SOLID STATE PLC

30 June 2020

Solid State plc
(“Solid State”, the “Group” or the “Company”)
Final Results for 12 months to 31 March 2020

Solid State plc (AIM: SOLI), the AIM listed manufacturer of computing, power and communications products, and value added distributor of electronic components, announces its Final Results for the 12 months to 31 March 2020.

Highlights include:

Financial overview:

Set out below are financial key performance indicators which reflect the record year and a very pleasing result:

KPI	2020	2019	Change
Reported Revenue	£67.4m	£56.3m	+19.7%
Proforma Revenue**	£67.4m	£64.7m	+4.2%
Reported operating profit margin	6.1%	5.2%	+90bps
Adjusted operating profit margin*	7.2%	6.5%	+70bps
Reported profit before taxation	£4.0m	£2.8m	+42.9%
Adjusted profit before taxation*	£4.7m	£3.5m	+34.3%
Adjusted diluted EPS	46.3p	35.9p	+29.0%
Underlying cash flow	£8.0m	£4.0m	+103%
Net cash/(net debt)	£3.2m	(£2.0m)	+260%
Dividend	12.5p	12.5p	-
Open order book @ 31 May 2020	£37.9m	£35.9m	+5.6%

* Adjusted performance metrics are reconciled in note 7.
**Proforma revenue restates the prior year on a like for like basis to include the £9.4m pre-acquisition Pacer revenue for 2018/19 and excludes £1.0m non-recurring electronics revenue as reported in prior year.

The Group has delivered:

- 4% organic sales growth in proforma Group revenue, driven by 8.8% organic growth in Manufacturing and 1% growth in VAD against an electronic component distribution market that experienced a 7% decline
- Record profitability reflected in adjusted operating margins increasing 70bps to 7.2%, based on margin improvement in both divisions and the operational gearing
- Record operating cash generation of £8.0m with reported cash conversion of 197% (2019: 168%)
- Adjusted fully diluted EPS up 29% to 46.3p (2019: 35.9p)
- 5.6% organic growth in the open orderbook at the 31 May 2020
- Dividend maintained – testament to the resilience of the Group’s business model

Notable achievements in 2019/20 to advance our strategy included:

- Investment in technology across the Group including our battery pack designs, own brand computing products and enhanced production capabilities in the Weymouth value added facility
- Investment in business development resource to target new customers and markets for our technical solutions
- Integration of Pacer’s Opto-electronics business into VAD to enable the division to leverage the benefits of scale and reach
- Investment in ERP systems across the Group

Commenting on the results and prospects, Gary Marsh, Chief Executive of Solid State, said:

"I am very pleased to be presenting a set of results that demonstrates a resilient performance, enhanced by the Group's structural characteristics. Our diversity in technology, markets and territory has offered some protection against the global headwinds in the period and enabled Solid State to deliver record results.

"The Board is confident that the achievements of the last year and the growth in the 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 in spite of the disruption that COVID-19 is causing."

Investor Results Presentation:

Gary Marsh, Chief Executive, and Peter James, Finance Director, will hold a presentation to cover the results and prospects at 4.30pm on 30 June 2020.

The presentation will be hosted through the digital platform Investor Meet Company. Investors can sign up to Investor Meet Company for free and add to meet Solid State plc via the following link. https://investormeetcompany.com/solid-state-plc/register-investor?arc=d9e8ece0-bac5-4100-ab1b-fdf0f9178636. For those investors who have already registered and added to meet the Company, they will automatically be invited.

Questions can be submitted pre-event to solidstate@walbrookpr.com, or in real time during the presentation via the "Ask a Question" function.

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

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Analyst Research Reports: For further analyst information and research see the Solid State plc website:
https://solidstateplc.com/research/

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'. To see an introductory video on the Group - https://youtu.be/bp4WfLCEc5Y

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 since 2002.

CHAIRMAN'S STATEMENT

Overview of the year

The financial year ended 31 March 2020 has seen the Group deliver a record performance in terms of revenue and profit, having made significant progress against its strategic objectives. The Group's strategy is to deliver growth both organically and through acquisition. These results illustrate our continued commitment to delivering on this strategy.

During our first full year of ownership of Pacer Technologies, acquired in November 2018, the Value Added Distribution (VAD) division has successfully completed the integration of Pacer's Opto-electronics business, which will enable the division to harness effectively the benefits of enlarged scale and customer reach.

The Group has continued to invest in its R&D activities in the Computing, Power and Opto-electronics business units to support sustainable margin improvement. There has been significant progress in developing own brand computing products that will enable the business development team to target Artificial Intelligence (AI) architecture opportunities. Our investment in enhanced battery pack designs provide power for autonomous craft in addition to providing solutions which fulfil the growing demand to replace fossil fuel motors with an electric power train.

The Group has invested in business development resource to target new customers and markets across both divisions. This will enable the Group to maintain a diversified customer base and maintain the resilience that we have established while allowing us to exploit bigger opportunities with our Tier 1 customers.

Senior management and corporate governance

During 2020 Solid State made significant progress in refreshing the Board to take the business through the next phase of its development.

I would like to acknowledge the contribution of both Mr A B Frere and Mr J M Lavery who both retired from the Board during the financial year.

Mr J M Lavery served as both an Executive and Non-Executive Director over his 36 years' service with Steatite, the last 17 years with the Group after Steatite was acquired by Solid State in 2002.

Mr A B Frere served as Chairman for the last six years and nearly 10 years as a Board member. Under his chairmanship, Solid State PLC achieved a great deal, making seven acquisitions, considerably broadening its product offering, and building a trusted brand whilst developing the business and the governance structures to put the business in a strong position looking forward.

Mr N F Rogers joined the Board on the 1 July 2019 bringing a wealth of business experience. He has made a significant contribution during his first year and will be a valuable member of the team as we take the Group forward.

The recruitment process for the new Non-Executive Director and the appointment of a full time Chairman is not yet concluded and is now being hindered by COVID-19 distancing protocols. As a result, I have assumed the role of Interim Chairman until such time as a permanent appointment can been made.

Acquisitions

Our stated strategy to further the Group's development through a combination of organic and acquisitive growth is unchanged. Whilst progress on our near-term acquisitions is currently paused, the Group remains acquisitive and is at the early stage of evaluating several opportunities.

Pipeline development continues both on UK bolt-on targets and larger businesses that will expand our international sales. The Board will look to be opportunistic should an acquisition target arise as we exit the COVID-19 pandemic and we plan to resume these activities as soon as possible.

Having now repaid the final instalment of our term loan for the acquisition of Pacer Technologies, Solid State is now debt free. With cash at bank of £4.5m as at 31 May 2020 and a recently renewed and unutilised Revolving Credit Facility of £7.5m we are well placed to support our acquisition strategy when activities resume.

Dividend

The resilience of the Group's business model and the strong cash position gives the Board confidence in recommending a final dividend despite the current challenging environment. Solid State plc has paid a dividend every year since joining AIM in 1996. The Group's stated dividend cover range is between 2.5 and 3.0 times. However, given the current exceptional circumstances the Board considered it prudent when recommending a final dividend to temporarily increase cover this year to 3.75 times. Next year, depending on the market backdrop, we will aim to return to our targeted dividend cover range. The Board is proposing to maintain last year's dividend meaning a final dividend of 7.25p (2019: 8.3p), giving a full year dividend of 12.5p (2019: 12.5p).

