SOLID STATE PLC

13 July 2021

Solid State plc
("Solid State", the "Group" or the "Company")
Final Results for the 12 months ended 31 March 2021
Analyst Briefing & Investor Presentation

Solid State plc (AIM: SOLI), the specialist value added component supplier and design-in manufacturer of computing, power, and communications products, is pleased to announce its audited final results for the 12 months ended 31 March 2021.

Highlights include:

Financial:

KPI	2021	2020	Change
Reported Revenue	£66.3m	£67.4m	-1.6%
Reported operating profit margin	6.5%	6.1%	+40bps
Adjusted operating profit margin*	8.3%	7.2%	+110bps
Reported profit before taxation	£4.2m	£4.0m	+5.0%
Adjusted profit before taxation*	£5.4m	£4.7m	+14.9%
Reported EPS	46.4p	40.1p	+15.7%
Adjusted diluted EPS	54.7p	46.3p	+18.1%
Underlying cash flow from operations	£6.9m	£8.0m	-13.8%
Net cash/(net debt)**	(£4.4m)	£3.2m	-237.5%
Dividend	16.0p	12.5p	+28.0%
Open order book @ 31 May	£51.0m	£37.9m	+34.6%

* Adjusted performance metrics are reconciled in note 10, the adjustments relate to IFRS 3 acquisition amortisation, Share based payments charges, and non-recurring charges in respect of redundancies and acquisition costs and fair value adjustments.
** Net cash / debt includes net cash with banks £3.1m (2020: £3.2m), the fair value of deferred contingent consideration of £7.5m (2020: nil) and excludes the right of use lease liabilities of £2.5m (2020: £1.1m).

The Group has delivered:

- Stable revenue year on year at £66.3m (2020: £67.4m), reflecting diversified market sector exposure which has given the business resilience to the COVID-19 pandemic and Brexit challenges.
- Record profitability reflected in adjusted operating margins increasing 110bps to 8.3%, based on solid margins in both divisions and the improved operational efficiencies.
- Adjusted fully diluted EPS up 18% to 54.7p (2020: 46.3p).
- Consistently strong operating cash generation of £6.9m (2020: £8.0m) with reported cash conversion of 162% (2020: 195%).
- A dividend increased 28% on prior year reflecting record performance in the year.
- An open order book on 31 May 2021 of £51.0m - and £41.4m (2020: £37.9m) on like-for-like (excludes the companies acquired during the year) basis reflecting 9.2% organic growth in the open order book on 31 May 2021.

Strategic Achievements in FY20/21

Notable achievements in FY20/21 to advance our strategy included:

- Acquisitions of Willow Technologies and Active Silicon:
    - Enhanced technology adding a portfolio of own brand image processing products and electro-mechanical components (including component manufacturing capabilities in USA); and,
    - Enhanced the international sales capabilities and resources in the USA and Europe.
- Internal technology development of the Group's battery pack and Battery Management Systems (BMS) offering, own brand computing products and building the portfolio of communications products through the Group R&D programme.
- Established in-house Electromagnetic Compatibility (EMC) testing capabilities through the capital investment programme.

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

"I am pleased to report that Solid State has delivered another year of record profits and a further step in achieving its medium term target of doubling adjusted earnings per share, despite a challenging market environment and the pandemic.

"The completion of two bolt-on acquisitions late in the year significantly enhance the Group's capabilities and add to the Group's resilience and strategic targets of achieving greater diversity in geographical and industry sector coverage.

"The Board is confident that the achievements of the last year and the post period end growth in open orders are a very good foundation going into the current financial year. The experience of our team, focus on structural growth markets and the balance sheet strength set Solid State aside from many in our sector, giving the Directors confidence in the mid-term prospects."

Analyst Briefing: 9.30am today, 13 July 2021

An online briefing for Analysts will be hosted by Gary Marsh, Chief Executive, and Peter James, Group Finance Director, at 9.30am on Tuesday 13 July 2021 to review the results and prospects. Analysts wishing to attend should contact Walbrook PR on solidstate@walbrookpr.com or on 020 7933 8780.

Investor Results Presentation: 4.00pm on Wednesday 14 July 2021

Gary Marsh, Chief Executive, Peter James, Group Finance Director, and John Macmichael, Managing Director of the Value Added Supplies division, will hold a presentation to cover the results and prospects at 4.00pm on Wednesday 14 July 2021. 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://www.investormeetcompany.com/solid-state-plc/register-investor. Investors who have already registered and added to meet the Company 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.

For further information please contact:

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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 commercial, industrial and military markets with durable components, assemblies and manufactured units for use in specialist and harsh environments. The Group's mantra is - 'Trusted technology for demanding applications'. To see an introductory video on the Group - https://bit.ly/3kzddx7

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

Headquartered in Redditch, UK, Solid State employs approximately 300 staff across UK and US, serving specialist markets in energy 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 12 acquisitions since 2002.

Chairman's Statement

I am pleased to report that the Group has delivered another year of record profits despite a challenging market environment. Group management continues to make good progress in the implementation of its strategy by investing in people and technology, and through the completion of two bolt-on acquisitions late in the year which significantly enhance the Group's capabilities.

Our business model has displayed resilience in the face of the global COVID-19 pandemic, demonstrating the benefits of our diverse geographical, industry sector coverage and our decentralised footprint. Whilst the acute impact of the pandemic is now receding, there are longer term effects on component availability, logistical disruption and inflationary pressures which are expected to endure into 2022. These are complex and can be difficult to navigate and call upon the full range of skills and experience of our well established team.

The Group also entered the current financial year with a strong balance sheet, and the addition of Willow Technologies Group (Willow) and Active Silicon Group (Active), providing further momentum to maintain our growth record.

Strategy

The Group provides customers broad-based access to trusted electronic technology for demanding applications and extreme environments and has a commercial focus on high growth markets including security & defence, medical, green energy, transport, communications and industrial.

Our medium-term financial objective to double fully diluted adjusted earnings from 30 pence to 60 pence per share over a five year period to March 2022 is on track. The accelerated growth rate achieved in recent periods reflects the benefit of the foundations which have been laid and the significant opportunities for continued growth. The Directors are fully committed to continuous development of our capabilities to build on this success, further strengthen our partnership approach with major customers, and continue to share rewards equitably amongst all of our stakeholders.

Although there are acknowledged short term supply challenges for our industry, the demand outlook for customised electronic solutions offers exciting opportunities. Many ground breaking technologies are embedded within our current activities, and there is scope for further investment in specialist skills and knowledge to expand and differentiate our offering to customers, both through internal development and acquisition as we target international expansion.

We are building ever closer relationships with our customers, adding substantial value through early stage integration into their design and development road maps, and interlocking with their operational and logistics processes. This will be achieved by further strengthening channels of co-operation between Group entities, building cross-selling specialist teams to facilitate ease of customer access to our full range of products and services.

Governance and Accountability

The structure of the Board has continued to evolve with the appointment of Pete Magowan as Senior Independent Director in November 2020, at the same time as my own transition to become independent Non-Executive Chairman. The Non-Executive element of the Board is completed by Peter Haining, who also acted as Interim Chairman during the year prior to my appointment.

Following my appointment, a formal board effectiveness review was undertaken which identified some updating to board processes and documentation which have all now been actioned. There is further work underway to address the Environmental, Social and Governance (ESG) agenda which will form an increasingly important element of future reports as additional metrics are identified and progressed.

