

Solid State

Technology
2 March 2021

Acquisition of Active Silicon

Solid State has acquired Active Silicon, which designs and manufactures imaging and embedded vision systems that support the capture, processing and transmission of image data in high performance and critical environments. The initial consideration payable is £2.7m cash (net), financed from existing resources. Broker consensus FY22 EPS has been raised by 5% to reflect the earnings enhancement in the first full year.

Acquisition complements manufacturing activity

The acquisition complements Solid State's existing opto-electronic and embedded computing capability in the high-growth vision market. The enlarged group will be able to offer differentiated, high performance image processing and embedded computing solutions, with Active Silicon providing bespoke base board designs that process the data captured by third-party cameras and the group's Steatite subsidiary providing additional computer graphic processing hardware. Active Silicon is currently supplying systems for applications including computer vision-assisted surgery, radiation therapy, ophthalmology, object recognition and sorting in high volume manufacturing, and video surveillance in challenging environments.

Deal is earnings-enhancing in first full year

For the year ended March 2020 Active Silicon reported revenue of £5.5m and profit after tax of £0.3m. Net assets at the year end totalled £5.7m. The company's performance during H121 was adversely affected by the coronavirus pandemic, but both orders and billings have since recovered, so management expects FY21 revenues will be just under £4.5m, generating c £0.25m underlying profit after tax. Management expects the acquisition to be earnings enhancing in the first full year. The initial consideration of £2.7m (net of acquired cash) is c 11x FY21e net earnings, 9.0x FY20 net earnings. It is payable in cash, with an additional deferred element of up to £1m dependent on performance over the next 25 months 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 currently trading on a year 1 P/E multiple that is at a small discount to the mean for our sample of specialist manufacturing companies (16.0x for Solid State versus 17.7x for peers) and a much larger discount to the mean for our sample of value-added distributors (16.0x versus 32.5x).

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	21.2	1.6
03/20	67.4	4.7	46.3	12.5	16.4	1.6
03/21e	64.2	4.9	47.4	15.0	16.0	2.0
03/22e	70.0	5.2	50.3	16.0	15.1	2.1

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

Price 760p
Market cap £65m

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.

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

industrials@edisongroup.com

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