

# Solid State

**Technology**
**3 March 2021**

## Acquisition of Willow Technologies

Solid State has acquired Willow Technologies, a manufacturer and value-added distributor of electromechanical products. The initial consideration payable is c £5.5m cash (net), financed from existing resources. Broker consensus FY22 EPS has been raised by 9% to reflect the earnings enhancement in the first full year.

### Acquisition complements value-added distribution

The acquisition complements Solid State's existing value-added distribution activity, adding the Durakool range of own-brand electromechanical relays and contactors and the Hermaseal range of own-brand glass to metal seals and third-party electromechanical components. It significantly enhances Solid State's Value-Added Supplies division's offering for electric vehicles, EV charging, green tech, medical and military markets. As over 70% of Willow Technologies' revenues are derived outside the United Kingdom, the acquisition supports the group's strategic objective of increasing geographic reach and gives an established platform in the United States, strengthening the group's presence in the region.

### Deal is earnings enhancing in first full year

For the year ended March 2020 (FY20) Willow Technologies reported revenue of £10.3m and profit after tax of £0.45m. Net assets at the year-end totalled £7.0m. The company's performance in H121 was adversely affected by the coronavirus pandemic, so management took appropriate action to control costs. Both orders and billings have since recovered, so management expects FY21 revenues will be c £8.75m, generating c £0.6m underlying profit after tax. Solid State expects the acquisition will be earnings enhancing in the first full year. The initial consideration of £5.5m (net of acquired cash) is 9.2x FY21e net earnings. It is payable in cash, with an additional deferred element dependent on achieving at least £0.7m profit over the next 12 months of up to £3.5m and will be financed from the group's existing cash resources and banking facilities.

### Valuation: Trading at a discount to peers

Solid State's shares have fully recovered from the pandemic-induced sell-off in March 2020 and are now at the highest level they have been for five years. They are trading on a year 2 P/E multiple at a small discount to the mean for our sample of specialist manufacturing companies (14.5x for Solid State versus 16.2x for peers) and a much larger discount to the mean for our sample of value-added distributors (14.5x versus 28.6x).

#### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/19	56.3	3.5	35.9	12.5	22.1	1.6
03/20	67.4	4.7	46.3	12.5	17.2	1.6
03/21e	64.2	4.9	47.4	15.0	16.8	1.9
03/22e	78.4	5.8	54.7	16.0	14.5	2.0

Source: Company data, broker consensus. Note: \*Adjusted for exceptionals, share-based payments and amortisation of acquisition intangibles.

**Price** 795p  
**Market cap** £68m

#### Share price graph



#### Share details

Code SOLI  
Listing AIM  
Shares in issue 8.5m

#### Business description

Solid State is a high value-add manufacturer and specialist added-value distributor to the electronics industry. It has expertise in industrial/ruggedised computers, electronic components, antennas, microwave systems, secure communications systems and battery power solutions.

#### Bull

- Added-value design capability supports long-term relationships with customers and higher margins.
- Core competences in computer, power and communications serve markets growing in response to central government funding priorities.
- Scale attracts new franchises such as Microchip and VPT.

#### Bear

- Revenue development dependent on OEM customers' sales and marketing activity.
- Shortening in order book visibility caused by market uncertainty.
- Potential programme delays because of global semiconductor supply chain issues.

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