



**SOLID STATE PLC**

**Interim Report**  
30th September 2014

**[www.solidstateplc.com](http://www.solidstateplc.com)**

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors:</b>	Anthony Brian Frere, <i>Chairman</i> Gary Stephen Marsh, <i>Chief Executive Officer</i> Peter Haining, FCA, <i>Finance Director</i> John Michael Lavery, <i>Director</i> John Lawford Macmichael, <i>Director</i> Gordon Leonard Comben, <i>Director</i> William George Marsh, <i>Director</i>
<b>Company Secretary and Registered Office:</b>	Peter Haining, FCA Solid State PLC 2 Ravensbrook Business Park Hedera Road Redditch B98 9EY
<b>Company Number:</b>	771335
<b>Nominated Adviser:</b>	W H Ireland Limited 24 Martin Lane London WC4R 0DR
<b>Broker:</b>	W H Ireland Limited 4 Colston Avenue Bristol BS1 4ST
<b>Auditors:</b>	haysmacintyre 26 Red Lion Square London WC1R 4AG
<b>Solicitors:</b>	Shakespeares Somerset House Temple Street Birmingham B2 5DJ
<b>Bankers:</b>	HSBC plc 70 Pall Mall London SW1Y 5EX
<b>Registrars:</b>	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Country of Incorporation of Parent Company:</b>	Great Britain
<b>Legal Form:</b>	Public Limited Company
<b>Domicile:</b>	Great Britain

## **CHAIRMAN'S STATEMENT**

### **Unaudited Interim Results for the six months ended 30th September 2014**

#### **Financial Review**

I am pleased to report a strong six months for the Group showing a 39% increase in revenue to £17.13m (2013: £12.29m) and a 175% increase in pre-tax profits at £1.552m (2013: £564k). Contributing to this performance has been the revenue from 2K1, which we acquired in December 2013; a full six month contribution from Q-Par, which we acquired in May 2013 and which therefore only contributed 5 months to the comparative period; and organic growth across all divisions of the Group. It is notable that this performance has been achieved without any contribution from the MoJ contract announced in July and the reduction in commoditised LED revenue as referred below.

Our ongoing review of the Group's business mix resulted in a strategic withdrawal from the commercial LED lighting market during the period, resulting in a reduction of circa £1m of low margin revenue. This business, whilst profitable, would not be able to provide the sustainable return on capital and management time to match our ambitions for Solid State.

The Board of Solid State focuses as much on the quality of the revenue generated as the quantity. The quality of our revenue is largely illustrated by the gross profit margin that we achieve. In the period there has been a +200bps improvement in the Group's gross margin to 32.1% (2013: 30.1%). The mix of product sold also influences gross margins and in the period the Group has benefited from a higher margin product mix than in previous periods.

Operating margins have increased due to the compound effect of cost savings through centralisation at Redditch and the increase in revenue. This operational gearing has resulted in a +430bps operating margin for the period of 9.2% (2013: 4.9%).

Order intake in the period has been strong at £25.3m, resulting in book:bill ratio of 1.48:1.00 and a record order book of £18.40m at 30 September 2014 (30 September 2013: £13.99m).

As of 1 August 2014 Solid State entered into a new banking agreement with Lloyds Banking Group, providing facilities of £4.5m to support our expected growth rate. Whilst this facility is largely in excess of our current requirements, it provides the Group with adequate capacity for the future.

Share based payment expenses in the period were £117k (2013: £75k).

Given the increase in profitability of the Group, it is the Board's decision to increase the interim dividend by +45% to 4.0p per share (2013: 2.75p).