In communication with our shareholders and others, our primary aim is to provide timely, well balanced and succinct information about our business and its prospects to a wide audience on a regular basis. In addition to our Annual General Meeting and scheduled meetings with key institutional shareholders, we participate in periodic on-line presentations which are open to all by prior arrangement on the "Investor Meet Company" platform (www.investormeetcompany.com).

People

The wider impact of the COVID-19 pandemic has placed an extraordinary burden on all of our people in different ways. Group management has taken great care in leading initiatives to keep our workplaces and all of our staff safe and healthy, with focus on broader social welfare in addition to physical protection. With the worst effects now apparently receding and an element of normality returning, I take this opportunity to record the sincere thanks of the Board to everyone who has worked so diligently to ensure the continuity of our service to customers, and the welfare of all our people and their families.

Acquisitions

In early March 2021 we announced the acquisitions of Active Silicon Limited and Willow Technologies Limited, two companies which enhance our technology offering to customers as well as providing increased international coverage. These represent the eleventh and twelfth such transactions completed since 2002. We are delighted to welcome these companies and their staff into the Group fold and are very encouraged by the early successes they have achieved under Group ownership.

We continue to evaluate opportunities to expand our range of specialist applications and international reach through the acquisition of high-quality businesses as a key element of our strategy for future growth.

Dividend

The Group has paid dividends in each of the twenty five years since joining AIM in 1996. The dividend policy is progressive, and payments are proposed by reference to dividend cover in the range 2.5 to 3.0 times over a medium-term cycle. In the prior year, the Board took account of the exceptional circumstances arising from the pandemic, and total dividend payments were maintained at 12.5 pence per share covered 3.2 times by earnings.

Whilst the inherent uncertainty surrounding the effects of the pandemic has abated since last year, the Directors continue to take a relatively prudent short term view and consider that some restraint in the dividend increase so as to remain at the upper end of the long term cover target continues to be appropriate. Accordingly, the Board is proposing a final dividend of 10.75 pence (2020: 7.25 pence) resulting in full year dividends of 16.0 pence (12.5 pence) which is covered 2.9 times by earnings (2020: 3.2 times).

Subject to approval of the final dividend by shareholders at the AGM on 8 September 2021, the final dividend will be paid on 24 September 2021 to shareholders on the register at the close of business on 3 September 2021, and the shares will be marked ex-dividend on 2 September 2021.

Opportunities and prospects for 2021/2022

Whilst the forthcoming period will no doubt be adversely affected by the effects of component shortages and the recovery from COVID-19, the Group is well placed to take advantage of the current challenges and emerge in a stronger position than many of its competitors. Although the Group is seeing record order intake in Q1 2021/22, 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 2000 clients, operating across multiple sectors, offering a broad product range with decentralised production. This diversification provides the Group with resilience when markets are challenging.

The Board believes two of the key technology areas where it expects to see significant growth in demand in the medium term are image capture, processing, and transmission, driven by increased adoption of industrial AI and the roll out of 5G, and power control and switching driven by the drive to reduce carbon emissions and EV. The Group's recent acquisition of Willow Technologies and Active Silicon are critical to ensuring that the Group is positioned to further penetrate these sectors and gain market share in addition to providing products which it can sell internationally.

Positively, the Group has seen initial signs of recovery from sectors which were significantly adversely impacted by COVID-19 such as oil & gas and commercial aviation, albeit not to historic levels. The Group continues to benefit from opportunities in these core areas, whilst also developing its presence in new and emerging growth markets. The Group has a strong position in the security and defence sector which is seeing significant investment in technology which the Group is well placed to deliver. Furthermore, any shift by prime contractors away from a globalised supply chain to buying more of their vital electronics and services closer to home will be positive for the Group.

Solid State continues to focus on cross Group collaboration initiatives to drive organic sales. The capabilities added through the acquisitions further add scale and capability which the Group can provide to the enlarged customer base. We have been selected as a supplier on two programmes which are expected to start in FY21/22, 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 for our technology in robotics solutions and emerging green transport programmes are being targeted in varied market sectors across commercial, industrial and high reliability applications. The Group is taking care to select markets for its products and solutions that have not been commoditised.

Although the timing of supplies and programmes remains difficult to predict, the Board is confident that given its strong financial footing, technology, capabilities, niches and its sector penetration in areas which are political priorities, for example in transportation and medical, it is well placed to navigate these exceptional trading conditions.

N Rogers
Chairman

Chief Executive's Review

Given the macro-economic backdrop (with the COVID-19 pandemic and latterly Brexit and semiconductor supply shortages), this reporting period was undoubtedly one of the most challenging in the Group's 50 year history. As a result, I am very pleased to report 18% growth in adjusted earnings per share over the prior year's record result and revenue broadly comparable year on year at £66.3m (2019/20: £67.4m). The Group benefitted from one month of revenue from the two acquisitions and some pull ins of demand at the end of the year as its customers looked to mitigate the well-publicised electronics supply chain issues. Despite these challenges, the Group has been able to make significant strides in delivering on its growth strategy in the current year.

Solid State reports a strong year-end balance sheet with net assets of £25.5m and net cash at the bank of £3.2m (excluding lease and deferred contingent consideration obligations). The balance sheet strength means the Group is well placed to gain a competitive advantage when managing the challenging market conditions. Building on last year's record performance we look forward to delivering further strategic progress.

The scale and broader portfolio of products now offered by the Group's Value Added Supplies (VAS) division, has enabled VAS revenues to be broadly maintained year on year, significantly outperforming a market which saw a decline across 'all electronic components' of 4% and a 12% decline for 'semiconductor' sales. The reduction in revenues from the Manufacturing Division was more than mitigated by improved margins and lower operating costs which resulted in a significant improvement in profitability.

Managing the COVID-19 pandemic

During the initial few months of the pandemic, the Group faced some reductions in demand. In managing this, the Group utilised the Government's Coronavirus Job Retention Scheme (CJRS). At the half year resources were adjusted to align with ongoing demand resulting in a small number of redundancies. The CJRS grants received of £0.3m allowed the Group to retain its skilled work force while it evaluated how demand would stabilise and then recover, minimising redundancies. Had the CJRS not been available the level of redundancies would have been more significant at the start of the pandemic.

The Group's sector diversity has enabled it to substantially mitigate the COVID-19 challenges faced in the oil and gas and commercial aerospace sectors with strong demand in other markets including security and defence, medical and transportation.

The Group's operational response to the COVID-19 pandemic was pro-active and swift which has meant the business has faced no significant operational disruption. Solid State's adoption of Office 365 ahead of the pandemic was timely meaning the workforce was largely set up for home working. The production workforce was engaged and integral in establishing the Group's COVID safe protocols from the outset to ensure that the business could continue to operate safely as a nominated critical supplier continuing to fulfil customer demand.

Key stakeholder engagement

Solid State's pro-active approach to managing both customer and supplier stakeholders during the year has been recognised positively with many providing positive feedback about how the Group has supported their businesses in these very difficult times. This is evidenced by the Group being awarded 4 formal supplier / customer awards recognising the Group's value to their businesses.