Subject to approval of the final dividend by shareholders at the AGM on 9 September 2020, the final dividend will be paid on 23 September 2020 to shareholders on the register at the close of business on the 4 September 2020. The shares will be marked ex-dividend on 3 September 2020.

Opportunities and prospects for 2020/2021

Whilst the forthcoming period will no doubt be dominated by the effects of COVID-19, the Group is well placed to weather the current crisis and emerge in a stronger position than many of its competitors. Although the Group is seeing and expecting some slowdown in order intake during this financial year, its diverse sector exposure and strong open order book will provide some resilience.

The Group's business model now serves a wide customer base of over 1500 clients, operating across multiple sectors, offering a broad product range with decentralised production across the UK. This diversification provides the Group with a resilience when markets are challenging. The Group's most recent acquisition of Pacer Technologies further diversified the Group and greatly improved its access and offering to the medical sector, which has been relatively strong during the COVID-19 pandemic.

We expect sectors such as oil & gas and commercial aviation will continue to be impacted in addition to the softness in demand for computing products for certain niche applications. That said, the Board believes demand for image capture, processing, and transmission post COVID-19 will see significant growth in the medium term, driven by increased adoption of industrial AI and the roll out of 5G. The Group is equally seeing other sectors, notably medical and food retail, delivering strong sustained demand providing some mitigation to the adversely impacted market sectors.

While risks outside COVID-19 remain, the Group continues to benefit from opportunities in its core markets as noted above. The Group has traditional strength in serving the security and defence sector, furthermore it is well placed to benefit from any shift by Prime Contractors away from a globalised supply chain to buying more of their vital electronics and services closer to home.

The Group continues to drive cross selling initiatives. The VAD division is seeking opportunities requiring higher levels of technical integration, that can be fulfilled though collaboration with the Manufacturing division. Two notable programmes are expected to start in 2020 leveraging the full capabilities of the Group, bringing new and previously unattainable opportunities to the business.

The focus for future growth remains on high reliability, harsh environment applications where we can add value. New applications in robotics solutions and fossil fuel replacement are being targeted in varied market sectors including land based, sea and subsea. The Group is taking care to select markets for its products and solutions that have not been commoditised.

We have found new ways to engage with clients including virtual "hands-on" design and specification meetings and more of our marketing budget will be re-deployed to continue these innovations.

Entering the year with the strong open order book has meant trading in the first quarter has been broadly in-line with prior year and ahead of management expectations. While we have been able to maintain a good open order book the Q1 order intake is down just under 15% compared to prior year, as a result of COVID-19.

The outlook remains difficult to predict, however the Board is confident that given its niches in sectors currently in demand and those likely to be in receipt of government stimulus packages, for example in transportation and medical, it is well placed to navigate these exceptional trading conditions.

P Haining
Interim 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 thrives on a trusted advisor relationship with its customers. Solid State provides technology solutions, primarily designed for demanding applications, safely, reliably, and swiftly freeing customers to focus on their core business with confidence.

Solid State's mission and strategy to deliver growth

The Group's 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.*"

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

The strategy to deliver this has three key elements:

1) Investment in people, technical knowledge, and resources to ensure Solid State remains at the forefront of electronics technology. To constantly seek opportunity to add value meeting our customers' unmet needs and establishing long term relationships as a trusted advisor and subject matter experts;
2) Targeting strategic acquisitions which are aligned with Solid State's core capabilities and provide access to new markets or deepen the Group's knowledge and ability, whilst enhancing the value it can add for its customers; and,
3) Continue to develop strategic partnerships with customers and suppliers within the electronics industry, building its 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 its markets include safety, technical performance, efficiency improvements, cost savings, and environmental monitoring.

Value Added Distribution ('VAD') division

The Group's VAD division has two business units; electronics and opto-electronics. The division focuses on serving the needs of the original equipment manufacturing (OEM) and the contract electronics manufacturing (CEM) communities in the UK, principally from its operations in Redditch, Pangbourne and a USA sales office. The division continues to invest in its 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 5G and the Internet of Things (IoT), embedded processing, control, wireless and wired communications, power management, optical emitters and sensors, displays 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 AS9100 and 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 a bespoke electrostatic discharge (ESD) safe facility in line with the AS9100 certification. This is an offering many competitors are unable to provide.

Manufacturing division – Computing, Power and Communications business units

The division is a market leader in the design, development and supply of portable power and energy storage solutions, rugged and industrial computers, advanced communication systems, including high-performance video transmission products and wideband antennas. The facilities and personnel are cleared by the UK Government as necessary to allow secure work. It is the technical knowhow, product quality and team responsiveness that sets this business apart from its competitors.

The division has three business units, each operating from a centre of excellence. The Crewkerne facility is the Group's centre of excellence for the design and manufacture of Power products; the Redditch facility focuses primarily on the delivery of Computing products; and the facility in Leominster primarily houses the Communications business unit, which includes antenna design, production, and test facilities.

The Group's environmental test chamber and vibration testing capabilities, in addition to the near-field antenna test chamber are located in Leominster, 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 class leading test and measurement capabilities which are utilised across the Group.

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 Microsoft Windows IoT and related software products with emphasis on driving the level of value added content. Partnerships with industry leaders including Nvidia and Intel position the business unit to address the growing opportunity in Artificial Intelligence (AI).

The business unit has strong and long standing commercial relationships directly with key suppliers in Asia and the USA. The capabilities extend from the provision of single board computer modules to turnkey integrated systems with significant engineering based value added content in the design, production, testing and commissioning.

Power business unit

The business unit has over 30 years' experience supplying 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 medical, oil and gas, military and security, aerospace, environmental and oceanographic, and industrial.

The products provide portable power and energy storage solutions. This includes battery pack assembly, power control, electronic and mechanical design, and testing. The Group is agnostic of cell chemistries, enabling the business unit to be the subject matter expert for its customers, selecting the most appropriate chemistry and battery management system for the customers' requirements.

Working from initial design through qualification and United Nations (UN) 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 operation has the latest ISO 9001-2015 standard that is complemented by the ISO18001 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.

Communications business unit

This business unit provides custom solutions that include bespoke antenna design and manufacture, 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 provide situational awareness solutions and are in service primarily with Special Forces users for ground based and, increasingly, unmanned platforms both aerial and maritime. The team seeks opportunities to enhance the base line radio product with customised packaging for harsh environments, switching and routing hardware and software add-ons as well as leveraging in house antenna capabilities.

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

The Group's purpose built 18,000 sq. ft facility in Leominster, Herefordshire, includes environmental and vibration testing capabilities and 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 organic growth in revenues and record growth in profitability in spite of the very challenging market conditions in 2019/20 which saw a significant destocking in Q1 post the original Brexit date, a cyclical downturn in VAD and, at the end of the year, significant challenges as a result of COVID-19. The strategic progress combined with the focus on value added solutions, has resulted in the Group delivering organic revenue growth and record profits significantly surpassing last year's result.

The completion of the integration of the Pacer business has strengthened the VAD division offering. The enhanced scale, capabilities, market reach and penetration places the Group in a position to target growth opportunities which would not have been previously attainable.