#### **Highlights include:**

##### **Operational:**

- 3 year - £34m offender tagging contract secured with MoJ
- Successful integration of 2001 Electronic Components Ltd (2K1), acquired in December 2013, ahead of schedule
- Q-Par performance ahead of management expectation
- Organic growth in all divisions

## CHAIRMAN'S STATEMENT

### Unaudited Interim Results for the six months ended 30th September 2014 (continued)

- New banking relationship to support future growth
- Steatite - Taiwanese Trade Centre MoU
- Record order book as at 30/09/14 of £18.40m

#### Financial:

	2014	2013	Change
• Turnover	£17.13m	£12.29m	+39%
• Profit before tax	£1.552m	£564k	+175%
• Earnings per share (basic)	16.7p	7.5p	+123%
• Gross profit margin	32.1%	30.1%	+200bps
• Operating margin	9.2%	4.9%	+430bps
• Dividend	4.00p	2.75p	+45%
• Dividend cover	X4.2	X2.7	+56%

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

“These results represent both an excellent performance and a valuable underpin to the Board’s confidence in future prospects. Both divisions continue to generate strong organic growth rates. Steatite and Solid State Supplies have both made acquisitions within the last 12 months, highlighting the benefits of acquisitive growth.

“Our ambition for the Group intensifies as we benefit from new tender opportunities and the benefits of scale from the success of our growth strategy. I can report ongoing dialogue with potential acquisition targets, productive conversations with new product manufacturers, and encouraging new client and cross selling initiatives.”

#### Dividends

The Directors are declaring a +45% increase in the interim dividend of 4.00p per share (H1 2013: 2.75p) which is covered 4.2 times by earnings. The Board has reviewed and updated its dividend policy in the light of strong cash generation such that it intends to target a dividend cover of approximately 2.5X cover as opposed to the previous approximate 3.0X cover. The pattern of 1/3 interim dividend and 2/3 final dividend will remain in place as a broad guideline.

The interim dividend will be paid on 7 January 2015 to shareholders on the register at the close of business on 12 December 2014. The shares will go ex-dividend on 11 December 2014.

#### Business Review

The Group is focussed on the supply and support of specialist electronics equipment which include high tolerance and tailor made battery packs, specialist electronic components, secure communications equipment and antennae, and industrial/rugged computers.

## **CHAIRMAN'S STATEMENT**

### **Unaudited Interim Results for the six months ended 30th September 2014 (continued)**

The market for the Group's products and services is driven by the need for custom electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extreme and volatile temperatures is vital. Drivers in our markets include efficiency improvement, cost saving, environmental monitoring and safety.

The Group products and services are delivered through its two principal operating businesses; Steatite and Solid State Supplies. The key performance indicators of these businesses are billings, bookings and gross profit margins. Bookings are sales orders received and billings are sales delivered.

The Group's sales and product development strategies promote close collaboration across the two divisions in the pursuit of cross selling opportunities and development of ancillary services and proprietary products. The period has seen notable success in these two areas, supporting organic growth rates and sales of higher margin products.

#### **Steatite**

Steatite is one of the leading UK suppliers of electronic equipment. It designs, manufactures and supplies a range of products and solutions that include bespoke lithium battery packs, rugged mobile computing/radio solutions, microwave antennae, antenna subsystems, consultancy, industrial computer hardware and software. Key to its strategy is the ability to design, manufacture and test to customer requirements for use in some of the most difficult and harsh environments against the most stringent of standards and qualifications.

Steatite and Q-Par have traded well in the first six months of the year. Organic growth in the period has been stronger than the equivalent period last year, resulting in a first half performance which will limit the traditional seasonal bias of prior years where the second half has been stronger.

The focus on niche business continues to improve the gross margin which has increased by 2% points. Even more pleasing is the order intake which reached £17.6M (2013\*: £11.2M) (\* Q-Par order intake contributed for a five month period in the comparative period in 2013).

Going into the second half of the year we have a record order book and a healthy pipeline of prospects in the government and transportation sectors, and in our secure communications product range, putting Steatite and Q-Par on course for a solid second half performance.

We will continue to target growth through geographic expansion and product innovation using channel partners throughout the world. Having recently signed a MoU with the Taiwan Trade Centre for cooperation in business, with product development initiatives at the core of the collaboration, our product development strategy keeps us at the forefront of emerging technologies from the Far East within the electronics field.

In the last quarter of this fiscal year we should start to see the benefits of our already reported long term contract with the Ministry of Justice (MoJ) as product shipments begin to take place from our newest division, Steatite Electronic Monitoring.