Through the pandemic the business has worked hard to ensure that it has maintained timely and relevant communication and engagement with all stakeholders. The teamwork, support, and commitment from and by the staff has been a real success factor. The workforce has recognised and valued the investment in enhancing the Group's staff welfare programmes to provide both physical and mental health support, resources and benefits which are available to all employees to provide some mitigation to the challenges presented by lockdown and remote working.

The Group continues to recognise the value of, and invest in, its staff with various ongoing professional development initiatives. This is critical to the Group continuing to both retain and attract exceptionally high calibre staff which is necessary to maintain its market position and retain its trusted business partner relationships.

Two of the initiatives instigated as part of the Group's staff and communities engagement activities were particularly rewarding and were highlights of the year; being the Solid State lockdown charity walk, where as a team the staff walked the equivalent length of England raising in excess of £10,000 for NHS Charities Together, and the support for a local Redditch school where the Group was able to supply much needed IT equipment supporting families who did not have access to these resources at home.

Delivery of the strategy

In FY20/21 Solid State has continued to execute on its strategy, delivering improved financial performance with important strategic steps being taken across both operating divisions.

VAS broadening complementary component offering

The VAS division has continued to broaden its component product lines through a new relationship with TT Electronics. Additionally, the VAS division continues to enter into value-added partnerships including Wireless Logic (Europe's leading provider of SIM connectivity and Routers for M2M and IoT connectivity) and InVMA (a leading provider of IoT asset management systems). These new relationships adding to the Group's existing product suppliers, combined with a partnership with ByteSnap Design Ltd (leading IOT design solutions consultants), mean the Group has a leading-edge end to end IoT offering which is a key technology growth driver in the market.

VAS development of own brand component manufacturing

The acquisition of Willow brought a portfolio of electro-mechanical products including a range of sensors and switches with key electronics manufacturers such as Rohm and Teledyne. These products are particularly well suited to the green energy and power markets. The enhanced scale, capabilities, and market position ideally places the Group to target growth opportunities which would not have been previously attainable.

Furthermore, the acquisition of Willow provided a step change in the portfolio of own brand components with the Hermaseal® and Durakool® brands as well as a small number of patented contactor products which may provide significant opportunities in the mid-term for the EV charging market.

Willow has an established component manufacturing, R&D, and sales capability in Elkhart, Indiana, USA which with its European sales and technical resources mean approximately 70% of Willow's sales are from outside the UK. This provides a platform, establishing the foundations for the Group's international offering which is a strategic priority.

Manufacturing portfolio of own brand modular products

Within the Manufacturing division, the Group has made significant progress in developing its portfolio of own brand products in all three Business Units (BUs), with the introduction of new 1, 2 and 4U (rack mounted) servers and PCs based on latest Intel CPUs, high density rack-mount edge servers, ideal for high performance computing applications. A range of 24V and 48V modular battery packs have been designed for reliable continuous daily usage in harsh environments where shock, vibration, and varying temperatures are likely to be experienced. The products are tailored to in-house battery management systems and software. These are critical to the development of the Group's greentech power solutions and fossil fuel replacement products. The Communications BU has seen additional standard design antennas introduced including solutions for use with the Group's radio products in addition to an integrated mobile command system interfacing to the Persistent Systems mesh communications nodes.

Enhancing our technical manufacturing expertise

The acquisition of Active Silicon ("Active") into the computing BU adds board level design and manufacturing capability in addition to a portfolio of machine vision products and solutions. It provides a significant technology enhancement and reflects a strategic step forward from a relatively small acquisition.

Active's imaging products and embedded vision systems provide; high margin, differentiated, technology driven solutions for niche industrial applications. Active's products and solutions are complementary to the Group's existing computing offering. There is virtually no overlap in the customer base, and there are opportunities to provide combined solutions to the enlarged customer base. Furthermore, the joint capability enables the targeting of new opportunities in growth markets which the Group could not have competed for previously. Pleasingly, post year end a contract for a combined solution has been secured with a key customer in the transportation market ahead of management expectations.

Developing product range for strategic growth markets

Historically the Group's Power business was concentrated in oil and gas and aerospace. The strategy over recent years has been to target new markets such as robotics and medical to provide resilience. The trading conditions in the traditional markets caused by the pandemic validated the strategy where medical market demand was very strong, providing some revenue mitigation against those adversely impacted markets. In this period, the commercialisation of the new modular power products and solutions was delayed due to customers being cautious in making investments in new technology given the pandemic and supply chain uncertainties.

However, new design in projects and development programmes are restarting as we commence the new financial year, giving the Board confidence that the mid-term prospects and demand for these new products will be very strong.

The Group has developed its portfolio of semi standard antenna products providing stability to complement the traditional bespoke "one off" projects. The radio team is adding complementary communications and training products to the Persistent Systems radio solution which the Group distributes. The team has made good progress in implementing this strategy which has delivered a solid performance across both radios and antennas in the period. The strategy going forward into financial year 2021/22 is to target multi-year programmes for the Group's semi standard antenna solutions, together with training and support contracts for the Group's radio products. These income streams provide annuity revenue, whilst seeking additional sensor solutions from third parties to complement the datalinks.

The strength of the Group

Cross Group collaboration has been a key strategic focus to ensure the business maximises the commercial value of its extensive customer relationships. During the year, the Group wide "Senior Leadership team" was formalised in conjunction with the implementation of a Company Share Option Plan (CSOP) to align the incentives of those individuals with Group performance. The benefits of this are already starting to be seen with a step change in the cross Group engagement and collaboration.

The acquisitions of Active and Willow provide additional breadth and depth to the Group's product and technology offering. In addition, the enlarged Group's active customer base now exceeds 2000, presenting significant opportunities to sell more of the broadened product range to the enlarged customer base.

Managing and mitigating risk

The business risks have been considered and, where practical, mitigated. However, the macroeconomic and geopolitical risks including COVID-19, electronic component shortages, uncertainty in international trading relationships, and the associated impact on foreign exchange, means it is difficult to predict supply and demand and therefore mitigate fully.

As a result of the macro environment in the electronics industry, lead times have extended to unprecedented lengths of over 40 weeks for many critical components, such as semiconductors, computer processors, PCBs, some embedded processing modules, and battery cells. The Group is also seeing and managing fluctuations in freight costs and availability.

The strength of the balance sheet together with smart purchasing actions is enabling the business to manage these issues in the current financial year. Stocking orders were placed with suppliers in the first half of 2020 on some long lead time products before customers committed to additional order schedules. This action should help to mitigate some of the effects of the extending lead times seen across the electronics industry.

Despite buffer stock schedules and orders placed with suppliers, in Q4, customers recognised the electronics industry supply chain issues and several customers pulled forward demand which benefitted the FY20/21 out turn. However, these pull-ins, in conjunction with extended lead times due to the Suez Canal blockage and low air freight capacity, meant it reduced the open orderbook and depleted the Group's buffer stocks as it enters FY21/22. The Group stock holding was lower than expected at £10.6m (2020: £9.7m). This equates to approximately 2.5 months' stock.

Opportunity out of adversity

Order intake since the year end has been strong, with customers placing order schedules as post COVID confidence returns and to try to mitigate the supply chain issues. This provides increased confidence over customer demand, albeit the extended lead times and supply chain challenges, might limit the opportunity to accelerate deliveries and growth in the year ahead.

