



# 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.
- Power direct from the electricity grid is not suitable for powering electronic equipment and must be converted into a form useable by that equipment.
- XP Power designs and manufactures power converters – mission critical components which convert mains power into the right form for its individual customers' needs, ensuring their electronic equipment can function.
- XP Power designs-in power converter solutions into the end products of major blue chip OEMs, in the industrial (46% of sales), healthcare (25% sales) and technology (29% 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 5 to 7 seven years depending on the industry sector. This gives visibility to future revenues.
- Significant, long term investment into market research and product development means XP Power's products frequently offer significantly improved efficiency and functionality. Following an intensive period of new product introductions over the last three years, XP has established the widest and freshest product range in in the industry, having launched over 80 new product families.

## Our value proposition

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XP Power reduces the production and running costs of its customers' equipment enabling them to gain a competitive advantage.

## Key information

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- Market capitalisation: circa £325 million
- Sector: Electronic and Electrical Equipment
- Sales: £91.8 million FY 2010
- Yield: ~2%
- Dividend Cover: 2.5 times
- Profit before tax: £18.6 million FY 2010
- House broker: Investec
- Analyst coverage: Investec, Altium, Edison and Westhouse
- Customers include: ABB, Johnson and Johnson, General Dynamics, GE, Harris, Premier Farnell, Roche, Siemens, Zeiss
- Shareholders include: Standard Life, Legal & General, Hargreave Hale, Aberdeen Asset Managers, Cavendish Asset Management, Brewin Dolphin and Fidelity Investment Management.

## Markets – significant opportunities to capitalise upon...

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XP operates in a highly fragmented global marketplace.

£ Millions	Value of market	Current sales	Market share
Asia	360	5.6	2%
Europe	340	41.4	12%
North America	450	44.8	10%
<b>Total</b>	<b>1,050</b>	<b>91.8</b>	<b>8%</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 limiting harmful consequences to the environment
- Increasing life spans requiring more machine based medical treatments in later life
- Customers' new product designs which require less space and heat generation
- 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...**

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 have successfully changed the focus of the business model and shifted the business up the value chain by investing significantly in market research and product development and by establishing a low cost in-house manufacturing facility in China. Management have consistently delivered on this strategy over a period of time, transforming XP into a technology-led business with an independent manufacturing capability.

The commissioning of a second, larger manufacturing facility in China in mid-2009 was crucial step in securing further approved vendor agreements with blue chip customers and, over time, will enable XP to drive a significant increase in its own design/own manufactured volumes, from the current level of 48%. Construction of an additional manufacturing facility in Vietnam commenced in December 2010. When complete in early 2012, this facility will double XP's manufacturing capacity.

The successful implementation of this strategy means that the majority of sales are now from products based on XP's own intellectual property, which generates higher margins, and gives XP Power the ability 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.

### **Continuing the development of XP Power – taking things forward...**

- Align resources to gain corporate vendor approval for key target customers
- Maximise rate of new product introductions to address 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 in 2012

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

- Scope for increase in market share
- Established R&D pipeline
- Improved operating margins post construction of new manufacturing facility
- Free cash flow generation
- Consistent increase in dividend
- Underpinned by acquisition value in a consolidating sector