## **CHAIRMAN'S STATEMENT**

### **Unaudited Interim Results for the six months ended 30th September 2014 (continued)**

#### **Solid State Supplies**

Solid State Supplies ('SSS' or the 'Distribution Division') is a distributor of specialist components to the UK OEM community; selling semiconductors, related components and modules for embedded processing, control and communications switches, power management units and specialist LED lighting.

The integration of the 2001 Electronic Components Ltd, acquired in December 2013, into the Distribution Division has now been successfully completed with personnel operating efficiently and effectively in their new roles. The integration of the computer systems, whilst challenging, has been completed ahead of schedule. The integration allows the various areas of the Distribution Division to operate as a single fully integrated unit and is already bringing efficiency benefits.

The increased size of the organisation is now giving SSS access to significantly larger contracts and the establishment of the new business development team is already bringing new orders, particularly in the areas of embedded processing and wireless connectivity.

The first half of the financial year saw SSS exit the low margin, high volume, commercial LED lighting market (inherited from the acquisition of 2001 Electronics Ltd) in favour of an increased focus on the higher margin, less competitive, specialist LED lighting markets, thus aligning this business with the overall strategy of SSS. In line with this strategy SSS has recently signed a new distribution contract with Plessey Semiconductor Ltd to take its innovative new LED technologies to market in the UK.

Gross margins have increased by just under 2% points compared with the same period last year and net profit for the six months has also benefitted from the savings anticipated from the amalgamation of the businesses. All integration costs have been incurred ahead of schedule in the first half of the year resulting in the expectation of a strong second half.

The Distribution Division continues to increase the number its franchise agreements within its areas of expertise and has now signed a prestigious distribution contract with Power Integrations of the USA.

#### **Divisional summary & strategy**

The companies in the Solid State group have distinct characteristics in their market places. A depth of technical understanding and a collaborative approach to client relationships have always promoted an integrated process of product design and supply. The degree of co-operation has always been appreciated by our clients and we believe it is of significant commercial value both to us and our customers. Solid State will continue to pursue this approach and to extend it into new relationships where appropriate.

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

## **CHAIRMAN'S STATEMENT**

### **Unaudited Interim Results for the six months ended 30th September 2014 (continued)**

#### **Outlook**

Solid State finished the period with a record order book as at 30/09/14 of £18.40m (30/09/13: £13.99m). This figure included £4.7m in respect of the MoJ contract which was booked in September and where delivery will commence in the last quarter of the fiscal year. As predicted, the acquisition of 2K1 is reducing the traditional second half bias previously seen in the Group's results.

The drivers in our markets favour our commercial approach and our market position. We are seeing further contract opportunities as a result of our heightened profile, driven by both our larger scale operation and specifically the profile resulting from securing the offender tagging contract from the MoJ. The Group is also benefitting from the Government's initiative to place 25% of their procurement budget with SMEs.

I can report ongoing dialogue with potential acquisition targets, productive conversations with new product manufacturers, and encouraging new client and cross selling initiatives.

The positive momentum across the business includes discussions on various product upgrade and renewal contracts, alongside a growing export opportunity and an impressive reception for Q-Par's antenna offering. It is against this backdrop that the Board remains confident of a strong second half to the year.

**Tony Frere**

**Non-Executive Chairman**

**INTERIM CONSOLIDATED INCOME STATEMENT**  
**for the six months ended 30th September 2014**

	<i>Unaudited</i> <i>Six months to</i> <i>30th September 14</i> <i>£'000</i>	<i>Unaudited</i> <i>Six months to</i> <i>30th September 13</i> <i>£'000</i>	<i>Audited</i> <i>Year to</i> <i>31st March 14</i> <i>£'000</i>
Revenue	17,133	12,292	32,085
Cost of sales	<u>(11,630)</u>	<u>(8,595)</u>	<u>(22,728)</u>
Gross profit	<u>5,503</u>	<u>3,697</u>	<u>9,357</u>
Distribution costs	(1,846)	(1,354)	(2,843)
Administrative expenses	<u>(2,078)</u>	<u>(1,741)</u>	<u>(4,288)</u>
	<u>(3,924)</u>	<u>(3,095)</u>	<u>(7,131)</u>
Profit from operations	1,579	602	2,226
Finance costs	<u>(27)</u>	<u>(38)</u>	<u>(72)</u>
Profit before taxation	1,552	564	2,154
Tax expense	<u>(171)</u>	<u>(31)</u>	<u>(278)</u>
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS</b> <b>OF THE PARENT</b>	1,381	533	1,876
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b> <b>FOR THE PERIOD</b>	<u>1,381</u>	<u>533</u>	<u>1,876</u>
Earnings per share (see below)			
Basic	16.7p	7.5p	25.3p
Diluted	16.2p	7.5p	25.2p



