2019 £'000**	**2018 £'000**
Revenue	6	56,299	46,268
Cost of sales		(39,927)	(33,525)
		_______	_______
Gross profit		16,372	12,743
Sales, general and administration expenses		(13,452)	(10,229)
		_______	_______
Profit from operations		2,920	2,514
Finance expense		(109)	(33)
		_______	_______
Profit before taxation		2,811	2,481
Tax expense	3	(153)	(238)
		_______	_______
Adjusted profit after taxation		3,108	2,663
Adjustments to profit	8	(450)	(420)
Profit after taxation		2,658	2,243
		_______	_______
Profit attributable to equity holders of the parent		2,658	2,243
		_______	_______
Other comprehensive income		-	-
		_______	_______
Total comprehensive income for the year		2,658	2,243
		_______	_______

Earnings per share		**2019**	**2018**
Basic EPS from profit for the year	4	31.3p	26.5p
Diluted EPS from profit for the year	4	30.7p	26.0p

Adjusted EPS measures are reported in note 4.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total Equity £'000
Balance at 31 March 2018	425	3,629	-	5	14,204	(243)	18,020
Total comprehensive income for the year ended 31 March 2019	-	-	-	-	2,658	-	2,658
Shares issued	2	(2)		-	-	-	-
Foreign exchange	-	-	(5)	-	-	-	(5)
Purchase of treasury shares	-	-	-	-	-	(34)	(34)
Transfer of treasury shares to AESP	-	-	-	-	(105)	105	-
Dividends	-	-		-	(1,036)	-	(1,036)
Share based payment credit	-	-		-	300	-	300
Balance at 31 March 2019	427	3,627	(5)	5	16,021	(172)	19,903

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total Equity £'000
Balance at 31 March 2017	425	3,629	-	5	12,826	(243)	16,642
Total comprehensive income for the year ended 31 March 2018	-	-	-	-	2,243	-	2,243
Dividends	-	-	-	-	(1,015)	-	(1,015)
Share based payment credit	-	-	-	-	150	-	150
Balance at 31 March 2018	425	3,629	-	5	14,204	(243)	18,020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2019

		2019		2018	
		£'000	**£'000**	**£'000**	**£'000**
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment		2,425		2,253	
Intangible assets		8,892		6,167	
TOTAL NON-CURRENT ASSETS			11,317		8,420
CURRENT ASSETS					
Inventories		9,648		6,823	
Trade and other receivables		13,389		10,048	
Deferred tax asset		105		-	
Cash and cash equivalents		3,692		575	
TOTAL CURRENT ASSETS			26,834		17,446
TOTAL ASSETS			38,151		25,866
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables		8,725		5,718	
Contract liabilities		2,511		1,317	
Current borrowings		1,333		-	
Corporation tax liabilities		519		384	
TOTAL CURRENT LIABILITIES			13,088		7,419
NON CURRENT LIABILITIES					
Non current borrowings		4,334		-	
Provisions		250		-	
Deferred tax liability		576		427	
TOTAL NON-CURRENT LIABILITIES			5,160		427
TOTAL LIABILITIES			18,248		7,846
NET ASSETS			19,903		18,020
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital			427		425
Share premium reserve			3,627		3,629
Capital redemption reserve			5		5
Foreign exchange reserve			(5)		-
Retained earnings			16,021		14,204
Shares held in treasury			(172)		(243)
TOTAL EQUITY			19,903		18,020

The financial statements were approved by the Board of Directors and authorised for issue on 2 July 2019 and were signed on its behalf by:

G S Marsh, *Director* **P O James,** *Director*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

		2019		2018	
		£'000	£'000	£'000	£'000
OPERATING ACTIVITIES					
Profit before taxation			2,811		2,481
Adjustments for:					
Depreciation			698		489
Amortisation			732		406
Loss/(profit) on disposal of property, plant and equipment			6		(11)
Share based payment expense			300		150
Finance costs			109		33
Profit from operations before changes in working capital and provisions			4,656		3,548
Increase in inventories		(1,198)		(1,246)	
Increase in trade and other receivables		(1,071)		(1,723)	
Increase in trade and other payables		2,540		779	
Decrease in provisions		(10)		-	
			261		(2,190)
Cash generated from operations			4,917		1,358
Income taxes paid		(243)		(6)	
Income taxes recovered		-		39	
			(243)		33
Net cash flow from operating activities			4,674		1,391
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(600)		(402)	
Purchase of intangible assets		(300)		(349)	
Proceeds of sales from property, plant and equipment		113		77	
Consideration paid on acquisition of subsidiaries		(3,812)		-	
Net cash flow from investing activities			(4,599)		(674)
FINANCING ACTIVITIES					
Issue of ordinary shares		(34)		-	
Borrowings drawn		6,000		-	
Borrowings repaid		(1,776)		-	
Interest paid		(109)		(33)	
Dividend paid to equity shareholders		(1,036)		(1,018)	
Net cash flow from financing activities			3,045		(1,051)
Increase/(decrease) in cash and cash equivalents			3,120		(334)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2019 (continued)