If the supply chain issues continue to deteriorate, the Group could face disruption and delays to programmes and projects in the middle to latter part of the financial year. However, in 2016 the VAS division extended its portfolio of services by recruiting a sourcing and obsolescence team. These services are now understandably in high demand and are proving to be of real value to the Group itself and to the Group's customer base in working to source product and mitigate the shortages.

The Group's diversity in suppliers, technology, markets, and latterly territory is a key strength. It provides resilience and some mitigation against the global headwinds and has enabled Solid State to deliver a record result. Looking forward to the current year, this diversity combined with the strength of the Group's balance sheet means the Group is well placed to weather the impact of any short-term supply chain issues and take advantage of new opportunities.

Chief Financial Officer's 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 10, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items together with the associated tax impact.

Revenues

Group revenues from continuing operations of £66.3m were comparable with the prior year (2020: £67.4m) despite the adverse impact of COVID-19. The results included one month of revenue from the two acquisitions totalling £1.3m and the benefit of customer demand being pulled forward as a result of the well publicised supply chain challenges. Like-for-like revenue adjusted to exclude the impact of the two acquisitions was down 3.6% at £65.0m (2020: £67.4m).

As reported above, the UK electronics distribution and semiconductor components industry faced a declining market of circa 12% over the period (source ECSN). Despite this, the VAS division significantly outperformed the market and as a whole performed well, delivering broadly comparable revenue at £39.0m with like-for-like revenues marginally down on the prior year at £38.1m (2020: £39.2m).

The Manufacturing division reported revenue of £27.3m, with like-for-like revenue of £26.9m (2020: £28.2m) down 4.6%, however, improved operating margins mitigate the profit impact. The resilient performance in FY20/21 against a very challenging macro-economic backdrop reflects the successful scaling of resources to deliver the production demand. This has improved the efficiency of the Group which combined with stable margins and cost mitigation has delivered a record profit before tax in spite of the small reduction in revenues.

Gross profit

Reported gross margins of £19.9m (2020: £20.8m) are down £0.9m. There is an adverse impact of acquisition accounting charges in the year and the benefit of the sale of some legacy fully written down manufacturing inventory in the prior year which have been excluded in the adjusted underlying gross margins.

Underlying gross profit for the year is down £0.6m to £20.0m (2020: £20.6m), reflecting a slight margin decrease to 30.2% (2020: 30.6%) driven by a slightly lower margin within the VAS division at 24.2% (2020: 24.8%) due to a change in the mix of component sales albeit individual component margins are being maintained. The acquisition of Willow is expected to be margin accretive to the VAS division as they have a higher proportion of own brand manufactured components. Pleasingly, year on year the manufacturing margins continued to be strong at 38.7% (2020: 38.7%).

VAS contributed gross margin of £9.4m (2020: £9.7m), Manufacturing division contributed £10.6m (2020: £10.9m) both down 3% on the prior year, which given the tough trading environment is a resilient result.

Sales, general and administration expenses

Sales, general and administration (SG&A) expenses of £15.6m (2020: £16.7m) decreased by £1.1m.

The decrease is primarily due to savings made primarily because of the COVID-19 restrictions on business activities such as travel, marketing, and events. In addition, because of the reduced customer demand when COVID-19 hit we utilised the Coronavirus Job Retention Scheme (CJRS) in the first half of the year where we received £0.3m of grant income which enabled the Group to retain its skilled work force while it evaluated how demand would stabilise and then recover, minimising redundancies.

Furthermore, within the SG&A is Depreciation & Amortisation (D&A) and Share Based Payment (SBP) charges of £2.1m (2020: £2.2m) and £0.2m (2020: £0.4m) respectively.

Adjusted SG&A expenses from continuing operations decreased by £1.1m to £14.5m (2020: £15.8m) reflecting the exclusion of £0.3m of one-off deal related expenses compared to the reported variance above.

Operating profit

Adjusted operating margins increased to 8.3% (2020: 7.2%) with adjusted operating profit from continuing operations up 14.6% to £5.5m (2020: £4.8m) reflecting the overhead savings while limiting the reduction in margins. Reported operating profit was up 4.9% to £4.3m (2020: £4.1m). The adjustments to operating profit are set out in further detail in note 10.

We have recognised £0.01m (2020: £0.02m) 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 14.9% to £5.4m (2020: £4.7m). Reported profit before tax was up 5.0% to £4.2m (2020: £4.0m). This is reported after a share based payments charge of £0.2m (2020: £0.4m), amortisation of acquisition intangibles of £0.7m (2020: £0.5m) and exceptional items of £0.3m (2020: £0.2m credit).

Profit after tax

The Group benefits from the R&D tax credit scheme which reduces the underlying effective tax rate for the year to 12% (2020: 15%) from the standard rate of 19%. As the Group grows, and profitability increases the benefit of R&D tax credits diminishes and it will also no longer be eligible for the SME scheme.

Adjusted profit after tax was up 17.5% to £4.7m (2020: £4.0m). Reported profit after tax was up 17.6% to £4.0m (2020: £3.4m), as we benefitted from an additional £0.2m of R&D tax credits which are not expected to be recurring.

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2021 is up 18.1% at 54.7p (2020: 46.3p). Reported fully diluted earnings per share from continuing operations is up 15.7% at 45.7p (2020: 39.5p).

Cash flow from operations

Cash inflow from operations for the year of £6.9m is down from £8.0m in 2020 primarily due to a reduction in the working capital inflow to £0.4m (2020: £1.4m). This delivers an underlying operating cash conversion percentage of 127% (2020: 165%) and a reported operating cash conversion percentage of 162% (2020: 197%).

There was a working capital cash inflow in the period of £0.4m due to a decrease in receivables and inventories of £1.9m each offset in part by a decrease in payables of £3.4m. The reduction in inventories reflects the pull forward in demand and delays we have faced in receiving scheduled orders despite placing extended order cover with our suppliers.

Investing activities

During the year, the Group invested £0.4m (2020: £0.6m) in property plant and equipment, and £0.3m (2020: £0.3m) in software and research and development intangibles.

The capital expenditure reflects significant investment in IT hardware across the Group of £0.3m. This aside, the investment has been minimised due to COVID-19 albeit the capital expenditure recommenced towards the end of the year which is reflected in year end capital commitments of £0.4m.

Financing activities

The Group has entered or extended leases during the year which has resulted in the recognition of £1.2m 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 £0.6m.

The financing activities reflect the final repayment of the last £0.3m of the term loan which was repaid in May 2020 and the drawdown of £3.75m of the revolving credit facility (RCF) to fund the acquisition of Willow Technologies Group and Active Silicon Group at the end of the year. Solid State continues to have a strong relationship with Lloyds Bank and, having repaid the term loan early, Lloyds has extended the term of the £7.5m (2020: £7.5m) revolving credit facility which is now committed until the 30 November 2022. At the 31 March 2021 £3.75m of the facility was drawn.

Pleasingly, as a result of the strong cash generation on 31 March 2021 the Group had net cash (excluding deferred and contingent considerations and IFRS16 lease obligations) of £3.2m (2020: £3.2m) which, in conjunction with the unutilised bank facilities, provides significant funding headroom to pay the deferred consideration.

