SOLID STATE PLC

05 December 2023

Solid State plc
("Solid State", the "Group" or the "Company")
Interim Results
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 Interim Results for the six months ended 30 September 2023.

Highlights in the period include:

	H1 2023/24	H1 2022/23	Change
Revenue	£88.1m	£59.4m	+48%
Operating profit margin	7.9%	7.5%	+40bps
Adjusted operating profit margin*	9.2%	9.3%	-10 bps
Profit before tax	£6.1m	£4.2m	+45%
Adjusted profit before tax*	£7.3m	£5.2m	+39%
Diluted earnings per share	39.1p	36.4p	+7%
Adjusted diluted earnings per share	46.8p	45.3p	+3%
Interim dividend	7.0p	6.5p	+8%
Net cash flow from operating activities	£8.3m	£0.50m	+1,560%

* Adjusted performance metrics are reconciled in note 5, the adjustments relate to IFRS 3 acquisition amortisation, share based payments charges and non-recurring charges in respect of acquisition costs and fair value adjustments.

	H1 2023/24	H1 2022/23	Change
Net cash / (net debt)**	£(3.9)m	£(16.1)m	-76%
Open order book @ 30 September 2023 / 30 September 2022	£99.7m	£112.5m	-11%

** Net cash / debt includes net cash with banks £8.8m (H1 2022/23: £16.0m), bank loans of £12.7m (H1 2022/23: £17.7m) the fair value of deferred contingent consideration of £nil (H1 2022/23: £14.4m) and excludes the right of use lease liabilities of £1.8m (H1 2022/23: £2.7m).

Financial highlights:

- *Delivered organic revenue growth in excess of 35% while maintaining operating margins at 9.2% (FY23 9.2%)*
- *Strong cash generation results in net debt continuing to reduce to £3.9m (FY23 £8.1m)*
- *Robust orderbook of £108.6m at 31 October 2023 combined with a strong prospect pipeline, gives the Directors confidence in meeting full year consensus analyst expectations[1].*

Commercial and operational highlights:

- *US Components restructure and Custom Power integration activities are largely complete.*
- *Rebranding of Components division sales channel under the "Solsta" brand launched at the beginning of H2 with group branding refresh to follow next year.*
- *The pipeline of new design wins across the Group remains strong in all target markets, which gives the Board confidence that the underlying growth drivers in our target markets remain.*

Commenting on the results and prospects, Nigel Rogers, Chairman of Solid State, said:

"We continue to work with customers to leverage our specialist design-in capabilities, placing the Group in a strong position, both regionally and globally, in our target growth markets. Solid State remains ambitious with a growth strategy focused on developing Group talent, product innovation and further internationalisation of our operations to deliver on our 2030 goals.

"The performance in the Period reflects a very pleasing out-turn given the broader economic and geopolitical influences."

[1] The Company considers the average of the most recently published research forecasts prior to this announcement by all providers – Cavendish Capital Markets Ltd and WH Ireland plc to represent market expectations for Solid State.

Market Expectations	**FY23/24**	**FY24/25**
Revenue	£155.3m	£152.3m
Adjusted profit before tax*	£12.5m	£12.5m
Net (debt) / cash	(£3.0m)	£1.0m

Analyst Briefing: 2.00 p.m. today, Tuesday 5 December 2023

A hybrid briefing for Analysts will be hosted by Gary Marsh, Chief Executive, and Peter James, Group Finance Director, at 2.00 p.m. today, Tuesday 5 December 2023 to review the results and prospects. Analysts wishing to attend should contact Walbrook PR on solidstate@walbrookpr.com or on 020 7933 8780. Please include whether you would like to attend in person at 75 King William St, EC4N 7BE, or online.

Investor Presentation: 10.30 a.m. on Wednesday 6 December 2023

Gary Marsh, Chief Executive; Peter James, Group Finance Director; and, John Macmichael, Managing Director of Solsta, the Group's components division, will hold a presentation to cover the results and prospects at 10.30 a.m. on Wednesday 6 December 2023. 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.

Investor Site Visits to Head Office in Redditch

Solid State holds site visits to its head office in Redditch where operations from both the Systems and Components divisions can be seen. Interested investors should contact solidstate@walbrookpr.com.

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

For further information please contact:

Solid State plc	Via Walbrook
Gary Marsh - Chief Executive	
Peter James - Group Finance Director	
Cavendish Capital Markets Limited (Nominated Adviser & Broker)	020 7397 8900
Adrian Hadden / Callum Davidson (Corporate Finance)	
Jasper Berry / Tim Redfern (Sales)	
Walbrook PR (Financial PR)	020 7933 8780
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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 defence markets with durable components, assemblies, manufactured units and power units for use in specialist and harsh environments. The Group's mantra is - 'Trusted technology for demanding environments'. To see an introductory video on the Group - https://bit.ly/3kzddx7

Operating through two main divisions: Systems (Steatite, Active Silicon & Custom Power) and Components (Solsta, 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 400 staff across the UK and US, serving specialist markets with high barriers to entry in industrial, defence and security, transportation, medical and energy.

Solid State was established in 1971 and admitted to AIM in June 1996. The Group has grown organically and by acquisition - having made three acquisitions in the last three years.

CHAIRMAN'S FIRST HALF REVIEW

I am pleased to report that in the six months ended 30 September 2023 ("First Half", "Period" or "H1 2023/24") the Group has had a record start to the year.

The Group's strategy and focus on ensuring we have sector, product, and customer diversity to provide a resilient business model has continued to prove its value and delivered significantly improved organic revenue growth in the Period.