	2019 £'000	2018 £'000
Translational foreign exchange on opening cash	(3)	-
Net increase/(decrease) in cash and cash equivalents	3,120	(334)
Cash and cash equivalents at beginning of year	575	909
	_______	_______
Cash and cash equivalents at end of year	3,692	575
	_______	_______

There were no significant non-cash transactions. Cash and cash equivalents comprise:

	2019 £'000	2018 £'000
Cash available on demand	3,692	575
	_______	_______

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. ACCOUNTING POLICIES

All figures are taken from the 31 March 2019 audited annual accounts which were approved by the directors on 2 July 2019, unless denoted as 'unaudited'. Comparative figures in the results for the year ended 31 March 2018 have been taken from the 2018 audited annual accounts.

This financial information is presented in pounds sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The financial information for the year ended 31 March 2019 does not constitute statutory accounts as defined in section 435 (1) and (2) of the Companies Act 2006.

Whilst this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations adopted for use by the European Union, with those parts of the Companies Act 2006 applicable to companies reporting under these condensed financial statements do not contain sufficient information to comply with IFRS.

The auditors have reported on these accounts; their reports were unqualified, did not include a reference to any matter to which the auditors drew attention by way of emphasis of matter and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Statutory accounts for the year ended 31 March 2018 have been delivered to the Registrar of Companies and those for the year ended 31 March 2019 will be delivered to the Registrar of Companies shortly.

Certain statements in this announcement constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Group's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement and the Group undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast.

Basis of preparation

The financial information in this preliminary announcement has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs).

We have extracted below from the Annual Report and Accounts for the 31 March 2019 the most significant elements of the principal accounting policies adopted in the preparation of the financial statements. All the Group accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted in the year.

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on the 1 April 2018:

- IFRS 9 Financial Instruments (effective for accounting periods beginning or after 1 January 2018).
- Annual improvements 2014-2016 cycle (effective for accounting periods beginning or after 1 January 2018)
- Amendments to IFRS 2 Share-based Payment to clarify the classification and measurement of certain share based payment transactions (effective for accounting periods beginning or after 1 January 2018)
- IFRIC 22 Foreign currency translation of advanced consideration (effective for accounting periods beginning or after 1 January 2018)

The adoption of these standards and amendments has not had a material impact on the Group's consolidated financial statements.

IFRS 9

'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The Group has adopted IFRS 9 - Financial Instruments for the financial year starting 1 April 2018. The Group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. All financial assets and liabilities will continue to be measured at amortised cost. The Group applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade receivables. This resulted in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. The magnitude of this judgement is not considered material as the total provision is immaterial.

In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables balances on initial recognition of those assets. The Group has chosen not to restate comparatives on adoption of IFRS 9 as the impact of the changes on transition are immaterial, therefore, these changes have been processed in the current year. We have also adopted the new disclosure requirements and updated the relevant accounting policies.

New standards, amendments and interpretations to published standards issued but not yet effective and not early adopted

A number of new standards, amendments and interpretations to existing standards have been published that will be mandatory for the Group's accounting periods beginning on or after 1 April 2019 or later periods and which the Group has decided not to adopt early are listed below. The Group intends to adopt these standards when they become effective.

- IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019)
- IFRIC 23 Uncertainty over income tax treatments (effective for accounting periods beginning or after 1 January 2019) this standard has not yet been endorsed by the EU.

Of the standards and interpretations in issue but not yet effective only IFRS 16 is expected to have any potentially material impact on the results and financial position of the Group. IFRS 16 will be effective from 1 January 2019 and in its current form requires all leases to be reflected on-balance sheet.

Under IFRS 16 'Leases', lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value, or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the financial statements as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. This depreciation and interest will replace the operating lease payments currently recognised as an expense. At 31 March 2019, operating lease commitments were £1,409k and operating lease payments for 2019 were £476k.

