



# T H E X P E R T S I N P O W E R

## What does XP Power do?

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- XP Power is a leading international designer and manufacturer of essential power control solutions to the global capital goods market.
- Power direct from the electricity grid is unsuitable for powering electronic equipment and must be converted into a form useable by that equipment.
- XP Power designs and manufactures power converters – mission critical electronic components which are incorporated into its customers' equipment to convert mains power into the right format to ensure it can function correctly and safely.
- XP Power designs-in power converter solutions into the end products of major blue chip OEMs, in the industrial (45% of sales), healthcare (30% sales) and technology (25% of sales) sectors. The Group serves the industrial/capital goods markets and has no direct exposure to consumer electronics.
- Once designed into a product, XP has a revenue annuity over the life cycle of the customer's product which is typically five to seven years depending on the industry sector. This gives visibility to future revenues.
- XP Power's products frequently offer significantly improved efficiency and functionality over competing solutions. Following an intensive period of new product introductions, XP has established the widest and freshest product range in the industry, having launched over 100 new product families.
- XP Power's manufacturing capability gives it complete control of the production process – a critically important factor for large, "blue chip" customers

## Our value proposition

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XP Power's products reduce the manufacturing and running costs of its customers' equipment enabling them to gain a competitive advantage.

## Key information

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- Market capitalisation: circa £330 million
  - Sector: Electronic and Electrical Equipment
  - Year end: 31 December
  - Sales: £109.7 million FY 2015
  - Yield: >4%
  - Dividend Cover: 1.6 times
  - Profit before tax: £25.4 million FY 2015
  - House broker: Investec
  - Analyst coverage: Investec, Edison, Peel Hunt and SP Angel
  - Customers include: ABB, Applied Materials, Johnson and Johnson, General Dynamics, GE, Philips, Roche, Siemens, Zeiss
  - Shareholders include: Hargreave Hale, Aberdeen Asset Management Ltd, Mawer Investment Management, Standard Life Investments, Henderson Global Investors, Capital Group.
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## **Markets – significant opportunities to capitalise upon...**

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XP operates in a highly fragmented global marketplace.

£ Millions	Value of market	2015 FY sales	Market share
Asia	860	8.9	1.0%
Europe	450	45.1	10.0%
North America	720	55.7	7.7%
<b>Total</b>	<b>2,030</b>	<b>109.7</b>	<b>5.4%</b>

### *Fundamental growth drivers for XP Power's core markets*

- Proliferation of electronic devices into more and more applications
- Growing volume of regulation on efficient power usage and environmental protection
- Increasing life spans requiring more machine based medical treatments in later life
- Increasing customer demand for new product designs which require less space and which produce less heat during use
- Increasing legislation relating to the amount of energy consumed by electronic equipment when it is not working but in standby mode
- Accelerating innovation and sophistication of medical diagnostic equipment

## **Business model transformed - underpinning growth and margin opportunity...**

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The current management team floated XP Power on the London Stock Exchange in 2000 as a specialist distributor of mission critical power control components. Since then the team has successfully changed the focus of the business model to shift the business up the value chain into design and manufacture, establishing its first factory in China in 2006. Management have consistently delivered on this strategy over a period of time, transforming XP into a technology-led business with an independent low-cost manufacturing capability. In particular, since control of product quality at all stages of the production process is critical to XP's target "blue chip" customers, the introduction of a manufacturing capability was essential to enable XP to secure approved vendor status with these larger customers.

The commissioning of a state of the art, larger manufacturing facility in China in mid-2009 has enabled XP to drive a further significant increase in its own design/own manufactured volumes, to the current level of 72%. Construction of an additional manufacturing facility in Vietnam was completed in December 2011, with production of magnetic components commenced in the first quarter of 2012 and production of power converters commenced in the fourth quarter of 2014. All of XP's own-design products are now manufactured in-house, ensuring full control of the production process and enhancing margins.

The majority of sales are now from products based on XP's own intellectual property, which generates higher margins, and enables XP Power to deliver power converter solutions which reduce its customers' overall new product development costs. XP's consistent investment in both new product investment and product launches, underpins growth prospects in future years, as these products enter production phase.

XP's progress is demonstrated by five key performance indicators which are closely aligned with its strategy:

<b>Key Performance Indicator</b>	<b>Strategy points</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>H1 2016</b>
Number of new product introductions	Develop a strong pipeline of leading edge products	31	38	19	31	26	22	27
"Green" product revenues	Expansion of high efficiency "Green" products	£2.8m	£5.0m	£8.1m	£13.7m	£18.6m	£23.6m	£14.2m
Own design product revenues	Target and increase penetration of key accounts  Increase contribution of own design products	£44.1m	£59.2m	£57.6m	£64.2m	£67.2m	£74.6m	£43.3m
Proportion of own design products	Manufacture our own products	48%	57%	62%	63%	66%	68%	72%
Earnings per share	Target and increase penetration of key accounts	83.7p	106.4p	81.3p	95.1p	101.1p	104.3p	52.2p

#### **Continuing the development of XP Power – future plans...**

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- Take further market share
- Continued focus on gaining corporate vendor approval from additional target customers
- Focus new product introductions on addressing new market areas
- Improve competitiveness of existing products by offering smaller size, lower cost and higher energy efficiency ("greener" solutions)
- Invest in additional technical support to penetrate newer markets in Europe and Asia
- Expand manufacturing capacity in Vietnam
- Lead the industry on environmental issues

#### **Attractive Valuation Metrics – good mix of cyclical growth and yield ...**

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- Scope for further increase in market share
- Established pipeline of class leading high efficiency "green" products
- Attractive operating margins
- Strong free cash flow generation
- Progressive attitude to dividend
- Underpinned by acquisition value in a consolidating sector