The Group has deferred contingent consideration liabilities where at the 31 March 2021 the fair value has been estimated to be £7.5m, of which £2.6m was paid in Q1 2021/22. Subject to the acquired businesses meeting the earn out performance targets it is expected that approximately £4.25m will be payable in Q1 2022/23 and the remainder payable in Q1 2023/24.

The Group paid out £1.2m (2020: £1.2m) in respect of dividends and purchase of own shares.

Statement of financial position

During the year, the Group has continued to strengthen its balance sheet position. The Group's net assets have increased to £25.5m (2020: £22.5m) reflecting the retained profits in the year. Furthermore, excluding deferred and contingent considerations and IFRS16 lease obligations the Group has maintained a net cash position with £3.2m at the year end (2020: £3.2m) having paid £4.1m (net of cash acquired) initial consideration for the acquisitions of the Active Silicon and Willow Technologies Groups.

Primarily as a result of the acquisitions of Active Silicon and Willow Technologies, the Group has seen a significant increase in non-current assets totalling £10.4m. Property plant and equipment net book value has increased by £0.7m which includes the Group's first freehold building in Elkhart Indiana USA. Intangible assets net book value has increased £8.3m which primarily reflects the recognition of acquisition intangibles at fair value of £5.4m and goodwill of £3.6m.

Dividend

The Board is proposing a final dividend of 10.75p (2020: 7.25p), giving a full year dividend of 16.0p (2020: 12.5p) as set out in the Chairman's statement.

KPIs

In addition to the KPI information provided in the Chairman's Report and this Strategic Report, the Directors use several key performance indicators to manage the business, disclosed in the financial review. Non-financial KPIs are not disclosed other than in the environmental CO2e reporting which is included in the annual report and accounts.

Outlook

During the financial year customer order schedules shortened significantly, resulting in a reduction in the legacy Group like-for-like open orderbook of £33.7m (2020: £39.9m). Positively, post year end the Group has seen record order intake which has increased the enlarged Group open order book at the 31 May 2021 to £51.0m which is up 23% from £41.3m on 31 March 2021. This provides confidence over customer demand for the coming year.

As Solid State looks forward to FY21/22, the well-publicised supply chain issues within the electronics and particularly semiconductor sector mean the Group continues to face inconsistencies in the traditional supply and order fulfilment balance which may result in some projects being delayed. Solid State has faced these challenges before, and the strength of the Group's balance sheet means the Group is better placed to manage the working capital demands than some of its smaller competitors, which is presenting new customer opportunities.

In delivering on Solid State's acquisition strategy, the Group completed two important strategic bolt-on acquisitions towards the end of the year which are performing well and are enabling the Group to target new customer opportunities in growth markets. The Group continues to evaluate future acquisition opportunities albeit these are at an early stage. These opportunities are primarily focused on deepening the product offering in the business units of the Group and further expansion of its international footprint. Progress on these potentially international M&A opportunities will be limited while travel restrictions remain. The Group will continue to look to be opportunistic should a strategically aligned acquisition target arise as we exit the COVID-19 pandemic.

The continued margin improvement, in conjunction with technology developments both from internal R&D and acquisitions across all key sectors of components, computing, power and communications place the Group in a strong position. Having completed the acquisition of Active Silicon, the Manufacturing division is in a strong competitive position to deliver profitable growth in the mid-term. The introduction of more own brand components from the acquisition of Willow Technologies presents exciting opportunities for development in the VAS division.

The Group's capital expenditure programme saw investment in state-of-the-art assembly equipment in Value Added Supplies and the on-going installation of the new EMC test and measurement capability in Manufacturing in the second half. In FY21/22 the Group intends to invest in upgrading the production capabilities primarily semi-automation of some of the battery production and upgrading some production equipment inherited from the Willow Technologies acquisition to improve productivity.

Having appointed a new Chairman and Senior Independent Director and completed two acquisitions which have significantly enhanced the scale of the Group, during FY21/22 the Board will update and refocus Solid State's five-year plan for the period 2022 to 2027.

The Group remains focused on securing quality orders as it strives to achieve the goal set in 2017 to double adjusted EPS from 30p to 60p by FY21/22. The Board is confident that the achievements of the last year and the post period end growth in open orders demonstrate that Solid State is making good progress towards achieving its goals and that the mid-term prospects for the Group remain very positive and there are several significant opportunities which the Group is currently bidding on which could provide upsides for FY21/22.

G S Marsh
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2021

Continuing Operations	Notes	2021 £'000	2020 £'000
Revenue	3, 8	66,281	67,417
Cost of sales		(46,362)	(46,614)
Gross profit		19,919	20,803
Sales, general and administration expenses		(15,634)	(16,681)
Profit from operations		4,285	4,122
Finance expense		(85)	(120)
Profit before taxation		4,200	4,002
Tax expense	4	(247)	(588)
Adjusted profit after taxation		4,733	4,002
Adjustments to profit	10	(780)	(588)
Profit after taxation		3,953	3,414
Profit attributable to equity holders of the parent		3,953	3,414
Other comprehensive income		-	-
Total comprehensive income for the year		3,953	3,414

Earnings per share		2021	2020
Basic EPS from profit for the year	5	46.4p	40.1p
Diluted EPS from profit for the year	5	45.7p	39.5p

Adjusted EPS measures are reported in note 5 to the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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 2020	427	3,626	(7)	5	18,521	(43)	22,529
Total comprehensive income for the year ended 31 March 2021	-	-	-	-	3,953	-	3,953
Share based payment credit	-	-	-	-	171	-	171
Foreign exchange	-	-	13	-	-	-	13
Transactions with owners in their capacity as owners							
Purchase of treasury shares	-	-	-	-	-	(95)	(95)
Transfer of treasury shares to AESP	-	-	-	-	(68)	68	-
Dividends	-	-	-	-	(1,069)	-	(1,069)
Shares issued	1	(1)	-	-	-	-	-
Balance at 31 March 2021	428	3,625	6	5	21,508	(70)	25,502

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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
Share based payment credit	-	-	-	-	381	-	381
Foreign exchange	-	-	(2)	-	-	-	(2)
Rounding	(1)	-	-	-	1	-	-
Transactions with owners in their capacity as owners							
Shares issued	1	(1)	-	-	-	-	-
Transfer of treasury shares to AESP	-	-	-	-	(129)	129	-
Dividends	-	-	-	-	(1,153)	-	(1,153)
Balance at 31 March 2020	427	3,626	(7)	5	18,521	(43)	22,529

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2021

		2021		2020	
	Notes	£'000	£'000	£'000	£'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment		2,981		2,286	
Right of use lease assets		2,476		1,055	
Intangible assets		16,557		8,213	
TOTAL NON-CURRENT ASSETS			22,014		11,554
CURRENT ASSETS					
Inventories		10,629		9,662	
Trade and other receivables		14,222		13,859	
Deferred tax asset		188		86	
Cash and cash equivalents		6,914		3,517	
TOTAL CURRENT ASSETS			31,953		27,124
TOTAL ASSETS			53,967		38,678
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables		11,890		10,597	
Contract liabilities		2,299		2,486	
Current borrowings	7	-		333	
Corporation tax liabilities		801		774	
Right of use lease liabilities		741		471	
TOTAL CURRENT LIABILITIES			15,731		14,661
NON CURRENT LIABILITIES					
Non current borrowings	7	3,750		-	
Right of use lease liabilities		1,802		677	
Provisions		741		304	
Deferred tax liability		1,491		507	
Deferred consideration on acquisitions	7	4,950		-	
TOTAL NON-CURRENT LIABILITIES			12,734		1,488
TOTAL LIABILITIES			28,465		16,149
NET ASSETS			25,502		22,529
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital			428		427
Share premium reserve			3,625		3,626
Capital redemption reserve			5		5
Foreign exchange reserve			6		(7)
Retained earnings			21,508		18,521
Shares held in treasury			(70)		(43)
TOTAL EQUITY			25,502		22,529