The geopolitical environment continues to drive government spending in security and defence, with Group revenue in these sectors continuing to increase, including the successful delivery of the previously reported NATO contracts.

Furthermore, the Group has seen good cash generation in the first half of the year, and we anticipate this continuing into the second half as lead times continue to improve, and we look to benefit from the associated working capital unwind.

Solid State has been successful in building on its relationships with Tier 1 customers across our target growth markets of security and defence, medical, transport, and industrial where we have seen design and contract wins with certain larger ones announced during the Period.

Environmental Social and Governance ("ESG")

ESG is at the core of Solid State's strategy, creating a long-term sustainable business, which minimises our adverse impact on the environment and maximises value for our stakeholders.

Our technology, products and systems are designed and engineered to be high quality, often upgradable with a long life, which inherently means we are starting from a strong position. These characteristics help to differentiate us from our competitors and enable us to be ambitious in how we operate, where we believe we are a business leading on ESG in our sector.

For example, the Group is decommissioning an energy intensive production line within its US operation, which will consequently greatly reduce its CO_2 emissions.

Our ESG Committee continues to improve our communication with stakeholders to articulate our ESG strategy and deliver on our goals, including achieving net zero in Scope 1 and 2 emissions by 2050.

Board and leadership team

During the Period, we welcomed Sam Smith as an independent Non-Executive Director to the Board of Directors with effect from 1 August 2023. Sam will sit on the Audit and Remuneration Committees.

Peter Haining stood down as Non-Executive Director at the Annual General Meeting ("AGM") earlier in the year but will continue to serve as Company Secretary in the near term to ensure a smooth transition.

The Board will seek to appoint a further independent Non-Executive Director in the coming year.

We need to continue to develop talent within our senior leadership team. Recruiting additional people in a still relatively tight labour market elongates the process more than we would like. However, we have made good progress in the Period, developing the team, which puts the Group in a stronger position for the future.

Outlook

The industry has seen lead times improving in many areas, however, certain "golden components" where demand is particularly high continue to dictate operational schedules.

As expected, defence and security aside, the improving component lead times has resulted in the orderbook beginning to normalise as customers focus on managing working capital.

The pipeline of new design wins across the Group remains strong in all target markets, which gives the Board confidence that the underlying growth drivers in our target markets remain.

Post Period-end we have seen strong order intake with the open orderbook at the end of October increasing from the half-year position of £99.7m to £108.6m (30 September 2022: £112.5m).

As previously reported, it is encouraging to see the development of multi-product, multi-year programmes with international blue-chip clients. This is testament to the work done over the last five years to develop the Group's product and service offering, making Solid State ever more relevant and valuable to its customers.

The record billings, combined with a stable six month orderbook, gives the Board confidence in meeting the full-year expectations for FY23/24.

We are continuing the execution of our strategy to achieve our mid-term strategic goals. The Board has set goals to 2030 and committed to seeking to maintain compound growth in Total Shareholder Return ("TSR") in excess of 20%. This record start provides a strong foundation to achieve this ambition in FY23/24.

Nigel Rogers
Non-Executive Chairman
5 December 2023

CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to report that the Group has delivered record financial results for the Period with progress in the execution of its growth strategy, building on the strong performance we have seen over recent years.

Performance

The Group's long-standing relationships, commitment to customer service, and a proactive approach to managing the semiconductor supply chain challenges has meant we have invested in, and secured, inventory in partnership with our customers. This has enabled us to deliver revenues in the First Half to meet customer requirements, which we did not expect to be able to fulfil until the Second Half.

As a result of shipping this additional product, the full period of contribution from Custom Power, as well as the £23.4m NATO contracts, the First Half organic revenue growth in excess of 35% on a constant currency basis is exceptionally strong.

On a full-year basis we expect to deliver strong organic revenue growth exceeding 15%, which will be in line with recently upgraded consensus revenue expectations. Group adjusted operating margins are a key metric. Despite the dilution in mix with the NATO contracts, adjusted operating margins have been maintained at 9.2% as a result of the operational gearing from the strong billings pulled forward. Where H2 billings are expected to return to more normalised levels, the operational gearing means we may see slight dilution on a full-year basis, however, there is potential for this to be mitigated by a stronger mix in the Second Half.

Following the share issue on the acquisition of Custom Power in August 2022, I am pleased to report a 3.3% growth in adjusted diluted earnings per share over the prior year's record result 46.8p (H1 2022/23: 45.3p).

Strategy

Solid State's growth strategy combines organic and acquisitive growth to actively target strategic customers in sectors with high barriers to entry that require accreditations, long standing credibility, and specialist skills and experience where our technology adds tangible value.

The Group's key target markets include industrial, security and defence, medical, transport, and energy.

Our four strategic pillars to drive growth remain:

- Talent development embedding our ESG values;
- Broadening our complementary product and technology portfolio;
- Development of our "own brand" components and systems offering, securing recurring revenue; and
- Internationalisation of the Group.

The following key milestones represent critical steps in the delivery of our strategy, and are cornerstones on which our 2030 plans and ambitions will continue to build:

- With the appointment of Sam Smith as an independent Non-Executive Director ("NED") we have continued to progress our governance and leadership team structure to position the Group for the next phase of growth;
- As part of our environmental strategy, the decommissioning of production for certain legacy products is now well advanced;
- Launched the rebranding of our components division, which is now trading as "Solsta" with a consistent Group brand refresh to follow during the Second Half;
- Delivered strong cash generation to settle deferred consideration and pay down the Group's borrowings to position the Group for future investments; and
- Developed our technical capabilities and expertise to enhance the relevance and value-added differentiation of our offering to our Tier 1 customers.