The Group expects to adopt this standard for the financial year ending 31 March 2020 and will restate the comparative period (financial year ended 31 March 2019) and the opening balance sheet (31 March 2018). The expected impact of the restatement on adoption is set out below.

The impact on the opening balance sheet as at 31 March 2018 is expected to result in the recognition of a right of use asset within property plant and equipment of £1,029k, the recognition of a right of use liability of £1,029k.

The impact on the restated comparative statement of comprehensive income for the year ended 31 March 2019 is expected to result in operating lease costs reducing by £433k offset by increased depreciation of right of use asset of £416k and recognition of an interest charge arising on the unwind of the discounting of the right of use liability of £31k. This will result in a net reduction in the reported profit before tax of £14k.

The impact on the restated comparative statement of financial position as at 31 March 2019 is expected to result in the recognition of a right of use asset within property plant and equipment with net book value of £953k, the recognition of a right of use liability of £967k and a reduction in reserves of £14k

Business combinations

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Acquisition-related costs are expensed as incurred.

The consideration transferred for the acquisition of a subsidiary comprises the: fair values of the assets transferred; liabilities incurred to the former owners of the acquired business; equity interests issued by the group; fair value of any asset or liability resulting from a contingent consideration arrangement; and, fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the: consideration transferred; amount of any non-controlling interest in the acquired entity; and, acquisition-date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill.

If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. Transactions are classified as exceptional where they relate to an event that falls outside of the ordinary activities of the business and where individually or in aggregate, they have a material impact on the financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

In preparing this preliminary announcement we have extracted the most significant accounting estimates and judgements from the report and accounts. The full report and accounts includes a comprehensive list which is not included in this announcement.

Acquisition accounting

In accordance with IFRS 3 and the Groups accounting policy, in preparing these accounts the two significant judgements relate to the recognition of a dilapidations provision of £260k at the date of acquisition in respect of leasehold premises and the key assumptions adopted in the MEEM model to assess the fair value of the identifiable intangible assets. The key assumptions in the model are the discount rate of 10%, customer attrition rate of 5% pa, and the growth rate of 5%. Based on the model the fair value of the intangibles is valued at £1.4m on acquisition which will be amortised over 7 years.

The results of the fair value assessment completed which included key judgements noted above results in goodwill arising on the acquisition to £1.8m. If there were any changes to the judgemental items noted above the corresponding impact would be to increase or reduce goodwill accordingly.

Estimated useful life of research and development and intangible assets arising on acquisitions

The periods of amortisation adopted to write down capitalised product and process development requires judgements to be made in respect of estimating the useful economic lives of the intangible assets to determine an appropriate amortisation rate.

Capitalised development costs are amortised over the period during which economic benefits are expected to be received which is typically 2 – 5 years. Intangible assets arising on acquisitions are amortised straight line over the period during which economic benefits are expected to be received which is typically 5 – 10 years.

The amortisation charge for capitalised development costs in the current year is £416k; if the lives were reduced by one year across all the projects which are being amortised the charge would increase by circa £175k.

The amortisation charge for intangible assets arising on acquisitions in the current year is £284k; if the lives were reduced by one year the charge would increase by £36k.

Provisions for slow moving or obsolete inventories

Inventories are carried at the lower of cost and net realisable value (NRV). NRV is reviewed in detail on an on going basis and provision for obsolete inventory is made based on a number of factors including age of inventories, the risk of technical obsolescence and the expected future usage.

Differences between such estimates and actual market conditions may have a material impact on the amount of the carrying value of inventories and may result in adjustments to cost of sales.

3. TAX EXPENSE

	2019 **£'000**	**2018** **£'000**
Analysis of continuing and discontinuing total tax expense		
Total tax charge from continuing operations	153	238
	______	______
	153	238
	______	______
Current tax expense		
UK corporation tax on profits or losses for the year	376	468
Adjustment in respect of prior periods	(67)	(330)
	______	______
	309	138
Deferred tax (credit)/ charge	(156)	5
Deferred tax adjustment in respect of prior periods	-	95
	______	______
Total tax charge	153	238
	______	______

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2019 **£'000**	**2018** **£'000**
Profit before tax including discontinued operations	2,811	2,481
	______	______
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2018 19%)	534	471
Effect of:		
Expenses not deductible for tax purposes	25	6

Difference between depreciation for the year and capital allowances	25	7
Tax relief on exercise of share options exercised	(52)	-
Enhanced relief on research and development expenditure	(359)	(4)
Differences in current and deferred tax rates	(27)	-
Deferred tax asset not recognised	74	
Amortisation of intangibles	-	(7)
Adjustments in respect of prior years	(67)	(235)
	_______	_______
Total tax charge	153	238
	_______	_______

The UK corporation tax rate of 19% (effective from 1 April 2017) is reducing to 18% (effective 1 April 2020) which was substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liabilities at 31 March 2019 have been calculated based on these rates.