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2021

		2021		2020	
		£'000	£'000	£'000	£'000
OPERATING ACTIVITIES					
Profit before taxation			4,200		4,002
Adjustments for:					
Property Plant and equipment depreciation			614		646
Right of use asset depreciation			497		468
Amortisation			978		960
Impairment of right of use asset			-		84
Profit on disposal of property, plant and equipment			(22)		(31)
Share based payment expense			171		381
Finance costs			85		120
Profit from operations before changes in working capital and provisions			6,523		6,630
Decrease in inventories		1,852		1	
Decrease/(increase) in trade and other receivables		1,925		(444)	
(Decrease)/increase in trade and other payables		(3,363)		1,801	
(Decrease)/Increase in provisions		(7)		54	
			407		1,412
Cash generated from operations			6,930		8,042
Income taxes paid		(432)		(385)	
Income taxes recovered		-		-	
			(432)		(385)
Net cash inflow from operating activities			6,498		7,657
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(356)		(579)	
Capitalised own costs and purchase of intangible assets		(302)		(281)	
Proceeds of sales from property, plant and equipment		77		103	
Payments for acquisition of subsidiaries net of cash acquired	(note 9)	(4,119)		-	
Net cash outflow from investing activities			(4,700)		(757)
FINANCING ACTIVITIES					
Repurchase of ordinary shares into treasury		(95)		-	
Borrowings drawn		3,750		-	
Borrowings repaid		(333)		(5,334)	
Principal payment obligations for right of use assets		(575)		(513)	
Interest paid		(37)		(80)	
Dividend paid to equity shareholders		(1,069)		(1,153)	
Net cash inflow/(outflow) from financing activities			1,641		(7,080)
Increase/(decrease) in cash and cash equivalents			3,439		(180)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Translational foreign exchange on opening cash	(42)	5
Net increase/(decrease) in cash and cash equivalents	3,439	(180)
Cash and cash equivalents at beginning of year	3,517	3,692
Cash and cash equivalents at end of year	6,914	3,517

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

	2021 £'000	2020 £'000
Cash available on demand	6,914	3,517

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

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.

Whilst the financial information included in this preliminary announcement has been prepared on the basis of the requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 and effective at 31 March 2021, this announcement does not itself contain sufficient information to comply with International Accounting Standards. The financial information set out in this preliminary announcement does not constitute the company's statutory financial statements for the years ended 31 March 2021 or 31 March 2020 but is derived from those financial statements.

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

Going concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2021, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2021, the Group had net cash at banks of £3.2m and an undrawn revolving credit facility (RCF) of £3.75m.

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 on-going COVID-19 pandemic and the global electronic component shortages on the cashflows and liquidity of the Group over the next 12 month period.

Throughout the COVID-19 pandemic, the United Kingdom's exit from the EU, customer demand has remained solid and in recent months we have seen customers extending order cover to help to manage the Global electronics supply chain issues. The most significant impact on the Group future performance is the uncertainty arising from the extending electronic component lead times. Management have taken all possible actions to minimise and mitigate the potential impact of these shortage.

If the shortages continue into the later part of the financial year 2021/22 as expected the risk does have the potential to adversely impact performance. While the actions do not mitigate the risk fully it certainly has significantly reduced the risk in the first half of 2021/22 and positions the Group to manage the period beyond as effectively as possible.

In preparing the going concern assessment the Directors considered the principal risks and uncertainties that the business faced. Three areas have been identified as potentially more significant: direct supply chain disruption limiting our ability to supply; indirect supply chain disruption delaying customer programmes and demand; and a COVID-19 outbreak causing operational disruption. The board concluded that the two areas of risk which remained the most uncertain were the direct and indirect supply chain disruption risks.

The Directors have prepared revised "stressed" forecasts taking account of the results to date, current expected demand, and mitigating actions which could be 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 base case to 30 September 2022 which has been prepared based on an extension of the budget for FY21/22.

In the period since the balance sheet date Group like-for-like order intake was up circa 82.5% over the average for the prior period albeit the prior period was adversely impacted by the start of the pandemic. The current year order intake is exceptionally strong and reflects a significant improvement in order cover which does help to manage extending component lead times.

In preparing a severe downside scenario with no overhead mitigation, it assumes a shortfall in Group revenue of ~25% over 12 months period with limited cost mitigation. This results in EBITDA reducing by ~89% compared to the Board's base case expectations. Even with this level of Group EBITDA reductions, when combined with the mitigating actions 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.

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's cash generation has been strong and the completion payments on the acquisitions of £2.6m have been funded out of cash generation in the period.

The Directors have concluded that the potential impact of the electronic component shortages and 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.

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 2020:

- Amendments to IFRS 3, 'Business combinations', – 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 IFRS 9, IAS 39 and IFRS 17: – Interest rate benchmark reform.
- Amendment to IFRS16 in relation to COVID-19 related rent concessions beyond 30 June 2021.
- Amendments to the Conceptual framework.

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

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 2021 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 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.

Acquisition accounting

In accounting for the acquisitions in accordance with IFRS 3 the key judgements relate to the fair value of the deferred contingent consideration and the fair value of the intangible assets. The deferred contingent consideration has been recognised at £4.95m and the fair value of the intangible assets recognised is £5.4m. The intangible assets have been recognised based on a Multi-Period Excess Earnings Method (MEEM) model. See note 9 for further detailed disclosures.

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 £0.15m to £0.65m. 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 £250k; 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 £680k; if the lives were reduced by one year the charge would increase by £51k.

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 2021 there are current and deferred tax provisions totalling approximately £2.1m.

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 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. REVENUE

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

	2021 £'000	2020 £'000
United Kingdom	46,301	48,596
Rest of Europe	7,349	6,885
Asia	3,342	4,416
North America	9,148	7,235
Rest of World	141	285
Total revenue	66,281	67,417

	2021 £'000	2020 £'000
Computing products	10,643	10,267
Communications products	5,678	5,292
Power products	10,978	12,611
Opto electronic and electronic components and modules	38,982	39,247
Total revenue	66,281	67,417

See further segmental disclosures in note 8.

4. TAX EXPENSE

	2021 £'000	2020 £'000
Analysis of continuing total tax expense		
Total tax charge from continuing operations	247	588
	247	588
Current tax expense		
UK corporation tax on profits for the year	610	616
Adjustment in respect of prior periods	(182)	22
	428	638
Deferred tax credit	(181)	(50)
Total tax charge	247	588

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:

	2021 £'000	2020 £'000
Profit before tax	4,200	4,002
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2019: 19%)	798	760
Effect of:		
Expenses not deductible for tax purposes	20	24
Difference between depreciation for the year and capital allowances	(3)	42
Tax relief on exercise of share options exercised	(11)	4
Enhanced relief on research and development expenditure	(366)	(338)
Overseas tax rate differences	3	10
Deferred tax asset (recognised)	(10)	(5)
Change in rate in respect of deferred tax recognition	-	69
Adjustments in respect of prior years	(182)	22
Foreign exchange	(2)	-
Total tax charge	247	588

The UK corporation tax rate is 19% (effective from 1 April 2017) and amendments were substantively enacted on 17 March 2020, the rate of corporation tax was set to remain at 19%. The deferred tax liabilities on 31 March 2021 have been calculated based on this rate.