The Manufacturing division's technical centres of excellence have enabled it to service its core sectors of computing, power and communications more effectively in 2019/20. It continues to focus efforts where its expertise and product offerings will add real value to customers. This has resulted in high single digit organic revenue growth which has also enabled the division to continue to improve operating returns year on year.

The Group continues to recognise the value of, and to invest in, its staff with various ongoing professional development initiatives. The Group continues to attract exceptionally high calibre staff giving it a significant competitive advantage in the market place and making it a more attractive partner to do business with. Furthermore, the Group put in place staff welfare programmes to provide both physical health and mental health benefits and resources which are available to all employees.

As highlighted in the principal risk and uncertainties in the annual report, business risks have been considered and, where practical, mitigated. However, the macroeconomic and geopolitical risks and headwinds including; COVID-19, Brexit uncertainty, fall in global oil prices, US/China trading relations and the associated impact on foreign exchange, means it is very difficult to predict and therefore mitigate fully. Whilst the Group sells predominately to the UK, its customers do sell into the global markets and some have reported challenges on new project awards which makes it very difficult to forecast demand.

As a result of the macro environment the Group has seen long lead times and component shortages arising with limited warning for certain critical components, in particular, battery cells, PCBs, some embedded processing modules, semiconductors and computer processors. The Group is also seeing and managing fluctuations in freight costs and availability. The strength of the balance sheet together with smart purchasing actions have enabled the business to successfully mitigate lead times, shortages and transportation impediments. However, this continues to be a challenge requiring active management and necessitates significant buffer stocks being held.

Diversity is a key strength, providing the Group with resilience. The diversity in technology, markets and territory has offered some protection against the global headwinds in the period and enabled Solid State to deliver record results. This has carried forward to the current year and strengthened the Group's ability to weather the COVID-19 storm better than some in the industry. Further details updating on the impact of COVID-19 on the business are set out in the outlook section of this report.

Divisional business review

Value Added Distribution ('VAD') division

2019-20 proved to be a challenging year for the UK electronics distribution and semiconductor industry with the market declining circa 7% over the financial year (source ECSN). Despite this, the VAD division significantly outperformed the market with like-for-like proforma revenues slightly ahead of the prior year at £39.2m (2019: £38.8m).

The key metrics of margin and stock turn continue to be well controlled, with stock turns of more than five times. Divisional margins have benefitted from the first full year contribution of the Pacer business which has delivered particularly pleasing results in the USA where the gross margin has been increased 6%, in part because of the enhanced valued added offering. Underlying margins (USA aside) have been maintained at prior year levels despite the downward market pressure.

VAD ended the year delivering double digit organic growth in the open order book at £24.2m (2019: £21.9m), however COVID-19 has presented unprecedented challenges during Q4 and entering the new financial year.

The integration of the Pacer Opto-electronics business into the division was completed ahead of schedule. The operating margin improvement and growth strategy was defined in this process and is now being executed to good effect.

Pleasingly the Opto-electronic business unit operating margins improved more than 3% over the prior year driven by a combination of operational efficiencies and increased value added sales.

In addition, the integration has allowed the acceleration of the Group cross selling initiatives. This has enabled the VAD division to seek opportunities requiring higher levels of technical integration that can be fulfilled though the Manufacturing division. Two major programmes are expected to start in 2020 leveraging the full capabilities of the Group, bringing new and previously unattainable opportunities to the business.

The introduction of new software to monitor and manage VAD's pipeline of projects and design wins has facilitated an increasing level of activity across both business units and has allowed for tighter control and better targeting of human resource to accelerate these programmes.

During the year the division continued to invest in its marketing activity promoting the broader product offering of the enlarged VAD division, supporting the need for an enlarged design-in pipeline to feed the future sales growth. Post year end, COVID-19 has required a re-focus on the ways in which the division promotes, markets, and sells its products. There has been a greater focus on on-line technical support, on-line events and webinars and investment in search engine optimisation. It is expected that many of these innovative and significant changes which have delivered tangible benefits to both our customers and suppliers will remain in place post COVID-19.

The diverse nature of the business continues to provide a level of resilience against business disruption in any given sector as we have seen at the end of the financial year with COVID-19. The increased scale of the division has meant that it is now benefiting from its involvement in the UK's medical manufacturing industry, which historically would not have been the case.

The VAD business continues to invest in staff and capital equipment at its Weymouth value added facility and indeed across the Group. New ERP software is being tested to bring greater efficiencies to the wider business. The investment in production capability and capacity at Weymouth has been made to facilitate new opportunities from both existing and new customers.

The VAD division's strategy remains largely unchanged in terms of its growth ambitions and the means to achieve this growth. The division continues to execute on its strategy, although some of the tactical elements whilst still in place have necessarily slowed during this COVID-19 pandemic.

Manufacturing division and business unit summaries

The focus for the Manufacturing division in 2019/20 has been to win premium work, adding value when opportunity has allowed; to drive improved operating performance, and put in place a foundation for future sustainable profitable growth.

Pleasingly, in the year to 31 March 2020 it has been able to deliver organic revenue growth of 8.8%, primarily driven from the Power business unit. This has translated into record profit with underlying divisional operating margins increasing to 15% (2019: 11%). This improvement reflects a strong sales mix in the year combined with the benefits of operational gearing. The division also benefitted from the sale of some legacy inventory which was written down, the additional margin has been treated as exceptional and is excluded from the underlying operating margins.

During the year, the division invested in enhancing the business development and sales resource. It also re-focused its commercial effort on key structural growth markets including medical, autonomy, 5G, AI, and security where its expertise, technology and solutions should enable it to deliver value and realise growth.

In the latter part of the year and as the Group entered the new financial year, the COVID-19 measures have meant the deferral of a planned capital investment in an EMC chamber and RF testing suite. This has not caused any significant disruption as third party test houses have continued to be utilised. Post the COVID-19 disruption this investment is expected to be made which will further enhance the in-house capabilities and provide flexibility and a competitive advantage allowing the division to differentiate its value offering to customers.

Pleasingly, the open order book at 31 March 2020 has increased 12% to £15.7m (2019: 14.0m), however approximately £2.75m (2019: £0.1m) is billable in more than one year due to the development cycles, which when combined with lower order intake in Q1 2020/21 as a result of COVID-19, means the division expects near term revenue and profit growth to be challenging. That said, the Manufacturing division has had a good start to the year in spite of these challenges.

Computing business unit

The Computing business unit remains well diversified across market sectors and technologies. It has seen a continued increase in the demand for Artificial Internet of Things (AIoT) solutions that are image/video centric, which plays to its 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.

A concerted effort to exploit the Manufacturing division's engineering skills and security accreditations resulted in an important development and production contract from a UK Government organisation for a secure hardware solution for an IT environment, which was designed, manufactured and delivered in the period.

The technology will counter a growing cyber threat that is targeting key workers who are located out of their secure environments. As a result, the business has put in place a product road map to develop a standard compact solution during the coming year, which is being designed for both sensitive Government departments and broader commercial applications where there is a need to operate securely from remote locations.

Demand for image capture, processing, and transmission is growing significantly, driven by AI becoming a powerful solution and the adoption of 5G. In continuing to enhance its offering in this area a product strategy has been put in place to exploit the existing strengths and knowledge in, graphic & video processing. The business unit expertise in designing applied solutions for long term, reliable operation in real world harsh environments provides a competitive advantage and an opportunity to command enhanced margins.