R&D tax credits

The Group recognised a credit of £nil (2018: £109k) within operating profit in relation to claims made under the Research and Development expenditure credit scheme (RDEC). There were also claims made under the SME scheme which are recognised within the tax expense.

4. EARNINGS PER SHARE

The earnings per share is based on the following:

	2019 £'000	**2018 £'000**
Adjusted continuing earnings post tax	3,108	2,663
Reported continuing earnings post tax	2,658	2,243
Weighted average number of shares	8,488,675	8,459,118
Diluted number of shares	8,648,719	8,618,468
Reported EPS		
Basic EPS from profit for the year	31.3p	26.5p
Diluted EPS from profit for the year	30.7p	26.0p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	36.6p	31.5p
Adjusted Diluted EPS from profit for the year	35.9p	30.9p

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 8,488,675 (2018: 8,459,118) net of the treasury shares.

The diluted earnings per share is based on 8,648,719 (2018: 8,618,468) ordinary shares which allow for the exercise of all dilutive potential ordinary shares.

The adjustments to profit made in calculating the adjusted earnings are set out in note 8.

5. DIVIDENDS

	2019 £'000	**2018 £'000**
Prior year final dividend paid of 8p per share (2018: 8p)	682	680
Current year interim dividend paid of 4.2p per share (2018: 4p)	358	340
Cancelled dividends on shares held in treasury	(4)	(5)
	_______	_______

	1,036	1,015
	________	________
Final dividend proposed for the year 8.3p per share (2018: 8p)	708	683
	________	________

The proposed final dividend has not been accrued for as the dividend will be approved by the shareholders at the annual general meeting.

6. SEGMENT INFORMATION

The Group's primary reporting format for segment information is business segments which reflect the management reporting structure in the Group. The Value Added Distribution division comprises Solid State Supplies Ltd, Pacer LLC and Pacer Components Ltd companies the Manufacturing division includes Steatite Ltd.

Year ended 31 March 2019

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	30,402	25,897	-	56,299
	______	______	______	______
Profit before tax	1,677	2,707	(1,573)	2,811
Taxation	(349)	(86)	282	(153)
	______	______	______	______
Profit after taxation	1,328	2,621	(1,291)	2,658
Balance Sheet				
Assets	17,387	12,137	8,627	38,151
Liabilities	(5,665)	(6,227)	(6,356)	(18,248)
	______	______	______	______
Net assets	11,722	5,910	2,271	19,903
Other				
Capital expenditure:				
Tangible fixed assets	62	538	-	600
Intangible assets	-	300	-	300
Depreciation	417	281	-	698
Amortisation	18	430	284	732
Share based payments	-	-	300	300
Interest	7	2	100	109
	______	______	______	______

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2019 or the prior year.

Year ended 31 March 2018

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	19,685	26,583	-	46,268
	______	______	______	______
Profit before tax	1,295	2,375	(1,189)	2,481
Taxation	(251)	(213)	226	(238)
	______	______	______	______

Profit after taxation	1,044	2,162	(963)	2,243
Balance Sheet				
Assets	9,486	10,821	5,559	25,866
Liabilities	(3,052)	(4,273)	(521)	(7,846)
	______	_____	______	______
Net assets	6,434	6,548	5,038	18,020
Other				
Capital expenditure:				
Tangible fixed assets	190	212	-	402
Intangible assets	12	337	-	349
Depreciation	180	309	-	489
Amortisation	21	165	220	406
Share based payments	-	-	150	150
Interest	6	3	24	33
	______	_____	______	______

	External revenue by location of customer		**Total assets by location of assets**		**Net tangible capital expenditure by location of assets**	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**	**2019 £'000**	**2018 £'000**
United Kingdom	44,989	36,001	38,151	25,866	600	402
Rest of Europe	5,230	5,013		-		-
Asia	2,540	1,972		-		-
North America	3,426	2,991		-		-
Other	114	291		-		-
	_______	_______	_______	_______	_______	_______
	56,299	46,268	38,151	25,866	600	402
	_______	_______	_______	_______	_______	_______

All the above relate to continuing operations.

7. ACQUISITIONS DURING THE YEAR

On the 9 November 2018 the Group acquired 100% of the share capital of Pacer Technologies and its 100% subsidiaries for a cash consideration of £3,812k.