As announced in the budget on the 03 March 2021, the UK corporation tax rate is expected to increase to 25% with effect from 1 April 2023. This change was not substantively enacted at the balance sheet date and has not been reflected in the tax calculations.

R&D tax credits

The Group recognised a credit of £10k (2020: £24k) 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.

5. EARNINGS PER SHARE

The earnings per share is based on the following:

	2021 £'000	2020 £'000
Adjusted continuing earnings post tax	4,733	4,002
Reported continuing earnings post tax	3,953	3,414
Weighted average number of shares	8,524,883	8,510,074
Diluted number of shares	8,650,237	8,635,331
Reported EPS		
Basic EPS from profit for the year	46.4p	40.1p
Diluted EPS from profit for the year	45.7p	39.5p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	55.5p	47.0p
Adjusted Diluted EPS from profit for the year	54.7p	46.3p

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 8,524,883 (2020: 8,510,074) net of the treasury shares.

The diluted earnings per share is based on 8,650,237 (2020: 8,635,331) 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 10.

6. DIVIDENDS

	2021 £'000	2020 £'000
Prior year final dividend paid of 7.25p per share (2020: 8.3p)	620	708
Current year interim dividend paid of 5.25p per share (2020: 5.25p)	450	448
Cancelled dividends on shares held in treasury	(1)	(3)
	1,069	1,153
Final dividend proposed for the year 10.75p per share (2020: 7.25p)	919	620

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

7. NET DEBT

Year ended 31 March 2020 (£'000)	At 1 April 2020	Cash flow	Other non-cash movement	At 31 March 2021
Bank borrowing due within one year	(333)	333	-	-
Bank borrowing due after one year	-	(3,750)	-	(3,750)
Total borrowings	(333)	(3,417)	-	(3,750)
Deferred consideration on acquisition of subsidiaries within one year	-	-	(2,572)	(2,572)
Deferred consideration on acquisition of subsidiaries after one year	-	-	(4,950)	(4,950)

Cash and cash equivalents	3,517	3,439	(42)	6,914
	_______	_______	_______	_______
(Net debt) / net cash	3,184	22	(7,564)	(4,358)
	_______	_______	_______	_______

	2021 £'000	2020 £'000
Increase / (decrease) in cash in the year	3,439	(180)
Increase in borrowings in the year	(3,750)	-
Repayment of borrowings in the year	333	5,334
	_______	_______
Net movement resulting from cashflows	22	5,154
	_______	_______

	2021 £'000	2020 £'000
Net cash at 1 April	3,184	(1,975)
Net movement resulting from cashflows	22	5,154
Contingent consideration recognised in year – short term	(2,572)	-
Contingent consideration recognised in year – long term	(4,950)	-
Other non-cash movements	(42)	5
	_______	_______
(Net debt) / Net cash at 31 March	(4,358)	3,184
	_______	_______

8. 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 Supplies division comprises Solid State Supplies Ltd, Pacer LLC, Pacer Components Ltd, Willow Technologies Limited and American Electronic Components, Inc. companies. The Manufacturing division includes Steatite Ltd, Active Silicon Limited and Active Silicon Inc.

Year ended 31 March 2021

	Value Added Supplies division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	38,982	27,299	-	66,281
	______	______	______	______
Profit before tax	2,011	4,353	(2,164)	4,200
Taxation	(337)	(310)	400	(247)
	______	______	______	______
Profit after taxation	1,674	4,043	(1,764)	3,953
Consolidated statement of financial position				
Assets	22,631	14,852	16,484	53,967
Liabilities	(8,804)	(7,680)	(11,981)	(28,465)
	______	______	______	______
Net assets	13,827	7,172	4,503	25,502
Other				
Capital expenditure:				
Tangible fixed assets	413	343	-	756
Tangible fixed assets - acquisitions	504	99	-	603

Intangible assets	45	257	-	302
Intangible assets – acquisitions	3	19	8,998	9,020
Right of use assets	315	881	-	1,196
Right of use assets – acquisitions	27	699	-	726
Depreciation - PPE	379	235	-	614
Depreciation – right of use assets	207	290	-	497
Amortisation	19	279	680	978
Share based payments	-	-	171	171
Interest	35	14	36	85
	______	_____	______	______

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2021 or the prior year.

Year ended 31 March 2020

	Value Added Supplies 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	384	196	-	580
Intangible assets	2	279	-	281
Right of use Assets	181	120	-	301
Depreciation - PPE	323	323	-	646
Depreciation – right of use assets	222	246	-	468
Impairment	84	-	-	84
Amortisation	51	404	505	960
Share based payments	-	-	381	381
Interest	21	19	80	120
	______	_____	______	______

	External revenue by location of customer		Total assets by location of assets		Net tangible capital expenditure by location of assets	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
United Kingdom	46,301	48,596	49,616	36,919	1,058	881
Rest of Europe	7,349	6,885	1	1	-	-
Asia	3,342	4,416	-	-	-	-
North America	9,148	7,235	4,151	1,758	-	

Other	141	285	-	-	-	-
	________	________	________	________	________	________
	66,281	67,417	53,768	38,678	1,058	881
	________	________	________	________	________	________

All the above relate to continuing operations.
Capital expenditure excludes acquisitions of assets as per note 9.

9. ACQUISITIONS DURING THE YEAR

Active Silicon Group

On the 26 February 2021, the Group acquired 100% of the share capital of Active Silicon Limited and its 100% subsidiary for an initial consideration of £6.15m which, when adjusted for the cash on the balance sheet, results in an effective net initial consideration of £2.15m.

In addition to the initial consideration there is a 25 month earn out period. The earn out consideration will be paid in two tranches based on the level of profit after tax generated in the periods ending 31 March 2022 and 31 March 2023 respectively. In aggregate, the fair value of the earn out consideration is estimated to be £1.45m under IFRS 3.

Active Silicon Limited is the UK trading entity and holds Active Silicon Inc., the US sales entity. Established in 1988, Active Silicon designs and manufactures imaging and embedded vision systems allowing the capture, processing, and transmission of image data in high performance and critical environments. World-class products include innovative embedded systems for IoT applications, pioneering autofocus-zoom cameras and high-speed acquisition cards allowing real-time, high-resolution image capture over long cable lengths. With a longstanding, global customer base, Active Silicon's products have applications in multiple areas of industry, science, and technology - including advanced manufacturing, life sciences, robotics, medical imaging, security and defence. Active Silicon is ISO9001: 2015 registered.

Active Silicon's headquarters and research & development centre are in Iver (west of London) with its production facility nearby in Langley. In addition, it has a US subsidiary, Active Silicon Inc., which operates from Severna Park, Maryland. This office provides sales, support, and operations for the North American market.

All hardware is designed in-house with some subcontract manufacturing taking place in Europe. Final assembly, inspection and testing is undertaken at the UK production facility.