Markets and Divisional review

During the Period, the Group has seen good demand and increased billings for Internet of Things ("IoT") communications components from customers in the energy and utilities sector, within our industrial market.

Furthermore, the design and pipeline development within the medical sector has been building with activity strong across both divisions, including exciting new engineering projects and design wins, which are expected to translate into production demand as we head into FY24/25 and beyond.

The Components division delivered revenue of £31.4m (H1 2022/23: £35.3m), an 11.2% decrease on the prior year. FY22/23 was an exceptional year that ended 31.5% (£16.5m) up on FY21/22 after record customer demand, facilitated by the Division's investment to secure product driven by the component shortages and COVID-19 impact. This pulled forward demand to H1 2022/23 from H2 2022/23 and FY23/24 with some customers now destocking.

Post Period-end, the Division has launched new branding to trade as "Solsta" and continues to raise awareness of the Durakool product brand as the Group focuses on current technology for growth markets. In addition, the team has made good progress in enlarging the global third-party sales network and the internal support resources to drive future growth.

Our System's division revenue increased by 136.2% to £56.7m (H1 2022/23: £24.0m). As reported in November 2022, the Systems division secured contract wins to supply communications equipment to a client in the defence sector through NATO. These contracts have been shipped in the Period driving the year-on-year growth, in addition to a full Period of Custom Power, delivering a very strong first half to the FY23/24.

While these contracts have diluted the margin mix within the Systems business in the Period, they have contributed significantly to the record start to the year and provide a foundation for long-term recurring revenue in this sector as the Group targets "through-life" support opportunities.

Having completed the acquisition of Custom Power in August 2022, the US integration activities are largely complete; we received US regulatory sign off on the export control environment enabling efficient collaboration with the UK battery team.

The business performance continues to be consistent with management expectations and has been resilient in the face of some customer push outs/destocking. Positively, margins continue to improve year on year (mitigating the destocking impact) where we are realising commercial and operational best practice synergies.

We are continuing to look at adding technical and commercial talent both in the UK and the USA to boost the drive for sustainable growth.

Pleasingly, post Period-end we have secured a design and build programme for a smart battery in a hand held industrial device with a new global client. Our international capabilities have opened the opportunity for increased work share. We have commenced the design and engineering phases, with US deliveries scheduled to commence later in FY24/25. Opportunities for an enterprise charging solution and transfer of technology to our UK facility are now underway.

Branding and Market positioning

As the Solid State Group has grown and expanded over the years, it has made a number of acquisitions, each of which has brought huge benefits in terms of people and capability. Solid State's core values and strengths have remained the same, but the resulting amalgamation of companies and brands has increased the complexity of how the Group articulates "who it is, what it does and why it is unique and different from its competitors".

A Group-wide exercise to ensure the branding and web presence reflects the qualities of the Group and positions the operating units suitably is under way to maximise market penetration and cross-selling opportunities. The recently announced rebranding of the Components division under the trading name of "Solsta" is a first step in this exercise.

We are making good progress on the project to adopt the Custom Power brand across the Group's Power offering, which is expected to be completed during FY24/25.

People and leadership development

In the First Half we have seen several internal promotions, with close to 25% of vacancies being filled from internal talent. We continue to invest in new talent as well as adding depth to our senior team across the Group, including five heads in engineering as well as two senior heads to our Power business unit leadership team. Continued investment in our people and developing our Group leadership team is a critical driver for future growth as we strive to replicate recent successes.

The work of the ESG Committee is enhancing internal communications through our HR roadshows and our wellbeing initiatives, including a hardship fund and occupational health support. We have also established a Group Executive Committee ensuring our leadership structure enables us to deliver the next phase of the Group's growth.

M&A

The Board continues to actively explore attractive acquisition opportunities across target markets both overseas and in the UK, and the pipeline of opportunities is strong. We had several opportunities that were investigated, which through initial due diligence we did not progress as the opportunity did not meet our requirements.

However, we also do have others that remain of interest, and we are continuing to pursue. The acquisition pipeline for both Divisions is healthy with particular focus on adding technology and further internationalisation of the Group.

Gary Marsh
Chief Executive Officer
5 December 2023

KEY PERFORMANCE INDICATORS

The following key performance indicators are used by the Group to monitor performance, working capital and forward prospects.

Alternative/Adjusted Performance Measures ("APMs"), identified as "adjusted", are applied consistently throughout this report. APMs are reconciled to the statutory UK-adopted IFRS measures in Note 5. Note 30 to the 2023 Annual Report and Accounts defines APMs and includes a narrative disclosure of the basis of recognition of the APMs and the impact of the differences compared to the statutory measures. All APMS are identified in this document as "adjusted" throughout and any measure not flagged as "Adjusted" is the statutory IFRS measure.

Revenue (million)

£88.1m

Definition

Revenue is measured as the value, net of sales taxes, of goods sold and services provided to customers.

Reason for choice

This is a key driver for the business, enabling us to track our progress in driving growth.

Adjusted operating margin (%)

9.2%

Definition

Earnings before interest, tax, amortisation of acquired intangibles, acquisition costs and other adjustments for one-off non-recurring items divided by revenue.

Reason for choice

Adjusted operating profit margin provides a consistent year-on-year measure of the trading performance of the Group's operations to enhance the quality of the earnings.

Cash generated from operations (million)

£9.1m

Definition

Cash flow for operating activities excluding investing and financing activities.

Reason for choice

This provides a measure of the cash generated by the Group's trading and provides visibility of the cash impact of the working capital investment decisions. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends.