**INTERIM CONSOLIDATED STATEMENT  
OF CHANGES IN EQUITY  
for the six months ended 30th September 2014  
(unaudited)**

	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Capital redemption reserve</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 31st March 2013	349	1,073	5	4,854	6,281
Total comprehensive income for the period	-	-	-	533	533
Issue of new shares	10	193	-	-	203
Dividends	-	-	-	(377)	(377)
Share based payment expense	-	-	-	20	20
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30th September 2013	359	1,266	5	5,030	6,660
Total comprehensive income for the period	-	-	-	1,343	1,343
Issue of new shares	52	2,363	-	-	2,415
Dividends	-	-	-	(226)	(226)
Share based payment expense	-	-	-	215	215
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Balance at 31st March 2014	411	3,629	5	6,362	10,407
Total comprehensive income for the period	-	-	-	1,381	1,381
Issue of new shares	6	-	-	-	6
Dividends	-	-	-	(479)	(479)
Share based payment expense	-	-	-	117	117
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Balance at 30th September 2014	417	3,629	5	7,381	11,432
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**CONSOLIDATED BALANCE SHEET**  
**as at 30th September 2014**

	<i>Unaudited</i> <i>as at</i> <i>30th September 14</i> <i>£'000</i>	<i>Unaudited</i> <i>as at</i> <i>30th September 13</i> <i>£'000</i>	<i>Audited</i> <i>as at</i> <i>31st March 14</i> <i>£'000</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	1,217	986	1,059
Intangible assets	5,048	2,786	4,936
<b>TOTAL NON-CURRENT ASSETS</b>	<u>6,265</u>	<u>3,772</u>	<u>5,995</u>
<b>CURRENT ASSETS</b>			
Inventories	5,120	3,930	4,575
Trade and other receivables	7,077	4,638	10,438
Corporation tax recoverable	-	-	46
Cash and cash equivalents	43	160	685
<b>TOTAL CURRENT ASSETS</b>	<u>12,240</u>	<u>8,728</u>	<u>15,744</u>
<b>TOTAL ASSETS</b>	<u>18,505</u>	<u>12,500</u>	<u>21,739</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank overdraft	(1,070)	(1,219)	(1,895)
Trade and other payables	(5,382)	(3,382)	(7,490)
Bank borrowings	-	(1,032)	(1,144)
Corporation tax liabilities	(187)	(125)	(398)
<b>TOTAL CURRENT LIABILITIES</b>	<u>(6,639)</u>	<u>(5,758)</u>	<u>(10,927)</u>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	(10)	-	(11)
Corporation tax liabilities	(95)	(39)	-
Deferred tax liability	(254)	(43)	(224)
Provision for liabilities	(75)	-	(170)
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>(434)</u>	<u>(82)</u>	<u>(405)</u>
<b>TOTAL LIABILITIES</b>	<u>(7,073)</u>	<u>(5,840)</u>	<u>(11,332)</u>
<b>TOTAL NET ASSETS</b>	<u>11,432</u>	<u>6,660</u>	<u>10,407</u>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Share capital	417	359	411
Share premium reserve	3,629	1,266	3,629
Capital redemption reserve	5	5	5
Retained earnings	7,381	5,030	6,362
<b>TOTAL EQUITY</b>	<u>11,432</u>	<u>6,660</u>	<u>10,407</u>

