Edison investment research

25 February 2008

XP Power

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	78.7	9.1	37.0	18.0	6.0	8.1
12/07	66.3	7.7	31.4	20.0	7.2	8.9
12/08e	66.7	8.1	32.1	21.0	7.0	9.4
12/09e	70.6	9.4	37.0	23.0	6.0	10.3

Note: *PBT and EPS fully diluted are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Power up

The shares have halved over the last year, reflecting a slowdown in end markets, a contraction in sector valuations and, in our view, a misperception of the company as a pure distributor of electronic power supplies. However, the group is rapidly developing its own designs and building out manufacturing in China, helping it to win major customer orders and supporting an expansion in margins. We believe this underpins a positive medium-term earnings and cash flow outlook which is undervalued with the shares trading on a P/E of 7.0x and offering a yield of 9.4%

Description: Mid-tier power supply player

XP Power designs, manufactures and distributes power supply solutions to the electronics, telecommunications and industrial markets. End-demand growth and the trend towards outsourcing supports 3-5% market growth and we believe the combination of design expertise, a strong service offering, and importantly the shift in the business model towards Asian manufacturing, will help XP to take market share.

Business Model: In transformation to higher margins

We believe the development of XP designs and own brand products will not only support our forecast 5% revenue growth over the next five years but should also deliver a further 300 bpt improvement in operating margins.

Forecasts: Margin expansion support earnings growth

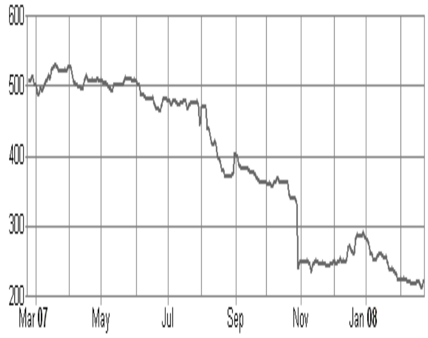
The economic backdrop is clearly uncertain. In forecasting a small improvement in earnings this year, we assume flat FY08 sales but an increase in gross margins. By 2012 we forecast the business model can deliver margins of nearly 17%, supporting compound earnings growth of 12%.

Valuation: Market undervaluing 'own product' sales

We believe the group is being valued as pure distributor. We highlight the value in the higher margin, faster growing 'own product' sales, and we reach a group value of £71m (P/E 12x). We expect M&A consolidation to remain a feature of the industry.

Price	223.5p
Market Cap	£42m

Share price graph



Share details

Code	XPP
Listing	Full/Overseas
Sector	Electronics & Electronic Equipment
Shares in issue	19m

Price

	High	Low
52 week	520p	215p

Balance Sheet as at 31 Dec 2007

Debt/Equity (%)	65
NAV per share (p)	157
Net borrowings (£m)	19.4

Business

XP Power is mid-tier manufacturer and distributor of power supplies with a production facility in China and design, service and sales teams across Europe and the USA.

Valuation

	2007	2008e	2009e
P/E Relative	51%	58%	54%
P/CF	5.1	4.2	4.1
EV/Sales	0.9	0.9	0.8
ROE	21%	18%	19%

Revenues by geography

UK	Europe	US	Other
0%	40%	60%	0%

Analyst
Andrew Bryant 020 7190 1746
abryant@edisoninvestmentresearch.co.uk

XP Power is a research client of Edison Investment Research Limited

Investment summary: Power up

Company description: Power supply manufacturer & distributor

XP Power is a manufacturer and distributor of power supplies with a production facility in China and sales, service and marketing operations across Europe, USA and Asia. The company offers a full range of DC-DC Converters (products that increase or decrease the voltage of direct current), AC-DC Power Supplies (products that convert alternating current from the mains into direct current for a range of electronic applications), as well a range of power supplies configured for customer-specific requirements. Customers include ABB, Beckman Coulter, Siemens and Premier Farnell. The industrial end market accounts for around 50% sales, with the communications and medical markets around 20% each. The investment case is based not only on the underlying growth in the end market but the scope for XP to take market share as it expands its own product range and manufacturing capability. This should contribute to above average revenue growth as well as expand margins to support earnings, cash flow growth and a progressive dividend.