Adjusted profit before tax (million)

£7.3m

Definition

Profit before taxation, amortisation of acquired intangibles, acquisition-related costs and charges, share-based payments and other adjustments for one-off non-recurring items.

Reason for choice

This measure is the critical metric that the operational management control and influence delivering profit to drive the total return achieved for shareholders.

Net debt (million)

£(3.9)m

Definition

Cash less borrowings, less deferred and contingent consideration obligations excluding right-of-use lease obligations.

Reason for choice

The Group has financial covenants agreed with its lenders that are based on this definition of net debt, making it a KPI monitored to ensure compliance. Furthermore, net debt is used to monitor the Group's leverage position and ensure the Group maintains an appropriate capital structure.

Book to bill ratio (rolling 12 months)

0.95

Definition

Last twelve months ("LTM") revenue divided by LTM order intake.

Reason for choice

Monitoring the book to bill ratio provides a metric to monitor growth in the open orderbook and, therefore, the prospects for sustainable growth. While the LTM basis does eliminate some of the short-term month-to-month volatility it should not be monitored in isolation from the absolute revenue and open orderbook as variations in bookings and billings will impact the ratio.

Profit before tax (million)

£6.1m

Definition

Profit before taxation.

Reason for choice

This measure is the critical statutory metric that the operational management control and influence delivering profit to drive the total return achieved for shareholders.

CHIEF FINANCIAL OFFICER'S REVIEW

Record organic revenue growth in the First Half reflects prudent semiconductor strategy, strong customer demand and the delivery of £23.4m of product fulfilling the NATO contracts announced in November 2022, driving continued strong operating cash generation of £8.3m.

Revenue

The Group delivered revenue in the Period of £88.1m (H1 2022/23: £59.4m), up 48.3% on the prior period.

The impact of currency has been a revenue headwind of circa £1.0m with the average USD rate for the Period being $1.26:£1 (H1 2022/23: $1.21:£1), offset by the full year of Custom Power, which means like-for-like organic revenue growth is in excess of 35%.

Gross margins

Underlying product margins in the First Half have been stable across the Group, albeit as previously reported, the mix has been diluted by the NATO billings. This results in the gross margins in the Period being £27.3m (H1 2022/23: £18.8m) with the margin percentage down 0.6ppt at 31.0% (H1 2022/23: 31.6%).

Overheads

The current year increase reflects a full six months of Custom Power overheads (two months in H1 2022/23) in addition to increased employee costs reflecting the impact of wage inflation combined with investments in talent made in the second half of the prior year and the first half of this year.

In addition, we have incurred approximately £0.5m to date in relation to the closure of AEC production lines where legacy end-of-life devices have been migrated to modern technology solutions.

This results in sales, general and administrative expenses being up £6.1m at £20.4m (H1 2022/23: £14.3m).

Operating margin

Adjusted performance metrics that provide clarity over the Group's performance on an ongoing cash basis are consistent with previous periods and adjust for the amortisation of acquisition intangibles, non-recurring tax credits, acquisition fees and share option expenses.

The Group has seen an operational gearing benefit from the strong revenues, mitigating the modest dilution of the gross margin as a result of the change in mix, which means our operating margins continue to hold up well at 7.9% (H1 2022/23 7.5%). Adjusted operating margins 9.2% (H1 2022/23: 9.3%).

PBT

Adjusted profit before tax ("PBT") has increased to £7.3m up 38.8% (H1 2022/23: £5.2m). Profit before tax was £6.1m (H1 2022/23: £4.2m).

Tax

The year-on-year effective tax rate has increased to 25.6% (H1 2022/23: 20.2%). This is principally as a result of the UK corporate tax rate increasing from 19% to 25%, combined with the increased size and profitability of the Group, meaning we are now in the large company R&D tax credits scheme. The benefits from the R&D tax credits are now reflected in operating margins rather than the tax line.

PAT

Adjusted profit after tax ("PAT") has increased to £5.4m up 29.7% (H1 2022/23: £4.2m). Profit after tax was £4.5m (H1 2022/23: £3.3m).

EPS

A strong start to our financial year results in adjusted diluted earnings per share ("EPS") at 46.8p (H1 2022/23: 45.3p) and with basic EPS of 39.7p (H1 2022/23: 37.2p).

Dividend

The Board is committed to maintaining a progressive dividend policy as part of delivering growth in shareholder returns, albeit with the recent acquisitions and the growth ambitions, dividends are expected to continue to be a smaller component of total shareholder returns.

Given the strong trading performance in the First Half and prospects for the full year, the Board has decided to declare an increase in the interim dividend up 7.7% to 7p per share (H1 2022/23: 6.5p).

The interim dividend will be paid on 16 February 2024 to shareholders on the register at the close of business on 26 January 2024. The shares will go ex-dividend on 25 January 2024.

Cashflow

Operating cash

Operating cash generation in the First Half has been a key area of focus for the management team. The inflow of cash from operating activities was £8.3m (H1 2022/23 £0.5m) reflecting the impact of working proactively to manage working capital, combined with a very strong period of trading, giving an adjusted operating cash conversion of 102% (H1 2022/23: 9%).

Investing activities

Capex has maintained broadly in line with prior years at £1.3m reflecting continued maintenance expenditure across the Group with the primary project in the First Half being a refurbishment of the Crewkerne Power engineering and sales offices, modernising the facility.

In the First Half we have settled the year-end deferred contingent consideration liability of £5.5m in relation to Active Silicon and Custom Power in full.

Financing activities

Underpinned by the strong cash generation during the First Half, we have seen repayment of £0.6m of term loans and £1.4m of the Group's revolving credit facility ("RCF").