Power business unit

During 2019/20 the Power business unit has successfully transitioned a number of designs for new markets including medical and retail warehousing applications, which were in the development phase in 2019, into production volumes in 2020. This delivered strong organic revenue growth, with operating margins benefitting from the operational gearing.

Good progress has been made in designing higher value added solutions while diversifying the markets and customer base. The business secured a development and production contract from the same retail technology company for a next generation battery solution to utilise state of the art cell chemistry and advanced battery management technology. This development will extend into 2020/21 with production deliveries at the end of that period and beyond.

The short term demand from some of the traditionally strong markets of oil and gas and aerospace have seen significant reductions as a result of the combination of macro-economic factors, low oil prices and COVID-19. This validated the importance of the strategy to diversify the market sectors which has been implemented post the acquisition of Creasefield in 2016. While this has not eliminated the impact, it has certainly reduced the adverse impact of the down turn in these sectors, as we have been able to benefit from stronger demand in other sectors such as retail technology and medical. Against the backdrop of this challenging market, billings growth in 2021 is expected to be difficult.

The focus for future growth remains on high reliability, harsh environment applications where we can add value. New applications in robotics solutions and fossil fuel replacement 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.

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.

The teams have worked diligently to resolve and purge the final legacy contracts and sell related inventories which were fully provided, while maintaining our reputation and customer relationships.

The Antennas strategic plan, which has been implemented, is to focus on the design and development of smaller and lower risk antenna solutions that can be combined into larger arrays to provide overall performance. This strategy has begun to show results and whilst sales were relatively flat year on year, the improved quality of the orders and reduction of risk resulted in strong margin contribution.

The Radio products are heavily project based, the securing of two high value orders from the UK Government enabled the team to meet bookings, billings and margin expectations for the year and helped them to carry a solid open order book into the current year.

The Radio team has targeted adding value to the offering through selling engineering and training services as an adjunct to the hardware equipment sales, further enhancing the value proposition. In addition, we have started to have some success in securing additional technology partners to complement the world class meshed radio system. A partnership with a software provider who delivers support on the routing and switching of data over the radio networks has been established. This has increased the order values and value add the team can provide as part of the solution.

The strategic priority has been to focus the Radio team on domestic markets in preference to overseas defence programmes which reduces the inherent risk and uncertainty on timing, currency, and difficult commercial constraints.

This notwithstanding, a network of overseas partners is being established, simplifying the business model, and providing customers with in-territory support to fulfil these overseas requirements. This initiative is proving successful.

This commercial focus has developed a better quality order book that is more deliverable, building a platform for the year beyond. We have seen stronger bookings in Q4 and into Q1 which provides an order book that sets this business unit up well for FY 2020/2021.

Financial Review

In order to provide a fuller understanding of the Group's ongoing underlying performance, a number of adjusted profit measures as supplementary information are included, on a consistent basis with that reported by the financial analysts that review our business. As detailed in note 7, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items.

Revenues

Group revenues from continuing operations of £67.4m were up 20% on the prior year (2019: £56.3m) as a result of a combination of organic growth and the full year benefit of Pacer. Proforma like-for-like revenues were up £2.7m or ~4.2% from 2019 proforma at £64.5m, which is adjusted for the full year benefit of Pacer and excluding £1m of non-recurring VAD revenue reported in the prior year.

As reported above, the UK electronics distribution and semiconductor industry faced a declining market of circa 7% over the financial year period (source ECSN). Despite this the VAD division significantly outperformed the market and as a whole performed well delivering 1% organic growth with like-for-like proforma revenues slightly ahead of the prior year at £39.2m (2019: £38.8m).

The Manufacturing division reported revenue of £28.2m (2019: £25.9m) which reflects 8.8% organic growth while continuing to improve margins. The current year's strong performance reflects the successful scaling of output and delivery of production volumes of the prior year development projects, which when combined with the benefit of the operational gearing and strong sales mix has delivered a record profit before tax.

Gross profit

Underlying gross profit for the year is up £4.2m to £20.6m (2019: £16.4m), reflecting margins increasing to 30.6% (2019: 29.1%) driven by margin improvement in both divisions. Reported margins of £20.8m include the benefit of the sale of some legacy fully written down manufacturing inventories which has been stripped out as exceptional.

VAD margins have improved by 1.3% to 24.8% (2019: 23.5%) largely due to the full year benefit of the value added work within the Opto-electronics business unit acquired in the prior year. When combined with the significant improvement in the underlying Manufacturing margins to 38.7% (2019: 35.6%), Group underlying margins improved 1.5% in spite of the potentially dilutive impact of the increased VAD in the mix of business.

VAD contributed gross margin of £9.7m (2019: £7.2m), up 36% over the prior year, largely due to the full year impact of the acquisition of Pacer, circa £1.9m, with the remaining £0.6m delivered organically. The Manufacturing division contributed £10.9m (2019: £9.2m) of underlying gross margin which is up 18% organically on the prior year. The underlying gross margin percentage has increased to 38.7% (2019: 35.6%) primarily benefitting from the operational gearing and a favourable mix of sales with higher sales of high value added product being achieved.

Sales and general administration expenses

Sales and general administration (SG&A) expenses of £16.7m (2019: £13.5m) increased by £3.2m. The increase is primarily due to the full year impact of the Pacer operating costs of circa £2.2m acquired in the prior year, additional investment in employee related costs of circa £1.0m, overhead inflation of circa £0.2m, increased depreciation & amortisation (D&A) and share based payment charges of £0.7m and £0.1m respectively. These increases have been partly offset by integration efficiencies and cost savings of circa £1.0m. Adjusted SG&A expenses from continuing operations increased by £3.1m to £15.8m (2019: £12.7m).

The VAD division's expenses reflect the full year impact of the acquisition of the Pacer overheads which has resulted in the division's adjusted SG&A expenses increasing from £5.5m to £7.5m. The Manufacturing division's adjusted SG&A expenses have increased to £6.6m from £6.3m reflecting primarily investment in staff costs and inflation. Adjusted head office SG&A expenses have increased to £1.7m (2019: £0.9m) primarily owing to an increase in corporate overheads and staff costs.

Within SG&A expenses the reported depreciation and amortisation (D&A) from continuing operations in the year was £2.1m (2019: £1.4m) which is up £0.7m primarily due to the adoption of IFRS16 (which resulted in £0.5m of rent being reclassified as depreciation), the full year impact on D&A arising from the Pacer acquisition, increased amortisation of capitalised R&D. Adjusted D&A from continuing operations (excludes the amortisation of acquisition intangibles) has increased to £1.6m (2019: £1.2m).

Operating profit

Adjusted operating margins increased to 7.2% (2019: 6.5%) with adjusted operating profit from continuing operations up 33% to £4.9m (2019: £3.7m) reflecting the growth in revenue and the improved margins. Reported operating profit was up 42% to £4.1m (2019: £2.9m). The adjustments to operating profit are set out in further detail in note 7.

We have recognised £0.02m (2019: nil) within operating profit in respect of Research and Development Expenditure Credit (RDEC) in addition to the tax credits recognised 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.

Profit before tax

Adjusted profit before tax was up 34% to £4.7m (2019: £3.5m). Reported profit before tax was up 42% to £4.0m (2019: £2.8m). This is reported after a share based payments charge of £0.4m (2019: £0.3m), amortisation of acquisition intangibles of £0.5m (2019: £0.3m) and exceptional items of £0.2m credit (2019: £0.1m cost).