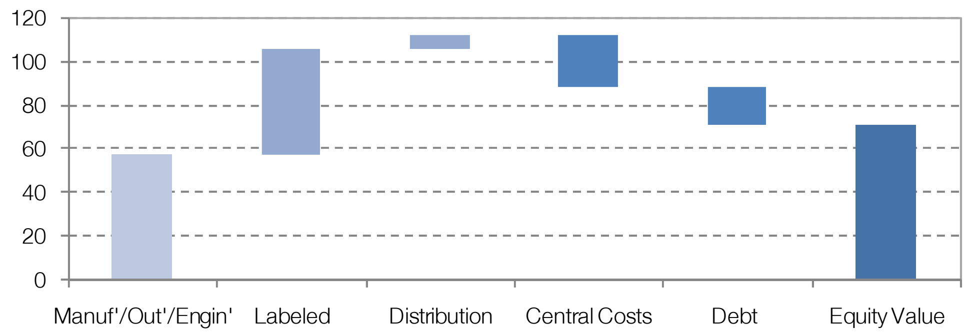
Valuation and financials: IP and manufacturing under-valued

In our view the current valuation reflects the perception of the company as a pure distributor of electronic components. However, as we show in this report the transformation of the Group towards developing its own intellectual property and building out its own manufacturing in China should support a further increase in margins, earnings and dividend (current 9.4% yield). To get beyond the 'distributor valuation' we attempt to break-out these higher margin IP (including manufactured, outsourced, engineered and labelled IP) revenue streams and value the group on a sum of the parts basis. As we highlight in exhibit 1 we reach an enterprise value for these businesses of £58m which we believe supports a group equity valuation of £71m or 376p a share.

Sensitivities: Cyclical economic exposure

The group has cyclical exposure to global end markets. Therefore, any slowdown in end demand or cut-backs in product development expenditure will impact XP's revenues and margins. In addition, the company operates in a largely dollar based market. The group has an offsetting large proportion of costs in the US as well as low-cost Asian overheads. However, XP does carry costs in Europe and the UK and reports in sterling. As we highlight, competition ranges from significantly larger players with big balance sheets through to smaller innovative companies.

Exhibit 1: XP Power sum of the parts valuation (£m)



Source: Edison Investment Research

Company Description: Power supplies

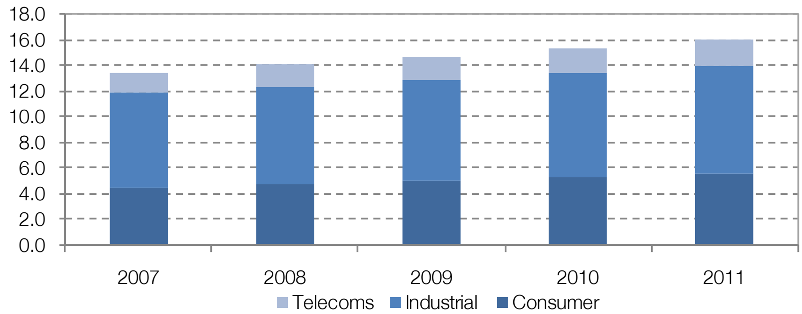
XP Power designs, manufactures and distributes power supply solutions to the electronics, telecommunications and industrial markets. Power supplies take the high voltage alternating current output from the mains supply and convert it into various lower voltage, stable direct current outputs that are required to drive most electronic equipment. The group structure has been built largely through acquisition and reflects the markets the company operates in i.e. most of the customers, competitors and suppliers are based in Asia. Therefore, the Group recently moved its headquarters to Singapore and is in the process of setting up a design engineering team there. It also has a manufacturing facility in China and runs design engineering teams in the US and the UK. In FY08 we estimate that XP manufactured products (including outsourcing to other Asian manufacturers and custom engineered solutions for specific customer requirements) will account for 37% of revenues, distribution of products labeled under XP's brand 35%, engineered solutions 11% and distribution 17%.

The Power Supply Market: Highly fragmented

All electronic equipment requires a power supply. Therefore, the market is huge and has a number of key characteristics:

- Trend towards outsourcing. The power supply market is divided into captive (in-house design, manufacture and integration by Original Equipment Manufacturers (OEMs) of their own power supplies) and merchant (outsourcing of the power supply component to a third party manufacturer). As OEMs focus on their own core design and manufacturing IP the shift from captive to merchant supply has continued to accelerate, underpinning growth faster than underlying end-market product demand.
- Market size and growth. Forecasts vary but in total the merchant market is probably worth around $13bn. Around one-third of this is consumer related (high volume, lower value power supplies for PCs, laptops, games consoles, mobile phones etc). XP Power's target market is in the higher value merchant industrial and telecoms industries, which in total are estimated to be worth around $9bn. The outsourcing trend, and end-market demand growth, typically underpins volume growth well in excess of GDP. However, annual price reductions are an ongoing feature of the industry, contributing to value growth in the range of 3-5% across the sectors.