Pacer Technologies is the holding company with two trading subsidiaries, Pacer Components Limited, the UK trading entity and Pacer LLC the US sales entity.

Pacer was established in 1989 to specialise in the distribution and custom design of optoelectronic components, lasers and displays to the OEM market in the medical, military, commercial, industrial and security sectors. Serving an international client base, Pacer has a reputation for supplying high quality components in a customer-centric manner, often involving custom design and manufacturing to address individual needs.

Pacer operates in two areas, Components and Displays, supplying world class blue chip companies. The Components business is distribution based with a smaller proportion of its sales derived from manufacturing, own brand and assembly based products. Products include industrial LEDs and light sources, lasers and laser range finders, photon detection and counting equipment. The Displays business complements and enhances that of Solid State Supplies. Products include industrial and commercial grade displays.

In the UK, Pacer operates from offices in Pangbourne and Weymouth, with a sales office in Crawley. Its US subsidiary is based in Florida.

	Book value £'000	*Fair value Adjustment £'000*	**Fair value to Group £'000**
Intangible assets	190	1,210	1,400
Property plant and equipment	419	(29)	390
Inventory	1,574	59	1,633
Trade and other receivables	2,306	(29)	2,277
Trade and other payables	(1,705)	(36)	(1,741)
Provision for dilapidations	(10)	(250)	(260)
Net Borrowings	(1,443)	-	(1,443)
Deferred tax	(16)	(185)	(201)
	________	________	________
Net assets on acquisition	1,315	740	2,055
Goodwill on acquisition			1,757
	________	________	________
Consideration			3,812
	________	________	________
Discharged by:			
Cash paid on acquisition			3,812
	________	________	________

The intangible assets are in relation to customer contacts and relationships. The goodwill recognised represents expected synergies from combining the operations of Pacer with those of the existing Value Added Distribution division, expected value from incremental sales arising across the combined operation that is not separately recognisable at the date of acquisition and the value of the work force not recognised as an intangible asset under IFRS 3 revised.

The revenue and profit after tax for the five month period post acquisition included in the Statement of Comprehensive Income arising from Pacer's operations were £5,711k and £67k respectively.

Had the acquisition been completed on the 1 April 2018 management estimate that that the revenue would have been circa £15.0m and pre-tax profit would be circa £0.1m after the debt service costs.

8. ADJUSTMENTS TO PROFIT

The Group's results are reported after a number of imputed non-cash charges and non-recurring items. We have provided additional adjusted performance metrics to aid an understanding and provide clarity over the Group's performance on an on-going cash basis before imputed non-cash accounting charges consistent with how analysts and investors tell us they review our business performance.

We have presented an adjusted profit metric adjusting for the following items:

- Non-cash accounting charges arising from share-based payments and the amortisation of acquisition intangibles.
- Non-recurring cash costs relating to the re-organisation of the Manufacturing division and acquisition costs.
- Non-recurring tax credits arising primarily from prior year R&D claims and enhanced deductions on share issues.

	2019 £'000	**2018 £'000**
Acquisition and re-organisation costs	149	150
Amortisation of acquisition intangibles	284	219
Share based payments	300	150
	________	________
Adjustment to profit before tax	733	519
Current and deferred taxation effect	(142)	(99)
Non recurring tax credits	(141)	-
	________	________
Total	450	420

	2019 £'000	2018 £'000
Reported operated profit from continuing operations	2,920	2,514
Adjustments to operating profit from continuing operations	733	519
	_______	_______
Adjusted operating profit from continuing operations	3,653	3,033
	_______	_______
Reported operating margin percentage from continuing operations	5.2%	5.4%
Operating margin percentage impact of adjustments	1.3%	1.2%
Adjusted operating margin percentage from continuing operations	6.5%	6.6%
	_______	_______
Reported profit before tax from continuing operations	2,811	2,481
Adjustments to profit before tax	733	519
	_______	_______
Adjusted profit before tax from continuing operations	3,544	3,000
	_______	_______
Reported profit after tax from continuing operations	2,658	2,243
Adjustments to profit after tax	450	420
	_______	_______
Adjusted profit after tax from continuing operations	3,108	2,663
	_______	_______

9. **The Annual Report and Accounts** will be sent to shareholders shortly and made available to the public at the registered office of the Company at 2 Ravensbank Business Park, Hedera Rd, Redditch, B98 9EY and will also be available to download on the Company's website www.solidstateplc.com.