Profit after tax

The Group benefit from the R&D tax credit scheme which reduces the effective tax rate for the year to 15% (2019: 12%) from the standard rate of 19%. As the profitability grows the benefit of R&D tax credits diminishes. Adjusted profit after tax was up 29% to £4.0m (2019: £3.1m). Reported profit after tax was up 28% to £3.4m (2019: £2.7m).

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2020 is up 29% at 46.3p (2019: 35.9p). Reported fully diluted earnings per share from continuing operations is up 29% at 39.5p (2019: 30.7p).

Cash flow from operations

Cash inflow from continuing operations for the year of £8.0m is up from £4.9m in 2019 primarily due to improved cash profits combined with a £1.4m working capital inflow. Underlying cash flow from operations was up £4.0m at £8.0m (2019: £4.0m) after excluding the net cash benefit from advanced customer payments. This delivers an underlying operating cash conversion percentage of 165% (2019: 109%) and a reported operating cash conversion percentage of 197% (2019: 168%).

There was a working capital cash inflow in the period of £1.4m due to increased payables of £1.8m offset in part by increased receivables £0.4m. Inventories have remained at a higher level due to increased lead times on battery cells and various electronic components and the positioning of inventory to mitigate the potential supply chain disruption arising due to the COVID-19 pandemic.

Investing activities

During the year, the Group invested £0.6m (2019: £0.6m) in property plant and equipment, and £0.3m (2019: £0.3m) in software and research and development intangibles.

The capital expenditure reflects significant investment in IT hardware across the Group of £0.2m and continued investment in the new Opto-electronics business unit facilities in Pangbourne and Weymouth amounting to circa £0.1m. This aside, the investment has been maintained at the historical run rate level for capital expenditure.

Financing activities

The Group has entered or extended leases during the year which has resulted in the recognition of £0.3m of additional right of use assets with a corresponding right of use liability, in accordance with IFRS16. Cash payments were made in the period in respect of lease liabilities of £0.5m.

The financing activities reflect the accelerated repayment of the £6.0m of acquisition facilities put in place to fund the acquisition of Pacer. The Group repaid all bar the last £0.3m which was repaid post year end in May 2020. Solid State continues to have a strong relationship with Lloyds Bank and, having repaid the term loan early, Lloyds has extended the quantum and term of revolving credit facility to £7.5m (2019: £3.5m) which is now committed until the 30 November 2021. The facility is currently undrawn.

Pleasingly, as a result of the strong cash generation the Group has reported a year end net cash position of £3.2m (2019: net debt £2.0m) which in conjunction with the unutilised bank facilities provides significant funding headroom for 2021 and beyond.

Statement of financial position

During the year, the Group has continued to see its balance sheet position strengthen. The Group's net assets have increased to £22.5m (2019: £19.9m) reflecting the retained profits in the year. Furthermore, the Group has returned to a net cash position with £3.2m at the year end (2019: £2.0m net debt). The adoption of IFRS 16 has resulted in the recognition of £1.1m of right of use lease assets and an offsetting right of use lease liability. The impact on net assets is immaterial at both transition and as at 31 March 2020.

Dividend

The Board is proposing to maintain last year's dividend meaning a final dividend of 7.25p (2019: 8.3p), giving a full year dividend of 12.5p (2019: 12.5p). Subject to approval of the final dividend by shareholders at the AGM on 9 September 2020, the final dividend will be paid on 23 September 2020 to shareholders on the register at the close of business on the 4 September 2020. The shares will be marked ex-dividend on 3 September 2020.

COVID-19 update and Outlook

Post the year end, the direct impact on sales of COVID-19 has been modest with a very low number of customers closing and a minimal impact on the open order book. The business reacted early to the pandemic with all staff who could work from home being equipped to, and management having tested their capability to work from home well before the government imposed lock down. The business has not lost a single day's trading as a result of the pandemic.

Several staff volunteered to cross train to ensure warehouse operations and production operations can continue without significant disruption. The Group operates across four independent manufacturing sites in the UK. These sites have remained open and operating effectively with minimal disruption while adhering to best practice guidelines on social distancing and hygiene protocols. Measures have been put in place to ensure that the risk of cross-contamination within the business is minimised.

As the lock down eases, where possible staff are continuing to work from home, however the Group has implemented the plans for a gradual phased return to the offices. The key objective is to maintain a safe working environment with a view to minimising the risk to staff.

Commercially COVID-19 is affecting the business in contrasting ways: The Group has been notified by numerous customers in both its Manufacturing and VAD divisions that the Group has been designated a critical supplier under the government's critical industries and key workers guidance. Sectors highlighting this dependency include medical, food retail, security, transportation, and defence.

Conversely, the Group is experiencing softness in the demand for batteries for the commercial aerospace market and in computing products for certain niche applications in the industrial sector. Separately, owing to the fall in oil prices, we are currently experiencing lower levels of orders for battery packs from the oil and gas industry.

The Group continues to hold relatively high levels of stock to limit exposure to supply chain volatility. At present, the Group holds approximately 2.5 months' stock.

The Board is taking prudent steps to mitigate and manage its cashflow and cost base to withstand this near-term uncertainty. These included a recruitment freeze; a salary increase freeze for all Directors and staff; adoption of available deferrals for VAT and PAYE payments to HMRC; and furloughing of some staff under the Coronavirus Job Retention Scheme.

Furthermore, the Board has suspended the Group's acquisition strategy temporarily during this period of uncertainty, and delaying new planned capital expenditure, for example in new EMC test equipment for manufacturing. However, ongoing projects around ERP system upgrades and the acquisition of an advanced welder to support new battery developments have gone ahead.

While the Group's acquisition strategy has been paused, the Group remains acquisitive and is at the early stage of investigating several opportunities. It will look to be opportunistic should an acquisition target arise as we exit the COVID-19 pandemic.

The continued margin improvement and organic growth achieved by the Manufacturing division, in conjunction with a technology development across all of the key sectors of computing, power and communications puts the Group in a strong position, albeit the macroeconomic headwinds in 2020/21 continue to be a challenge. The Manufacturing division is in a strong competitive position to deliver profitable growth in the mid-term once we get past the COVID-19 disruption.

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

Whilst the order intake in Q1 has been just under 15% lower than the prior year we have a number of significant opportunities which we are currently bidding on which could provide upside to the fortunes for the full year, albeit Q2 and the early part of Q3 are expected to be challenging.

Over the next two years of Solid State's five year plan, the Group will remain focused on securing quality orders as it strives to achieve the goal set 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 the 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 in spite of the disruption that COVID-19 is causing.