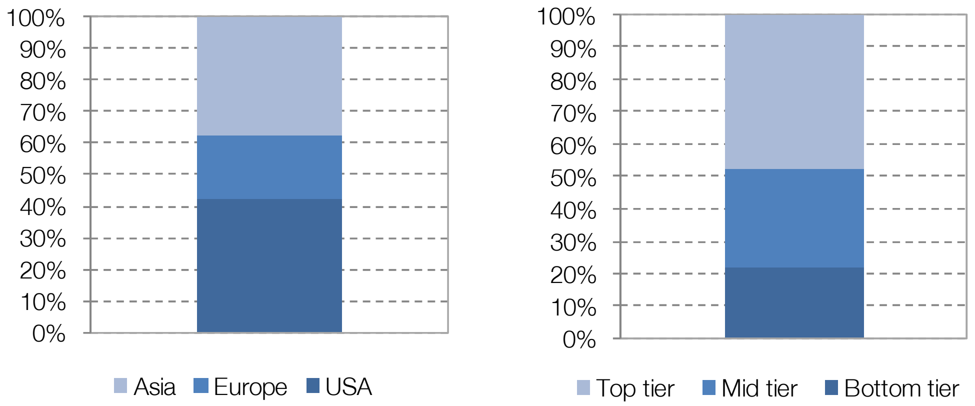
Exhibit 2: Power Supply Market size



Source: Edison Investment Research

- **Shift towards Asia.** The US and Asia probably account for around 40% each of the market. However, the trend towards sourcing and manufacturing power supplies from Asia is well established. The strategy of the end OEM customers to continue to push-out their own manufacturing to Asian locations, and the need for the competitive power supply industry to drive down costs, will mean this trend continues. Therefore, while many of the OEM customers retain HQ's and design teams in Europe and the US, most of their supply chain is shifting to Asia.

Exhibit 3: Market by geography and tiering



Source: Edison Investment Research, company information

- **XP's mid-tier focus.** XP's focus is on mid-tier customers where the value of the power supply is typically fairly high (say $2-$200 versus only a few dollars in the PC market) and the volume requirements are large enough to capture economies of volume manufacturing. The company does not typically supply the top tier (very high volume at low price or very low volume at high price) or the bottom tier (except through catalogue distribution channels such as Farnell). In total, management estimates that this mid-tier market is worth $3bn, with its target North American and European customer base (i.e. the location of the design, engineering and sales teams even if manufacturing is based in Asia) worth around $2bn.
- **Highly fragmented supply base.** There are a number of giant suppliers such as Emerson (US), Tyco (US), Delta Electronics (Taiwan) and TDK (Japan). These companies have been highly acquisitive and dominate the tier one and consumer markets. In XP's industrial and telecoms mid-tier markets there are hundreds of competitors. Competition ranges from divisions of the large players (TDK-Lambda, Emerson) mid-tier manufacturers (Vicor, Cosel, Volgen, Meanwell, Power-One), numerous small custom manufacturers and distributors of Asian manufacturers.

Shift in business model: Distribution to manufacture

Target customers: Increasingly larger OEMs

XP's customers are OEMs (Original Equipment Manufacturers), which are often designing niche or high-value products in the medical devices, communications and industrial automation markets. As typically mid-sized suppliers to their markets, these companies generally do not have in-house power supply expertise and source the component either directly from manufacturers or through distributors. Major customers include OEM's ABB, Beckman Coulter, Siemens, Thales and distributors such as Premier Farnell. In total, the group has c.3000 active customers (the largest customer accounting for c.4% of sales). By end market in FY07 the Industrial market accounted for 53% of revenues, Communications 20%, Medical 20% and Defence and Avionics 7%.

Products and development: Design expertise

XP has thousands of customers and are usually designing non-standard or custom products i.e. marketing products across different end markets and geographies and further differentiated from its competition by product design (i.e. the electrical or mechanical design format), form factor (i.e. space within the design to incorporate the power supply), voltage (power requirement of the product) and price. The latter largely depends upon the end price of the finished product and the specification and importance of the power supply i.e. the power supply on a life support machine within the medical environment is far more critical an overall component than a charger for a mobile phone.

This contributes to a substantial number of power supply designs to meet these requirements. The group, therefore, manufactures, markets or distributes (either simple third-party or value-added distribution or badged under XP's brand) over 70 ranges of products and can supply bespoke custom products if needed. The products range from AC to DC power supplies, DC to DC converters necessary for battery powered and industrial applications, along with engineered solutions incorporating thermal management meeting Electro Magnetic Compatibility (EMC) legislation, cable harnesses and special metalwork. The ability to meet customers' specific design requirements is a key factor in winning business.