The First Half saw the final dividend payment of £1.5m, which in the prior year was paid in the Second Half.

Statement of financial position

Inventory

Inventory levels across the Group have started to reduce from year-end highs of £33.2m to £27.7m (H1 2022/23: £24.9m). Last time builds arising from discontinuing legacy products has resulted in a higher level of inventory at the half year, which is expected to unwind through the Second Half and in the early part of FY24/25.

Receivables

Receivables at the half year were £20.7m (H1 2022/23: £24.7m; FY22/23: £19.7m) higher than the year-end, reflecting the strong billings in the First Half and the impact of a number of pull-ins where we were able to secure stock to fulfil customer demand.

Net assets

The strong trading performance has seen net assets increase from the year-end of £58.0m to £61.8m (H1 2022/23: £60.5m). The foreign currency translational impact recognised in reserves the First Half was £0.7m (H1 2022/23: £2.9m).

Net debt

We saw net debt reduce from £8.1m at year-end to £3.9m (H1 2022/23: £16.1m) reflecting positive cash generation in the First Half.

The settlement of the year-end deferred contingent consideration liabilities in full means that at Period-end net debt comprises cash with banks of £8.8m and borrowings of £12.7m.

Statement of Directors' responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as set out in the basis of preparation paragraph within the accounting policies, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months, and their impact on the condensed consolidated interim financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

Forward-looking statements

Certain statements in this Half-Year Report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether arising as a result of new information, future events or otherwise.

Peter James
Chief Financial Officer
5 December 2023

INTERIM CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

Continuing operations	Unaudited Six months to 30 Sept 23 £'000	Unaudited Six months to 30 Sept 22 £'000	Audited Year to 31 Mar 23 £'000
Revenue	**88,125**	59,357	126,503
Cost of sales	**(60,830)**	(40,588)	(86,829)
Gross profit	**27,295**	18,769	39,674
Sales, general and administration expenses	**(20,360)**	(14,296)	(30,266)
Profit from operations	**6,935**	4,473	9,408
Finance costs	**(871)**	(291)	(972)
Profit before taxation	**6,064**	4,182	8,436
Taxation expense	**(1,551)**	(843)	(1,746)
Adjusted profit after taxation	**5,396**	4,160	8,553
Adjustments to profit	**(883)**	(821)	(1,863)
Profit after taxation	**4,513**	3,339	6,690
Profit attributable to equity holders of the parent	**4,502**	3,343	6,693
Profit/(loss) attributable to non-controlling interests	**11**	(4)	(3)
Other comprehensive (loss)/ income – FX on overseas operations	**652**	2,905	(869)
Other comprehensive (loss)/ income – taxation	**(65)**	–	(94)
Adjusted total comprehensive income for the period	**6,048**	7,065	7,684
Adjustments to total comprehensive income	**(948)**	(821)	(1,957)
Total comprehensive income for the period	**5,100**	6,244	5,727
Comprehensive income attributable to equity holders of the parent	**5,089**	6,248	5,730
Comprehensive income attributable to non-controlling interests	**11**	(4)	(3)

Earnings per share (see Note 6)			
Basic EPS from profit for the period	**39.7p**	37.2p	64.5p
Diluted EPS from profit for the period	**39.1p**	36.4p	63.1p

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023 (UNAUDITED)

	Share capital £'000	Share premium reserve £'000	Foreign exchange reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Shares held in treasury £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 31 March 2022	428	3,625	33	5	23,042	(57)	27,076	–	27,076
Issue of new shares	138	26,850	–	–	–	–	26,988	–	26,988
Dividends	–	–	–	–	–	–	–	–	–
Transactions with non-controlling interests	–	–	–	–	–	–	–	50	50
Share-based payment credit	–	–	–	–	113	–	113	–	113
Transactions with owners in their capacity as owners	138	26,850	–	–	113	–	27,101	50	27,151
Result for the period	–	–	–	–	3,343	–	3,343	(4)	3,339
Foreign exchange	–	–	2,905	–	–	–	2,905	–	2,905
Total comprehensive income	–	–	2,905	–	3,343	–	6,248	(4)	6,244
Balance at 30 September 2022	566	30,475	2,938	5	26,498	(57)	60,425	46	60,471
Issue of new shares	1	(1)	–	–	–	–	–	–	–
Transfer of treasury shares to All Employee Share Plan	–	–	–	–	(152)	152	–	–	–
Dividends	–	–	–	–	(2,235)	–	(2,235)	–	(2,235)
Share-based payment credit	–	–	–	–	438	–	438	–	438
Transactions with owners in their capacity as owners	1	(1)	–	–	(1,949)	152	(1,797)	–	(1,797)
Result for the period	–	–	–	–	3,350	–	3,350	1	3,351
Other comprehensive income	–	–	–	–	(94)	–	(94)	–	(94)
Foreign exchange	–	–	(3,774)	–	–	–	(3,774)	–	(3,774)
Total comprehensive income	–	–	(3,774)	–	3,256	–	(518)	1	(517)
Purchase of treasury shares	–	–	–	–	–	(203)	(203)	–	(203)
Balance at 31 March 2023	567	30,474	(836)	5	27,805	(108)	57,907	47	57,954
Dividends	–	–	–	–	(1,529)	–	(1,529)	–	(1,529)
Share-based payment credit	–	–	–	–	243	–	243	–	243
Transactions with owners in their capacity as owners	–	–	–	–	(1,286)	–	(1,286)	–	(1,286)
Result for the period	–	–	–	–	4,502	–	4,502	11	4,513
Other comprehensive income	–	–	–	–	(65)	–	(65)	–	(65)
Foreign exchange	–	–	652	–	–	–	652	–	652
Total comprehensive income	–	–	652	–	4,437	–	5,089	11	5,100
Balance at 30 September 2023	**567**	**30,474**	**(184)**	**5**	**30,956**	**(108)**	**61,710**	**58**	**61,768**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2023