G S Marsh
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2020

Continuing Operations	Notes	2020 £'000	2019 £'000
Revenue	6	67,417	56,299
Cost of sales		(46,614)	(39,927)
		_______	_______
Gross profit		20,803	16,372
Sales, general and administration expenses		(16,681)	(13,452)
		_______	_______
Profit from operations		4,122	2,920
Finance expense		(120)	(109)
		_______	_______
Profit before taxation		4,002	2,811
Tax expense	3	(588)	(153)
		_______	_______
Adjusted profit after taxation		4,002	3,108
Adjustments to profit	7	(588)	(450)
Profit after taxation		3,414	2,658
		_______	_______
Profit attributable to equity holders of the parent		3,414	2,658
		_______	_______
Other comprehensive income		-	-
		_______	_______
Total comprehensive income for the year		3,414	2,658
		_______	_______

Earnings per share		2020	2019
Basic EPS from profit for the year	4	40.1p	31.3p
Diluted EPS from profit for the year	4	39.5p	30.7p

Adjusted EPS measures are reported in note 4 to the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	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 2019	427	3,627	(5)	5	16,021	(172)	19,903
IFRS16 Leases adjustment on adoption	-	-	-	-	(14)	-	(14)
Total comprehensive income for the year ended 31 March 2020	-	-	-	-	3,414	-	3,414
Shares issued	1	(1)	-	-	-	-	-
Foreign exchange	-	-	(2)	-	-	-	(2)
Rounding	(1)	-	-	-	1	-	-
Transfer of treasury shares to AESP	-	-	-	-	(129)	129	-
Dividends	-	-	-	-	(1,153)	-	(1,153)
Share based payment credit	-	-	-	-	381	-	381
Balance at 31 March 2020	427	3,626	(7)	5	18,521	(43)	22,529

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2020

		£'000	£'000	£'000	£'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment		2,286		2,425	
Right of use lease asset		1,055		-	
Intangible assets		8,213		8,892	
TOTAL NON-CURRENT ASSETS			11,554		11,317
CURRENT ASSETS					
Inventories		9,662		9,648	
Trade and other receivables		13,859		13,389	
Deferred tax asset		86		105	
Cash and cash equivalents		3,517		3,692	
TOTAL CURRENT ASSETS			27,124		26,834
TOTAL ASSETS			38,678		38,151
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables		10,597		8,725	
Contract liabilities		2,486		2,511	
Current borrowings		333		1,333	
Corporation tax liabilities		774		519	
Right of use lease liabilities		471		-	
TOTAL CURRENT LIABILITIES			14,661		13,088
NON CURRENT LIABILITIES					
Non current borrowings		-		4,334	
Right of use lease liabilities		677		-	
Provisions		304		250	
Deferred tax liability		507		576	
TOTAL NON-CURRENT LIABILITIES			1,488		5,160
TOTAL LIABILITIES			16,149		18,248
NET ASSETS			22,529		19,903
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY					
HOLDERS OF THE PARENT					
Share capital			427		427
Share premium reserve			3,626		3,627
Capital redemption reserve			5		5
Foreign exchange reserve			(7)		(5)
Retained earnings			18,521		16,021
Shares held in treasury			(43)		(172)
TOTAL EQUITY			22,529		19,903

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2020 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 2020

		2020		2019	
		£'000	£'000	£'000	£'000
OPERATING ACTIVITIES					
Profit before taxation			4,002		2,811
Adjustments for:					
Depreciation			1,114		698
Amortisation			960		732
Impairment of right of use lease asset			84		
(Profit)/Loss on disposal of property, plant and equipment			(31)		6
Share based payment expense			381		300
Finance costs			120		109
			_______		_______
Profit from operations before changes in working capital and provisions			6,630		4,656
Decrease/(Increase) in inventories		1		(1,198)	
Increase in trade and other receivables		(444)		(1,071)	
Increase in trade and other payables		1,801		2,540	
Increase/(decrease) in provisions		54		(10)	
		_______		_______	
			1,412		261
			_______		_______
Cash generated from operations			8,042		4,917
Income taxes paid		(385)		(243)	
Income taxes recovered		-		-	
		_______		_______	
			(385)		(243)
			_______		_______
Net cash flow from operating activities			7,657		4,674
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(579)		(600)	
Capitalised own costs and purchase of intangible assets		(281)		(300)	
Proceeds of sales from property, plant and equipment		103		113	
Consideration paid on acquisition of subsidiaries		-		(3,812)	
		_______		_______	
Net cash flow from investing activities			(757)		(4,599)
FINANCING ACTIVITIES					
Issue of ordinary shares		-		(34)	
Borrowings drawn		-		6,000	
Borrowings repaid		(5,334)		(1,776)	
Payment obligations for right of use assets		(513)		-	
Interest paid		(80)		(109)	
Dividend paid to equity shareholders		(1,153)		(1,036)	
		_______		_______	
Net cash flow from financing activities			(7,080)		3,045
			_______		_______
(Decrease)/Increase in cash and cash equivalents			(180)		3,120
			_______		_______

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000
Translational foreign exchange on opening cash	5	(3)
Net (decrease)/ increase in cash and cash equivalents	(180)	3,120
Cash and cash equivalents at beginning of year	3,692	575
	________	________
Cash and cash equivalents at end of year	3,517	3,692
	________	________

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

	2020 £'000	2019 £'000
Cash available on demand	3,517	3,692
	________	________

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

1. ACCOUNTING POLICIES

Solid State PLC ("the Company") is a public company incorporated, domiciled and registered in England and Wales in the United Kingdom. The registered number is 00771335 and the registered address is: 2 Ravensbank Business Park, Hedera Road, Redditch, B98 9EY.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, except for the impact of the implementation of IFRS 16 Leases.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board as adopted by the European Union ("IFRSs") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRSs.

As allowed by IFRS 1, we have elected not to apply IFRS retrospectively for business combinations computed prior to 1 April 2006 and have used the carrying value of goodwill resulting from business combinations occurring before the date of transition as deemed costs, subjecting this to impairment reviews at the date of transition (1 April 2006) and at the end of each financial year thereafter.

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

Going concern

Basis of preparation

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2020, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2020, the Group had cash balances of £3.5 million, a drawn term loan of £0.3m (which was repaid post year end in May 2020) and undrawn revolving credit facility (RCF) of £7.5 million.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's cash flows and related assumptions and in accordance with the Guidance published by the UK Financial Reporting Council. (Risk Management, Internal Control and Related Financial and Business Reporting 2014, the April 2016 guidance on Going concern basis of accounting and reporting on solvency and liquidity risks and the various guidance issued in 2020). This guidance provides support to Directors and Boards in making the assessment of going concern.

In assessing going concern the Directors have given careful consideration of the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the Group over the next 12 month period.

COVID-19 has meant that the Group is facing uncertainty in customer demand and potential for operational disruption, albeit to date the Group has avoided material operational impact, and has continued to trade without significant interruption. The assessment of the impact of COVID-19 has taken in to account the current measures that have been put in place by the Group to preserve cash, which include; deferring non-essential capital expenditure, pausing acquisition activity and reducing discretionary expenditure.

In preparing the going concern assessment the Directors considered the principal risks and uncertainties that the business faced. The appraisal identified that the impact of the COVID-19 disruption was the most significant uncertainty facing the business. The assessment identified three areas of potentially significant impact: supply chain disruption; operational disruption; and, downturn in customer demand because of the global business disruption caused by COVID-19. The board concluded that the two areas of the risk which remained the most uncertain were the impact of potential operational disruption and the length of downturn in demand from customers.

Whilst the Group has seen an apparent decline in new programme design-ins and related bookings, the post balance sheet period has provided some reassurance as to the level of customer demand which the Group has seen in the post lock down period. Q1 is expected to be the period most significantly impacted by the disruption as a result of the full lock down. However, it remains uncertain as to the profile of how and when the demand will recover as the lockdown is eased.