Benefits of the Acquisition:

Solid State will combine Active Silicon's expertise and technology with the industrial computer product portfolio from its Steatite manufacturing division. This enables the enlarged Group to address the growing demand for 3D vision and robotic applications, as well as the increased requirements for embedded machine vision and edge AI computing products.

The enhanced in-house capability resulting from the addition of Active Silicon to the Group extends the scope for the design and manufacture of own brand products, with the resulting margin and customer retention benefits.

Active Silicon Group

	Book value £'000	***Fair value Adjustment £'000***	**Fair value to Group £'000**
Intangible assets	19	1,400	1,419
Property plant and equipment	106	(7)	99
Right of use assets	-	699	699
Inventory	1,243	(17)	1,226
Trade and other receivables	821	(8)	813
Trade and other payables	(640)	(46)	(686)
Right of use lease liabilities	-	(699)	(699)
Provision for dilapidations	(18)	(15)	(33)
Cash and cash equivalents	4,008	-	4,008
Deferred tax asset / (liability)	84	(261)	(177)

	________	________	________
Net assets on acquisition	5,623	1,046	6,669
Goodwill on acquisition	-	-	935
	________	________	________
Consideration			7,604
			________
Discharged by:			
Cash paid on acquisition			5,171
S-T Deferred contingent consideration – Completion Accounts			983
L-T Deferred contingent consideration – Earn Out			1,450
			________
			7,604

The intangible assets are in relation to customer contacts and relationships. The goodwill recognised represents expected synergies from combining the operations of Active Silicon with those of the existing Computing BU within the manufacturing 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 one month period post acquisition included in the Statement of Comprehensive Income arising from Active's operations were £415k and £39k respectively. The Group incurred acquisition related costs of £76k on legal fees and due diligence costs, included in sales, general and administration expenses.

As payment is due in under 2 years and the amount is an estimation, using a risk-free discount rate of 2.5% the Group has assessed the impact of discounting to be immaterial and has not therefore discounted the contingent consideration.

Had the acquisition been completed on the 1 April 2020, Management estimate that that the revenue would have been circa £4.4m and pre-tax profit would be circa £0.2m.

Willow Technology Group

On the 02 March 2021, the Group acquired 100% of the share capital of Willow Technology Limited and its 100% subsidiary for an initial consideration of £9.6m which, when adjusted for the cash on the balance sheet, results in an effective net initial consideration of £4.5m.

In addition to the initial consideration there is a 12 month earn out period. The earn out consideration will be calculated as a function of the post-tax profit of Willow Technologies for the period ended 31 March 2022, subject to a minimum profit threshold of £700,000. The maximum earn out consideration payable is £3.5m. Under IFRS 3 the Board has concluded that the fair value of the deferred contingent consideration is £3.5m.

Willow Technologies, founded in 1989, is a highly respected value added distributor of electro-mechanical components operating within the UK, Germany, Spain and the USA. Willow Technologies' specialisms are in switching, sensing, resistive devices and hermetic seal solutions, the company sells a wide portfolio of electromechanical technologies. Willow is ISO9001: 2015 registered.

American Electronic Components Inc. ("AEC"), founded as Durakool in 1935 and acquired by Willow Technologies in 2006, is based in Indiana USA. AEC specialises in the design, manufacture and supply of component level, electromechanical switching, sensing and glass to metal seal solutions. The company has over 85 years of applications experience with a well-established and loyal customer base. AEC is ISO9001: 2008 and ISO14001:2004 Registered.

Benefits of the Acquisition:

The acquisition of Willow and AEC into the Value Added Supplies division of Solid State meets a significant number of strategic priorities and offers the opportunity for future growth in multiple structural markets and geographic territories.

Furthermore, the Acquisition meets the objective of increasing the division's penetration of the strategically important, EV, EV charging, green tech and medical markets. The consequent acquisition of the Durakool® and Hermaseal® established brand names and associated patents brings further opportunity for growth through product development and the extension of the brand to potentially cover other products within the Group. The widening of the product offering within the Value Added Supplies division will bring greater resilience to the business, access to a wider customer base and increase the importance of the division to its existing customer base.

Whilst the Acquisition falls under the Value Added Supplies division it is expected that both Willow and AEC will operate as stand-alone companies throughout the earn out period. Both companies are however expected to benefit from access to the wider resources available in the Value Added Supplies business and in particular from access to the wider customer base. Post-acquisition a detailed strategic appraisal of non-core manufactured components will be undertaken to evaluate whether or not they should be discontinued with an appropriate last time buy process implemented in order to improve strategic focus and production efficiencies.

Willow Technology Group

	Book value £'000	***Fair value Adjustment £'000***	**Fair value to Group £'000**
Intangible assets	3	4,000	4,003
Property plant and equipment	504	-	504
Right of use assets	-	27	27
Inventory	1,479	142	1,621
Trade and other receivables	1,559	(5)	1,554
Trade and other payables	(1,230)	(175)	(1,405)
Right of use lease liabilities	-	(28)	(28)
Provision for dilapidations	-	(10)	(10)
Cash and cash equivalents	5,099	-	5,099
Deferred tax	(123)	(761)	(884)
Net assets on acquisition	7,291	3,190	10,481
Goodwill on acquisition	-	-	2,663
Consideration			13,144
Discharged by:			
Cash paid on acquisition			8,055
S-T Deferred contingent consideration – Completion Accounts			1,589
L-T Deferred contingent consideration – Earn Out			3,500
			13,144

The intangible assets are in relation to customer contacts and relationships. The goodwill recognised represents expected synergies from combining the operations of Willow Technologies with those of the existing VAS 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 one month period post acquisition included in the Statement of Comprehensive Income arising from Willow's operations were £906k and £152k respectively. The Group incurred acquisition related costs of £130k on legal fees and due diligence costs, included in sales, general and administration expenses.

As payment is due in just over 1 year and the amount is an estimation, using a risk-free discount rate of 2.5% the Group has assessed the impact of discounting to be immaterial and has not therefore discounted the contingent consideration.

Had the acquisition been completed on the 1 April 2020 management estimate that that the revenue would have been circa £9.1m and pre-tax profit would be circa £0.8m.

10. 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. This is 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.

	2021 £'000	2020 £'000
Acquisition and re-organisation costs	336	-
Non recurring profit from sale of full written down stock	-	(160)
Amortisation of acquisition intangibles	680	505
Share based payments	171	381
Adjustment to profit before tax	1,187	726
Current and deferred taxation effect	(226)	(138)
Non recurring tax credits	(181)	-
Adjustments to profit after tax	780	588

	2021 £'000	2020 £'000
Reported gross profit	19,919	20,803
Adjustments to gross profit	73	(160)
Adjusted gross profit	19,992	20,643
Reported operated profit	4,285	4,122
Adjustments to operating profit	1,187	726
Adjusted operating profit	5,472	4,848
Reported operating margin percentage	6.5%	6.1%
Operating margin percentage impact of adjustments	1.8%	1.1%
Adjusted operating margin percentage	8.3%	7.2%
Reported profit before tax	4,200	4,002
Adjustments to profit before tax	1,187	726
Adjusted profit before tax	5,387	4,728
Reported profit after tax	3,953	3,414
Adjustments to profit after tax	780	588
Adjusted profit after tax	4,733	4,002