	Unaudited as at 30 Sept 23 £'000	Unaudited as at 30 Sept 22 £'000	Audited as at 31 Mar 23 £'000
Assets			
Non-current assets			
Intangible assets	**40,858**	47,198	41,563
Property, plant and equipment	**4,939**	4,838	4,718
Right-of-use lease assets	**1,792**	2,652	1,981
Deferred tax asset	**305**	3,143	375
Total non-current assets	**47,894**	57,831	48,637
Current assets			
Inventories	**27,704**	24,940	33,228
Trade and other receivables	**20,656**	24,711	19,699
Cash and cash equivalents – on deposit	–	8,929	4,032
Cash and cash equivalents – available on demand	**8,812**	7,117	8,192
Total current assets	**57,172**	65,697	65,151
Total assets	**105,066**	123,528	113,788

Liabilities			
Current liabilities			
Trade and other payables	**(16,298)**	(17,040)	(23,735)
Deferred and contingent consideration on acquisitions – current	–	(14,414)	(5,679)
Current borrowings	**(1,351)**	(2,122)	(1,279)
Contract liabilities	**(7,323)**	(5,209)	(5,380)
Corporation tax liabilities	**(1,578)**	(1,312)	(1,110)
Right of use lease liabilities	**(1,118)**	(1,338)	(1,057)
Provisions – current	**(327)**	–	(323)
Total current liabilities	**(27,995)**	(41,435)	(38,563)
Non-current liabilities			
Non-current borrowings	**(11,354)**	(15,628)	(13,383)
Provisions	**(892)**	(717)	(715)
Deferred tax liability	**(2,339)**	(3,867)	(2,187)
Right-of-use lease liabilities	**(718)**	(1,410)	(986)
Total non-current liabilities	**(15,303)**	(21,622)	(17,271)
Total liabilities	**(43,298)**	(63,057)	(55,834)
Total net assets	**61,768**	60,471	57,954
Share capital	**567**	566	567
Share premium reserve	**30,474**	30,475	30,474
Capital redemption reserve	**5**	5	5
Foreign exchange reserve	**(184)**	2,938	(836)
Retained earnings	**30,956**	26,498	27,805
Shares held in treasury	**(108)**	(57)	(108)
Capital and reserves attributable to equity holders of the parent	**61,710**	60,425	57,907

Non-controlling interests	**58**	46	47
Total equity	**61,768**	60,471	57,954

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Unaudited Six months to 30 Sept 23 £'000	Unaudited Six months to 30 Sept 22 £'000	Audited Year to 31 Mar 23 £'000
Operating activities			
Profit before taxation	**6,064**	4,182	8,436
Adjustments for:			
Property, plant and equipment depreciation	**782**	458	1,159
Right-of-use asset depreciation	**529**	433	965
Amortisation	**1,370**	922	2,035
Profit on disposal of property, plant and equipment	–	(19)	(45)
Impairment of property, plant and equipment	**246**	–	–
Share-based payment expense	**243**	113	551
Finance costs	**871**	291	972
Recognition of increase in deferred contingent consideration	–	–	(326)
Profit from operations before changes in working capital and provisions	**10,105**	6,380	13,747
Decrease/(Increase) in inventories	**5,600**	(3,370)	(12,457)
(Increase)/Decrease in trade and other receivables	**(887)**	(2,736)	1,767
(Decrease)/Increase in trade and other payables	**(5,709)**	305	6,380
Cash generated from operations	**9,109**	579	9,437
Income taxes paid	**(858)**	(79)	(573)
Income taxes recovered	–	–	184
Net cash flows from operating activities	**8,251**	500	9,048
Investing activities			
Purchase of property, plant and equipment	**(1,040)**	(730)	(1,145)
Capitalised own costs and purchase of intangible assets	**(252)**	(183)	(1,197)
Proceeds from sale of property, plant and equipment	**5**	47	153
Payments for acquisition of subsidiaries net of cash acquired	–	(24,531)	(28,662)
Settlement of deferred consideration in respect of prior year acquisitions	**(5,535)**	(4,625)	(4,625)
Net cash flows from investing activities	**(6,822)**	(30,022)	(35,476)
Financing activities			
Issue of ordinary shares	–	26,988	26,988
Repurchase of ordinary shares into treasury	–	–	(203)
Borrowings drawn	–	14,505	15,872
Borrowings repaid	**(2,036)**	(156)	(2,772)
Payment obligations for right-of-use assets	**(609)**	(458)	(1,093)
Interest paid	**(726)**	(270)	(865)
Dividends paid to equity shareholders	**(1,529)**	–	(2,235)
Transactions with non-controlling interests	–	50	50
Net cash flows from financing activities	**(4,900)**	40,659	35,742
(Decrease)/Increase in cash and cash equivalents	**(3,471)**	11,137	9,314

	Unaudited as at	Unaudited as at	Audited as at

	30 Sept 23 £'000	30 Sept 22 £'000	31 Mar 23 £'000
Translational foreign exchange on opening cash	**59**	83	(14)
Net (decrease)/increase in cash and cash equivalents	**(3,471)**	11,137	9,314
Net cash and cash equivalents brought forward	**12,224**	2,924	2,924
Net cash and cash equivalents carried forward	**8,812**	14,144	12,224

	Unaudited as at 30 Sept 23 £'000	Unaudited as at 30 Sept 22 £'000	Audited as at 31 Mar 23 £'000
Represented by:			
Cash and cash equivalents – available on demand	**8,812**	7,117	8,192
Cash and cash equivalents – on deposit	–	8,929	4,032
Cash and cash equivalents – overdraft facility	–	(1,902)	–
Net cash and cash equivalents	**8,812**	14,144	12,224

NOTES TO THE INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

1. Basis of preparation of interim financial information

General information

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.