The Directors have prepared revised “stressed” forecasts taking account of the results to date, current expected demand, and mitigating actions taken, together with an assessment of the liquidity headroom against the cash and bank facilities.

The bank facilities are subject to financial covenants requiring the business to be EBITDA positive therefore this facility is available to fund investment in working capital, capital investment or acquisition activities. Should the business face such a significant downturn that it was loss making the facility would not be available to be drawn to fund additional losses without a covenant waiver or amendment. As a result, in evaluating a stressed forecast model the Board have not included the RCF in the headroom.

This financial modelling is based on applying various sensitivity scenarios to a 12 month base case to 30 June 2021 which has been prepared based on an extension of the budget. The budget was set before the severity of the COVID-19 impact was known.

In the period since the balance sheet date Group bookings were down circa 15% over the average for the prior period, however, due to the nature of the business where the Group has orders placed on schedules and significant projects, bookings in any given month can see material variations. In preparing a worst case downside scenario with no overhead mitigation, it assumes a shortfall in Group revenue of ~23% over 12 months period with no cost mitigation. This results in EBITDA reducing by ~88% compared to the Board’s base case expectations prior to development of the COVID-19 pandemic. Even with this level of Group EBITDA reductions, when combined with the modest investment mitigation that are within the Group’s control, the Directors currently believe the Group would retain a reasonable cash surplus thus maintaining sufficient liquidity to meet its liabilities as they fall due.

The Directors have also assessed the impact of an even more severe effect on the Group where the Group faced revenue reduction across the 12 month period of ~33%. In this scenario more mitigation is required in terms of modest overhead reductions, reduced capital investment to “critical investment only” and making no distributions. In this scenario the Group remains cash positive and therefore can maintain sufficient liquidity to meet its liabilities as they fall due without looking to additional sources of liquidity.

In considering the assessment of the Group’s going concern position the Directors have also identified that the Group could look to both the Group’s bankers and or the equity markets if additional liquidity were required. Albeit none of the sensitivities indicate that the Group would require additional sources of liquidity.

In the post balance sheet period, the Group has prudently taken actions to conserve cash which have increased the cash reserves post year end improving the liquidity position.

The actions taken included: deferrals of FY19/20 Director and staff pay raises; limiting discretionary expenditure; pausing acquisition opportunities; delaying all capital investment other than safety / required maintenance investment; adoption of available deferrals on PAYE and VAT from HMRC; and, utilisation of the job retention support announcements by the UK Government. At the peak the Group furloughed approximately 30% of the staff to align the level of staff resources with reduced Q1 business demand. Given our relationship with the Groups primary bankers and the cash and facilities the Group has available the Board has not felt it was necessary or appropriate to apply for government backed loans.

The Directors have concluded that the potential impact of the COVID-19 pandemic described above does not represent a material uncertainty over the Group and Company’s ability to continue as a going concern.

Nevertheless, it is acknowledged that there are potentially material variations in the forecasted level of financial performance for the coming year. As a result, the Board has not issued guidance to analysts and shareholders.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months, therefore it is appropriate to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

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 2019:

- IFRS16 “Leases”

- Annual improvements 2015-2017 cycle (effective for accounting periods beginning or after 1 January 2019)
- Amendment to IAS 28 Investments in associates and joint ventures' which clarifies the accounting for long term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied.
- Amendments to IFRS 9 "Financial Instruments which clarifies the treatment of financial assets with prepayment features with negative compensation.
- IFRIC 23 Uncertainty over tax treatments which explains how to recognise, and measure deferred and current tax where there is uncertainty over the tax treatment.

The adoption of these standards and amendments has not had a material impact on the Group's consolidated financial statements, except for the adoption of IFRS 16 where the impact of adoption of this new standard is set out in note 8.

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 2020 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 17 Insurance contracts which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.
- Amendments to IFRS 10 Consolidated financial statements and IAS 28 investments in associates and joint ventures which clarifies the accounting treatment for sales or contribution of assets between an investor and its associate or joint venture.
- Amendments to IFRS 3 business combinations which clarifies the definition of a business
- Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies changes in accounting estimates and errors which are intended to make the definition of material easier to understand.
- Amendments to references to the Conceptual framework in IFRS Standards.

The Directors anticipate that none of the new standards, amendments to standards and interpretations will have a significant effect on the financial statements of the Group.

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.

Expected credit losses

In accordance with IFRS 9 the Group is required to make an assessment of the expected credit loss occurring over the life of its trade receivables. As a result of the COVID-19 disruption to businesses across the globe the Directors expect that the risk of credit default has significantly increased over historical norms.

As a result, the Directors have made a judgemental assessment of the potential increase in credit losses in the current business environment.

The increase in the provision based on the Directors judgemental assessment of expected credit loss reflects an increase of £305k to £496k. The increase in the year is significant but not considered material to the financial statements as a whole.

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 estimates to be made in respect of 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 1 – 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 £367k; if the lives were reduced by one year across all the projects which are being amortised the charge would increase by circa £100k.

The amortisation charge for intangible assets arising on acquisitions in the current year is £505k; if the lives were reduced by one year the charge would increase by £51k.

Estimated goodwill impairment

Goodwill is not amortised; however, it is reviewed for impairment at least annually or more frequently if events or circumstances indicate a potential impairment. For the purpose of impairment testing Goodwill is allocated to each of the cash generating units (CGU) to which it relates. The impairment assessment is made based on the discounted future cashflows of the CGU.

Recognition criteria for capitalisation of development expenditure

The Group capitalises R&D in accordance with IAS 38. There is judgement in respect of when R&D projects meet the requirement for capitalisation, which internal costs are directly attributable and therefore appropriate to capitalise and when the development programme is complete, and capitalisation should cease.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to the development programme. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved.

If there is any uncertainty in terms of the technical feasibility, ability to sell the product or any other risk that means the programme does not meet the requirements of the standard the R&D costs are expensed within the consolidated statement of comprehensive income.

Estimation of level of R&D expenditure which is eligible for R&D tax credits under the SME and large company scheme.

Uncertainties exist in relation to the interpretation of complex tax legislation, changes in tax laws and the amount and timing of future taxable income. This could necessitate future adjustments to taxable income and expense already recorded.

At the year-end date, tax liabilities and assets reflect management's judgements in respect of the application of the tax regulations, in particular the R&D tax.

In assessing our year-end corporation tax liability, we have made a provisional assessment as to the likely amount of development expenditure that will be eligible under each of the HMRCs large company and SME R&D tax credit schemes as the detailed tax computations have not been completed.

Our judgement at year end assumed that the level of eligible spend was comparable with prior years. At 31 March 2020 there are current and deferred tax provisions totalling approximately £1.2m.

Due to the uncertainties noted above, it is possible that the Group's initial estimates are different to the final position adopted when the tax computation is finalised, resulting in a different tax payable or recoverable from the amounts provided.

Provisions for returns

The Group provides for an estimate of sales returns at the year end, which reduces product sales and accounts receivable, and increases stock. This provision is estimated by management based on historical experience and judgement on current contract sales.

The estimation process used to determine the provision has been applied on a consistent basis with previous years and no material adjustments have been necessary to increase or decrease these reserves as a result of a significant change in underlying estimates.

