

# Solid State

**Technology**
**14 July 2022**

## Step change in Power capabilities

Solid State is acquiring Custom Power, a California-based battery systems manufacturer and energy solutions provider, for up to \$45.0m (c £36.0m) in cash. It is raising up to £27.2m (gross) through a placing and open offer at 1,025p/share to partly finance the acquisition. Management believes that the acquisition will be earnings enhancing in its first full year (FY24).

## Internationalising existing Power business unit

In common with the group's existing Power business unit, Custom Power is involved at the pack manufacture stage of the supply chain and focuses on medium volume, complex custom assemblies with long-term, multi-year production runs. Similarly, it is not involved in consumer electronics or electric vehicles other than highly specialised applications such as cherry pickers, unmanned aerial vehicles and unmanned military vehicles. The acquisition provides the group with additional US manufacturing capacity, contract manufacturing relationships in Mexico and sales links with new multinational customers including Honeywell, Lockheed Martin and Philips Medical. It adds a portfolio of semi-standard battery products used in the security and defence, medical and industrial markets, significantly expanding the group's revenues in the first of these sectors where it currently has relatively little exposure. The acquisition provides opportunities for cross-selling. It also strengthens the group's engineering team with electronic engineering circuit design and battery management system software design expertise and adds complementary technology, including pack heating and fuel gauge algorithms.

## Acquisition of growing, profitable business

The initial consideration payable is \$30.0m (c £24.0m), followed by two equal tranches of deferred consideration totalling \$10.0m (c £8.0m) and up to \$5m (c £4m) consideration contingent on achieving \$37.5m (£30.0m) or more revenues over a 12-month period within 18 months of completion. Custom Power generated revenues of c US\$ 29.8m (c.£23.8m) and underlying profit after tax of \$2.5m (c £2.0m) for the year ended December 2021. Management believes that the revenue target is ambitious but nevertheless likely to be achieved.

## Valuation: Modest prospective multiples paid

Management calculates that if Custom Power reaches the target while maintaining margins at FY21 levels it will generate \$3.2m profit after tax. The maximum consideration payable therefore represents 1.2x prospective revenues and 14.2x prospective profit after tax.

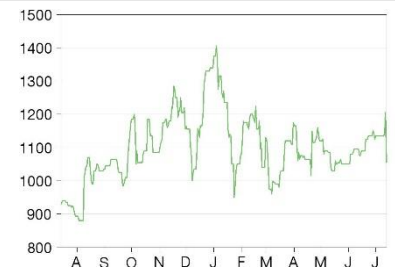
### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/20	67.4	4.7	46.3	12.5	22.7	1.2
03/21	66.3	5.4	54.7	16.0	19.2	1.5
03/22e	85.0	7.2	71.2	19.5	14.7	1.9
03/23e	108.0	9.2	72.0	20.0	14.6	1.9

Source: company data, broker consensus

**Price** 1,050p  
**Market cap** £89m

### Share price graph



### Share details

Code SOLI  
Listing AIM  
Shares in issue (prior to placing and open offer) 8.5m

### Business description

Solid State is a specialist value-added component supplier and design-in manufacturer of computing, power and communications products. It supplies the commercial, industrial and military markets with durable components, assemblies and manufactured units for use in specialist and harsh environments.

### Bull

- Good track record of identifying and integrating acquisitions.
- 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.

### Bear

- Revenue development dependent on OEM customers' sales and marketing activity
- Potential programme delays because of global semiconductor supply chain issues remain.
- Delays affecting high value-added manufacturing projects for government-funded and major infrastructure programmes are commonplace.

### Analyst

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