## CONSOLIDATED CASH FLOW STATEMENT for the six months ended 30th September 2014

	<i>Unaudited</i> <i>Six months to</i> <i>30th September 14</i> <i>£'000</i>	<i>Unaudited</i> <i>Six months to</i> <i>30th September 13</i> <i>£'000</i>	<i>Audited</i> <i>Year to</i> <i>31st March 14</i> <i>£'000</i>
<b>OPERATING ACTIVITIES</b>			
Net profit from ordinary activities before taxation	1,552	564	2,154
Adjustments for:			
Depreciation	123	108	243
Amortisation	95	27	105
Loss on disposal of property, plant and equipment	4	5	2
Share based payment expense	117	20	235
Finance costs	27	38	72
	<hr/>	<hr/>	<hr/>
Operating profit before changes in working capital and provisions	1,918	762	2,811
(Increase) in inventories	(545)	(644)	(623)
Decrease/(increase) in trade and other receivables	3,361	2,884	(1,198)
(Decrease)/increase in trade and other payables	(2,108)	(1,515)	1,054
(Decrease)/increase in provisions	(95)	-	170
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Cash generated from operations	2,531	1,487	2,214
Income taxes paid	(257)	(65)	(190)
Income taxes recovered	46	-	28
	<hr/>	<hr/>	<hr/>
Cash flows from operating activities	2,320	1,422	2,052
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(191)	(160)	(403)
Purchase of computer software	(74)	(5)	(8)
Capitalisation of development costs	(244)	-	-
Proceeds from sale of property, plant and equipment	16	41	98
Consideration paid on acquisition of business	-	(872)	(2,974)
Cash with subsidiaries over which control has been obtained	-	-	651
	<hr/>	<hr/>	<hr/>
	(493)	(996)	(2,636)
<b>FINANCING ACTIVITIES</b>			
Issue of ordinary shares	6	203	2,618
Invoice discounting finance (net movement)	(1,144)	126	(1,170)
Interest paid	(27)	(38)	(72)
Dividends paid to equity shareholders	(479)	(377)	(603)
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	(1,644)	(86)	773
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents brought forward	183	340	189
	<hr/>	<hr/>	<hr/>
	(1,210)	(1,399)	(1,399)
<b>CASH AND CASH EQUIVALENTS</b>			
CARRIED FORWARD	<hr/>	<hr/>	<hr/>
	(1,027)	(1,059)	(1,210)
Represented by:			
Cash at bank and in hand	43	160	685
Bank overdrafts	(1,070)	(1,219)	(1,895)
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	(1,027)	(1,059)	(1,210)

## NOTES TO THE INTERIM REPORT for the six months ended 30th September 2014

### 1. **Basis of preparation of interim financial information**

The consolidated interim financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as endorsed by the European Union (“IFRS”) and expected to be effective at the year end of 31st March 2015. The accounting policies are unchanged from the financial statements for the year ended 31st March 2014.

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 31st March 2014, prepared in accordance with IFRS, have been filed with the Registrar of Companies. The Auditors’ 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.

### 2. **The earnings per share**

The earnings per share figures are based on the profit on ordinary activities after taxation as stated in the unaudited income statement and the weighted average number of shares in issue during each period. The weighted average number of shares in issue during the period was 8,261,593 for the six months ended 30th September 2014, 7,412,343 for the year ended 31st March 2014 and 7,074,668 for the six months ended 30th September 2013. The calculation of diluted earnings per share was based on 8,549,849 for the six months ended 30th September 2014, 7,431,867 for the year ended 31st March 2014 and 7,121,004 for the six months ended 30th September 2013.

### 3. **Dividends**

Dividends paid during the period from 1st April 2013 to 30th September 2014 were as follows:

2nd September 2013	Final dividend year ended 31st March 2013	5.25p per share
31st January 2014	Interim dividend year ended 31st March 2014	2.75p per share
2nd September 2014	Final dividend year ended 31st March 2014	5.75p per share

The directors are intending to pay an interim dividend for the year ended 31st March 2015 in January 2015 of 4p per share. This dividend has not been accrued at 30th September 2014.

### 4. Further copies of this document are available both at the registered office of the Company and from the offices of W H Ireland Limited, 4 Colston Avenue, Bristol, BS1 4ST. The statement will also be available to download on the Company’s website: [www.solidstateplc.com](http://www.solidstateplc.com)

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