Due to the significant value of sales in the Group, the difference between the actual and estimated returns could impact operating results both positively and negatively.

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

	2020 £'000	2019 £'000
Analysis of continuing total tax expense		
Total tax charge from continuing operations	588	153
	_______	_______
	588	153
	______	______
Current tax expense		
UK corporation tax on profits or losses for the year	616	376
Adjustment in respect of prior periods	22	(67)
	_______	_______
	638	309
Deferred tax credit	(50)	(156)
	______	______
Total tax charge	588	153
	______	______

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:

	2020 £'000	2019 £'000
Profit before tax including discontinued operations	4,002	2,811
	_______	_______
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2018 19%)	760	534
Effect of:		
Expenses not deductible for tax purposes	24	25
Difference between depreciation for the year and capital allowances	42	25
Tax relief on exercise of share options exercised	4	(52)
Enhanced relief on research and development expenditure	(338)	(359)
Overseas tax rate differences	10	(27)
Deferred tax asset (recognised)/not recognised	(5)	74
Change in rate in respect of deferred tax recognition	69	-
Adjustments in respect of prior years	22	(67)
	_______	_______
Total tax charge	588	153
	_______	_______

The UK corporation tax rate is 19% (effective from 1 April 2017). As a result of the amendment in 2020 which was substantially enacted on 17 March 2020 the rate of corporation tax is set to remain at 19%. The deferred tax liabilities at 31 March 2019 have been calculated based on this rate.

R&D tax credits

The Group recognised a credit of £24k (2019: £nil) 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:

	2020 £'000	2019 £'000
Adjusted continuing earnings post tax	4,002	3,108
Reported continuing earnings post tax	3,414	2,658
Weighted average number of shares	8,510,074	8,488,675
Diluted number of shares	8,635,331	8,648,719
Reported EPS		
Basic EPS from profit for the year	40.1p	31.3p
Diluted EPS from profit for the year	39.5p	30.7p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	47.0p	36.6p
Adjusted Diluted EPS from profit for the year	46.3p	35.9p

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 8,510,074 (2019: 8,488,675) net of the treasury shares.

The diluted earnings per share is based on 8,635,331 (2019: 8,648,719) 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 7.

5. DIVIDENDS

	2020 £'000	2019 £'000
Prior year final dividend paid of 8.3p per share (2019: 8p)	708	682
Current year interim dividend paid of 5.25p per share (2019: 4.2p)	448	358
Cancelled dividends on shares held in treasury	(3)	(4)
	________	________
	1,153	1,036
	________	________
Final dividend proposed for the year 7.25p per share (2019: 8.3p)	620	708
	________	________

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 2020

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	39,247	28,170	-	67,417
	______	______	______	______
Profit before tax	2,252	4,439	(2,689)	4,002
Taxation	(510)	(538)	460	(588)
	______	______	______	______
Profit after taxation	1,742	3,901	(2,229)	3,414
Consolidated statement of financial position				
Assets	18,649	11,890	8,139	38,678
Liabilities	(6,521)	(7,845)	(1,783)	(16,149)
	______	______	______	______
Net assets	12,128	4,045	6,356	22,529
Other				
Capital expenditure:				
Tangible fixed assets	565	316	-	881
Intangible assets	2	279	-	281
Depreciation	545	569	-	1,114
Impairment	84	-	-	84
Amortisation	51	404	505	960
Share based payments	-	-	381	381
Interest	21	19	80	120
	______	_____	______	______

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2020 or the prior year.

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
Consolidated statement of financial position				
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
	______	_____	______	______

	External revenue by location of customer		Total assets by location of assets		Net tangible capital expenditure by location of assets	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
United Kingdom	48,596	44,989	36,919	37,406	881	600
Rest of Europe	6,885	5,230	1	-	-	-
Asia	4,416	2,540	-	-	-	-
North America	7,235	3,426	1,758	745		-
Other	285	114	-	-	-	-
	________	________	________	________	________	________
	67,417	56,299	38,678	38,151	881	600
	________	________	________	________	________	________

All the above relate to continuing operations.

7. 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 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. In presenting an adjusted profit metric adjusting for the following items:

- Non-cash 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 profit from the sale of fully written down stock.
- Non-recurring tax credits arising primarily from prior year R&D claims and tax deductions on share options.

	2020 £'000	2019 £'000
Acquisition and re-organisation costs	-	149
Non recurring profit from sale of full written down stock	(160)	-
Amortisation of acquisition intangibles	505	284
Share based payments	381	300
	________	________
Adjustment to profit before tax	726	733
Current and deferred taxation effect	(138)	(142)
Non recurring tax credits	-	(141)
	________	________
Adjustments to profit after tax	588	450

	2020 £'000	2019 £'000
Reported gross profit	20,803	16,372

Adjustments to gross profit	(160)	-
Adjusted gross profit	20,643	16,372
Reported operated profit	4,122	2,920
Adjustments to operating profit	726	733
Adjusted operating profit	4,848	3,653
Reported operating margin percentage	6.1%	5.2%
Operating margin percentage impact of adjustments	1.1%	1.3%
Adjusted operating margin percentage	7.2%	6.5%
Reported profit before tax	4,002	2,811
Adjustments to profit before tax	726	733
Adjusted profit before tax	4,728	3,544
Reported profit after tax	3,414	2,658
Adjustments to profit after tax	588	450
Adjusted profit after tax	4,002	3,108

8. LEASES UNDER IFRS 16 "LEASES"

The implementation of IFRS 16 at 1 April 2019, which had no material impact on total net assets or cash, is summarised in the narrative and table set out below:

	Reported 31 March 2019	Adoption of IFRS16	1 April 19
ASSETS	£'000	£'000	£'000
NON-CURRENT ASSETS			
Non current assets previously reported	11,317	-	11,317
Right of use lease assets	-	1,305	1,305
TOTAL NON-CURRENT ASSETS	11,317	1,305	12,622
Total current assets previously reported	26,834	-	26,834
TOTAL CURRENT ASSETS	26,834	-	26,834
TOTAL ASSETS	38,151	1,305	39,456
LIABILITIES			
CURRENT LIABILITIES			
Current liabilities previously reported	(13,088)	-	(13,088)
Right of use lease liabilities	-	(448)	(448)
TOTAL CURRENT LIABILITIES	(13,088)	(448)	(13,536)
NON-CURRENT LIABILITIES			
Non current liabilities previously reported	(5,160)	-	(5,160)
Non current right of use lease liabilities	-	(871)	(871)
TOTAL NON-CURRENT LIABILITIES	(5,160)	(871)	(6,031)
TOTAL LIABILITIES	(18,248)	(1,319)	(19,567)
TOTAL NET ASSETS	19,903	(14)	19,889

CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Retained earnings	16,021		(14)		16,007
Other reserves as previously reported	3,882		-		3,882
TOTAL EQUITY	19,903		(14)		19,889

Differences between the operating lease commitments disclosed at 31 March 2019 under IAS 17 discounted at the incremental borrowing rate at 1 April 2019 and lease liabilities recognised at 1 April 2019 are explained below:

	£'000
Minimum operating leases commitments disclosed at 31 March 2019	1,409
Include break clauses included under IFRS 16	39
Exclude operating leases not treated under IFRS 16	(33)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(96)
Lease liability recognised as at 1 April 2019	1,319

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.