

Filtronic

Securing a deal with SpaceX



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British radio transmitter company Filtronic has secured a large order from Elon Musk's company, SpaceX. **Ian Marcousé** examines what this means for Filtronic

On 26 August 2025, SpaceX had a vital, successful test of its Starship rocket. On the same day, a British radio transmitter company landed a £50 million contract with SpaceX to support its Starlink internet service. Filtronic, which makes radio frequency transmitters and receivers, said it was its largest order from SpaceX to date, and the first order for its new radio frequency technology, which it claims offers improved efficiency, more power and better temperature control.

Filtronic's innovative technology will be used in Starlink's network of more than 6,000 satellites. The satellites orbit at about 300 miles from Earth, providing excellent connection speeds to Starlink users in locations with poor internet infrastructure. It has been used to provide battlefield access to Ukraine's troops, despite damage to the country's phone connections. Filtronic, based in Sedgefield, County Durham in the UK, said it expected that the new orders would boost revenues from next year onwards. Since collaborating with SpaceX last year,

Filtronic's revenue doubled to £56 million in the year to May 2025 and pre-tax profit jumped from £3.36 million to £13.4 million.

Filtronic is preparing to relocate to a new factory in Sedgefield in 2026. This will double its manufacturing capacity in the UK, alongside another site in the USA. In the past year it has hired 100 extra engineering and project management staff in the UK. *The Times* reported that Nat Edington, Filtronic's chief executive, said that securing this contract 'marks a significant milestone for Filtronic. It validates the strength of our engineering capability'. He also said that 'this achievement would not have been possible without the expertise and dedication of our staff'.

Filtronic also supports satellites for Airbus, the European plane manufacturer, and works with the British arms companies BAE Systems and QinetiQ. It was founded in 1977 by Professor David Rhodes at the University of Leeds and specialised in components for the defence industry. It designs 'mission-critical' communication networks for the aerospace, defence, telecoms infrastructure and low Earth orbit space markets. Filtronic's share price recently closed at 140 pence (up by 5 pence, or 3.7%), putting the business' value at £314 million. In contrast, the market capitalisation of SpaceX is US\$450 billion.

Questions

30 marks, 35 minutes

- 1 Explain the characteristics of a niche market such as that of Filtronic. (4 marks)
- 2 Assess the value to a company such as Filtronic of an agreed £50 million contract with a company the size of SpaceX. (10 marks)
- 3 Explain why product innovation is important to Filtronic. (4 marks)
- 4 SpaceX is likely to provide more than 50% of Filtronic's income over the next few years. Assess the possible downsides of such an arrangement. (12 marks)

Answers and marking

- 1 A niche market has a small slice of a market, usually based on a distinctive or unique aspect, such as Filtronic's clearly small-scale, specialist, high-tech business sector. It is dealing with multi-billion-dollar giants such as Airbus and SpaceX, yet its own revenue is just £56 million. It is probably working on customised equipment to meet the exact requirements of its high-tech clients.
- 2 Specifications make a big feature of 'risk and uncertainty'. This would be especially important in the dynamic market for space travel. Customers – and development programmes – could be expected to come and go, leaving a supplier such as Filtronic in a state of permanent uncertainty. So for a firm to order £50 million of equipment is a huge opportunity. An order from such a colossus as SpaceX could be used to borrow money from a bank or simply provide the confidence to go ahead with a hiring and training programme, as Filtronic has done with its near-doubling of staff numbers.

Currently there is a global boom in space, with China, India and European countries trying to catch up with the USA. Filtronic should be in a good position to use the cash flows from this contract to finance bold moves to gain business from companies in Asia or Europe. Being able to boast of a £50 million contract with Elon Musk is likely to open doors to businesses worldwide. Consequently, this £50 million contract is likely to end

up becoming worth more than £50 million to Filtronic.

- 3 Process innovation is about finding better ways to make things, while product innovation means coming up with cleverer, more distinctive products. When dealing with fast-moving, high-tech businesses such as SpaceX and Airbus, price is unlikely to be a key factor in making sales. What these customers want is the best possible technology to enable them to stand out as market leaders. So product innovation is the key to Filtronic's long-term, sustainable competitive advantage.
- 4 Businesses have two types of costs: variable and fixed. If Filtronic lost a contract worth 50% of its sales, its variable costs would fall by 50% but fixed costs would be unchanged. This would mean a doubling of fixed costs per unit (or per £ of sales). In other words, the remaining 50% of sales would have to bear all the fixed costs, meaning that they would be spread over fewer units of output. A profitable business could become severely unprofitable overnight. The only solution, in the short term, would be to slash those fixed costs, perhaps through large-scale redundancies. These redundancies could affect research and development staff, who do nothing to generate short-term income, yet are crucial for the long term.

Generally, for safety's sake, no business should want to have a heavy dependence on any customer. Filtronic can boast to other potential customers about being a major supplier to SpaceX, but there are significant financial risks in relying on such a mercurial business. With their clear commitment shown by heavy recruitment of new staff, Filtronic's management is showing faith in their SpaceX future. Let's hope they prove right.

On balance, the company is right to take this big step forward – literally into space – but it should take care to keep high cash balances in its bank account, so that it can cope in the short term in case things go wrong.

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