The interim financial statements are unaudited and do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2023, prepared in accordance with UK-adopted International Accounting Standards, have been filed with the Registrar of Companies. The Auditor's Report on these accounts was unqualified, did not include any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statements under section 498 of the Companies Act 2006.

Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2023 have been prepared in accordance with IAS 34, "Interim financial reporting", as contained in UK-adopted International Accounting Standards.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2023, which have been prepared in accordance with UK-adopted International Accounting Standards.

The consolidated interim financial statements have been prepared in accordance with the recognition and measurement principles of UK-adopted International Accounting Standards expected to be effective for the year ending 31 March 2024.

Going concern

In assessing going concern, the Directors gave careful consideration of the potential impact of the principal risks and uncertainties that the business faces, including direct and indirect supply chain disruption risks in addition to inflation on the cash flows and liquidity of the Group over the next 18-month period.

We have seen customers maintaining strong order cover to help to manage global electronics supply chain issues. The most significant impact on the Group's future performance is the potential for an unwinding of customer stock holdings as the uncertainty arising from the extended electronic component lead times improves and there is a need to manage working capital and cash more tightly. Management has taken all possible actions to minimise and mitigate the potential impact of this unwind; however, there is potential for some rescheduling of demand/destocking in the second half of FY23/24 and, potentially, into FY24/25. While the actions do not mitigate the risk fully, it still positions the Group to manage the impact as effectively as possible (as demonstrated historically over the last two trading years).

In assessing going concern for the period ended 30 September 2023, the financial modelling applied various sensitivity scenarios to a base case to 31 March 2025, which was prepared based on an extension of the budget for FY23/24.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months, therefore, it is appropriate to adopt a going concern basis for the preparation of the interim financial information. Accordingly, this interim financial information does 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.

2. Accounting policies

The accounting policies are unchanged from the financial statements for the year ended 31 March 2023, other than as noted below.

Financial instruments

The carrying value of cash, trade and other receivables, other equity instruments, trade and other payables, and borrowings also represent their estimated fair values.

All the Group's financial instruments, as disclosed, are considered to fall under Level 1, except for deferred contingent consideration due on acquisitions that are classified as Level 3 instruments. The contingent consideration in relation to Custom Power's last 12-month revenue threshold within the18-month period post acquisition remains assessed at £Nil value based on the discounted future forecasts prepared, as described in Note 1.

Additional disclosure of the basis of measurement and policies in respect of financial instruments are described on pages 108 to 113 of our 31 March 2023 Annual Report and remain unchanged at 30 September 2023.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2023.

Recent accounting developments

The accounting policies adopted are consistent with those of the previous financial year, and in preparing the interim financial statements, there were no standards, amendments or interpretations applied for the first time that had a material impact for the Group.

3. Principal risks and uncertainties

The principal risks and uncertainties impacting the Group are described on pages 46 to 48 of our 31 March 2023 Annual Report and remain unchanged at 30 September 2023. The exception is that acquisition risk is now low as no new companies have been acquired in the last 12 months.

They include: acquisitions, legislative environment and compliance, competition, product/technology change, supply chain interruption and cost inflation, retention of key employees, failure of, or malicious damage to, IT systems, natural disasters, and forecasting and financial liquidity.

4. Segmental information

	Unaudited Six months to 30 Sept 23 £'000	Unaudited Six months to 30 Sept 22 £'000	Audited Year to 31 Mar 23 £'000
Revenue			
Systems	**56,732**	24,013	57,517
Components	**31,393**	35,344	68,986
Group revenue	**88,125**	59,357	126,503

5. Adjusted profit measures

	Unaudited Six months to 30 Sept 23 £'000	Unaudited Six months to 30 Sept 22 £'000	Audited Year to 31 Mar 23 £'000
Acquisition fair value adjustments within cost of sales	–	90	88
Acquisition fair value adjustments and reorganisation costs	–	178	304
Decrease in deferred contingent consideration of Active Silicon	–	–	(326)
Amortisation of acquisition intangibles	**910**	661	1,602
Share-based payments	**243**	114	551
Imputed interest on deferred consideration unwind	**34**	–	136
Taxation effect	**(304)**	(222)	(492)
Movement of deferred tax assets in other comprehensive income	**65**	–	94
Total adjustments to other comprehensive income	**948**	821	1,957
Gross profit	**27,295**	18,769	39,674
Adjusted gross profit	**27,295**	18,859	39,762
Operating profit	**6,935**	4,473	9,408
Adjusted operating profit	**8,088**	5,516	11,627
Operating profit margin percentage	**7.9%**	7.5%	7.4%
Adjusted operating profit margin percentage	**9.2%**	9.3%	9.2%
Profit before tax	**6,064**	4,182	8,436
Adjusted profit before tax	**7,251**	5,225	10,791
Profit after tax	**4,513**	3,339	6,690
Adjusted profit after tax	**5,396**	4,160	8,553
Other comprehensive income	**5,100**	6,244	5,727
Adjusted other comprehensive income	**6,048**	7,065	7,684

6. Earnings per share

The earnings per share is based on the following:

	Unaudited	Unaudited	Audited Year to

	Six months to 30 Sept 23 £'000	Six months to 30 Sept 22 £'000	31 Mar 23 £'000
Adjusted earnings post tax attributable to equity holders of the parent	**5,385**[1]	4,164[2]	8,556[3]
Earnings post tax attributable to equity holders of the parent	**4,502**	3,343	6,693
Weighted average number of shares	**11,327,000**	8,998,193	10,374,314
Diluted weighted average number of shares	**11,516,279**	9,193,936	10,604,768
EPS			
Basic EPS from profit for the period	**39.7p**	37.2p	64.5p
Diluted EPS from profit for the period	**39.1p**	36.4p	63.1p
Adjusted EPS			
Adjusted basic EPS from profit for the period	**47.5p**	46.3p	82.5p
Adjusted diluted EPS from profit for the period	**46.8p**	45.3p	80.7p

[1] Calculated as Adjusted profit after taxation (£5,396k) excluding non-controlling interest profit (£11k)
[2] Calculated as Adjusted profit after taxation (£4,160k) excluding non-controlling interest loss (£(4)k)
[3] Calculated as Adjusted profit after taxation (£8,553k) excluding non-controlling interest loss (£(3)k)

7. Dividends

Dividends paid during the period from 1 April 2022 to 30 September 2023 were as follows:

5 October 2022	Final dividend year ended 31 March 2022	13.25p per share
16 February 2023	Interim dividend year ended 31 March 2023	6.5p per share
29 September 2023	Final dividend year ended 31 March 2023	13.5p per share

The Directors are intending to pay an interim dividend for the year ending 31 March 2024 on 16 February 2024 of 7.0p per share. This dividend has not been accrued at 30 September 2023.

8. Share capital

	Unaudited Six months as at 30 Sept 23	Unaudited Six months as at 30 Sept 22	Audited Year as at 31 Mar 23
Allotted issued and fully paid			
Number of ordinary 5p shares	**11,346,394**	11,322,394	11,346,394

	Unaudited Six months as at 30 Sept 23 £'000	Unaudited Six months as at 30 Sept 22 £'000	Audited Year as at 31 Mar 23 £'000
Allotted issued and fully paid			
Ordinary 5p shares	**567**	566	567

The ordinary shares carry no right to fixed income, the holders are entitled to receive dividends as declared, and are entitled to one vote per share at shareholder meetings.

Full details of movements in reserves are set out in the consolidated statement of changes in equity on page 10.

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption	Amounts transferred from share capital on redemption of issued shares.
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

Shares held in treasury	Shares held by the Group for future staff share plan awards.
Foreign exchange	Foreign exchange translation differences arising from the translation of the financial statements of foreign operations.
Non-controlling interest	Equity attributable to non-controlling shareholders.

9. Non-current assets

	Unaudited Six months as at 30 Sept 23 £'000	Unaudited Six months as at 30 Sept 22 £'000	Audited Year as at 31 Mar 23 £'000
Goodwill	**30,051**	34,554	29,726
Acquisition intangibles	**9,699**	12,152	10,523
Research and development	**479**	125	682
Software	**629**	367	632
Intangible assets	**40,858**	47,198	41,563
Property plant and equipment	**4,939**	4,838	4,718
Right-of-use assets	**1,792**	2,652	1,981
Deferred tax asset	**305**	3,143	375
Total non-current assets	**47,894**	57,831	48,637

10. Net debt

	Unaudited Six months as at 30 Sept 23 £'000	Unaudited Six months as at 30 Sept 22 £'000	Audited Year as at 31 Mar 23 £'000
Cash and cash equivalents – overdraft	–	(1,902)	–
Bank borrowing due within one year	**(1,351)**	(220)	(1,279)
Bank borrowing due after one year	**(11,354)**	(15,628)	(13,383)
Total borrowings	**(12,705)**	(17,750)	(14,662)
Deferred consideration on acquisitions within one year	–	(14,414)	(5,679)
Cash and cash equivalents – on deposit	–	8,929	4,032
Cash and cash equivalents – on demand	**8,812**	7,117	8,192
Net debt	**(3,893)**	(16,118)	(8,117)

The Group initially drew down two £6.5m term loans totalling £13.0m. The first tranche is interest only and committed for three years from the 5 August 2022, and the second tranche is repayable over five years with quarterly repayments. Both tranches bear variable interest based on a margin over base rate.

The cash on deposit was utilised in the Period to fully settle the deferred consideration on the Custom Power acquisition. The remaining Active Silicon consideration was also fully settled.

The Group has retained its £7.5m revolving credit facility, which is committed to November 2024 and bears variable interest based on a margin over base rate.

Lease liabilities are excluded from the Group's definition of net debt and a separate roll-forward of lease liabilities will be presented in the full-year report to the year ending 31 March 2024.

11. Related party transactions

Consistent with the year ended 31 March 2023, the ongoing related party transactions in the Period were those with the trading companies that are used by the Non-Executive Directors for their consultancy services. These transactions are disclosed in the Remuneration Report in the Annual Report to the 31 March 2023, and will be updated in the full-year report to the year ending 31 March 2024.

eTech Developments Limited ("eTech") made sales to the Group totalling £241k and purchases from the Group totalling £36k. As at 30 September 2023, £200k is owed to the Group from eTech and £8k is owed from eTech to the Group. There are no other material related party transactions.

12. Post balance sheet events

Post Period-end, 3,500 new shares of 5p each were issued due to an employee share option exercise.

The UK-based Components Division launched new branding to trade as "Solsta".

The statement will be available to download on the Company's website: www.solidstateplc.com.