



THE X P E R T S I N P O W E R

What does XP Power do?

- One of the world's leading developers and manufacturers of mission critical power control solutions to the electronics industry.
- All electronic devices require a power converter to take the relatively high voltage AC supply from the mains and convert it into various lower voltage, stable DC outputs required to drive electronic equipment.
- XP typically designs in power converter solutions into the end products of major blue chip OEMs, with a focus on the industrial (52% of sales), healthcare (22% sales) and technology (26% of sales) sectors. 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.
- Industry leading technical support reduces customer's product development cost.

Key information

- Market capitalisation: circa £35 million
- Sector: Electronic and Electrical Equipment
- Sales: £69.3 million FY 2008
- Yield: >10%
- Dividend Cover: 2.2 times
- Profit before tax: £10.2 million FY 2008
- House broker: Investec
- Analyst coverage: Investec and Edison
- Customers include: ABB, BAE Systems, General Dynamics, GE, Harris, Premier Farnell, Roche, Siemens
- Shareholders include: Aberdeen Asset Managers, Gartmore, Brewin Dolphin and Cavendish Asset Management,

Markets – significant opportunities to capitalise upon...

XP operates in a highly fragmented global marketplace.

	Value of market	Current sales	Market share
North America	\$800m	\$65m	8%
Europe	\$600m	\$60m	10%
Asia	\$600m	\$5m	1%
Total	\$2,000m	\$130m	6%

Fundamental growth drivers for XP Power's core markets

- Accelerating innovation and sophistication of medical diagnostic equipment
- 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
- Growing volume of regulation on efficient power usage and limiting harmful consequences to the environment

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 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.

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

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

- Discount to sector peers
- Scope for increase in market share
- Established R&D pipeline
- Improved operating margins post construction of manufacturing facility
- Free cash flow generation
- >10% dividend yield
- Underpinned by acquisition value in a consolidating sector