Shift from being a distributor to a higher margin manufacturer

XP Power was formed as a specialist distributor of power suppliers in 1988 (based in Pangbourne, UK). Subsequently, the business merged with Foresight (California, US) and IPS (New England, US) on flotation in 2000 to form a distributor with over $100m of sales.

However, in 2002 the Board decided to begin to develop its own Intellectual Property (IP) and designs and paid $8m for Switching Systems International (California, US) which designed its own configurable power supplies with an outsourced manufacturing model. Since then the group has continued to develop its own products and brand.

Management took a further step in 2005 when they formed a joint venture with Fortron Source to manufacture power supplies near Shanghai in China. The joint venture Fortron XP Power (Hong Kong) started production in May 2006. In January this year the group announced the acquisition of the remaining 50% of the JV for £1.2m. Importantly, this now gives XP a low-cost, scalable manufacturing facility. The facility manufactures the group's ECM40, 60 and 100, as well as the RCL and EMA product families and its flagship fleXPower configurable range of power supplies. We believe the facility has an estimated £20m of potential capacity with space on the site for expansion.

The company remains a mid-sized distributor of third-party power supplies, but XP's strategy going forward is to design power supplies using one of its design engineering groups around the world and manufacture the power supply in Asia. Therefore, in forecasting and valuing the group we identify five revenue streams:

- Own manufactured product. Products designed by XP, ownership of 100% of the IP and manufactured in its Shanghai facility
- Sub-contract manufacture. Products designed by XP, ownership of 100% of the IP but manufacture is outsourced to other Asian manufacturers.
- Engineered solutions. Customising of XP power supplies for specific customer end-product design requirements i.e. designing and engineering additional casings, metalwork, circuitry, connectors etc.
- Labeled products. Customer requirements identified and product design specified by XP, but products sourced from third party manufacturers and labeled under the XP brand.
- Distribution. Supply of third party power supplies.

In exhibit 4 we highlight our estimate of the breakdown of FY08 revenues by each of these routes to market as well as estimated annual growth rates (the low distribution growth rates reflect the strategy of XP to focus on delivering its own IP to customers and only focusing on higher-margin distribution opportunities) and margin structures. We believe management should hit its target next year of a mix of 75% higher margin XP product i.e. XP intellectual property (which includes own and outsourced manufacture, engineered solutions and labelled products).

Exhibit 4: XP Power revenue model

	Sales % FY08e	Growth rate p.a.	Gross Margin	Assumed medium-term EBITDA margin
XP manufactured product	13%	10 to 20%	45 to 50%	25%
XP sub-contract manufacture	16%	10 to 20%	40 to 50%	25%
Engineered solutions	12%	4 to 8%	30 to 40%	15%
Labeled product	35%	4 to 8%	30 to 40%	20%
Distribution	24%	0 to -5%	25 to 30%	10%

Source: Edison Investment research

Competitive advantages: Manufacturing and service

This shift in XP's business model is reinforcing the group's competitive advantages i.e. end customer typically prefer to buy product from suppliers with their own IP and manufacturing and that can offer a highly integrated and responsive support infrastructure. We have spoken to a couple of the group's customers in highlighting three key factors:

- Manufacturing builds direct relationships. Under a pure distribution model a supplier learns little about its customer's product design and future roadmap i.e. it essentially delivers a component at best price. However, the ability of suppliers like XP to design and manufacture power supplies to an OEM's specification helps them become a value-added partner in their supply chain and typically opens up discussions about future, as well as, existing products. A typical power supply in XP's target markets has a lifecycle of upwards of five years and building a strong customer relationship is critical i.e. for each new product customers are likely to review their choice of component suppliers.
- Service. Customers often require non standard output voltages, multiple power supplies into one design, special housings, thermal management, specific connectors as well as meeting relevant safety standards. Therefore, they value service support in designing

and sourcing a robust power supply that can be integrated into their equipment quickly and cost effectively. XP Power has engineering services centres (with industry specialists) throughout Europe and North America. In support of these varied customer requirements XP uses 3D computer generated designs to enable it to quickly generate a proposal and offers next day delivery of customer-specific power solutions using its configurable product ranges. In our discussions, XP's service support was a key competitive advantage versus other manufacturers and certainly compared with distributors.

- Cost base. The relocation of XP's headquarters to Singapore was completed during April 2007 and the group has been building a supply chain and engineering group at the location. The HQ move, and the build out of manufacturing in China, is critical given that many customers are migrating their design activities to Asia and XP's competitors typically have low cost Asian bases. Of XP Power's c.600 employees over half are based in China and Singapore. However, we estimate in total these employees account for only 15% of the total payroll costs. The combination of the economies from manufacturing and the low cost headcount has enabled XP to be more price competitive as well as push up gross margins.

Financials

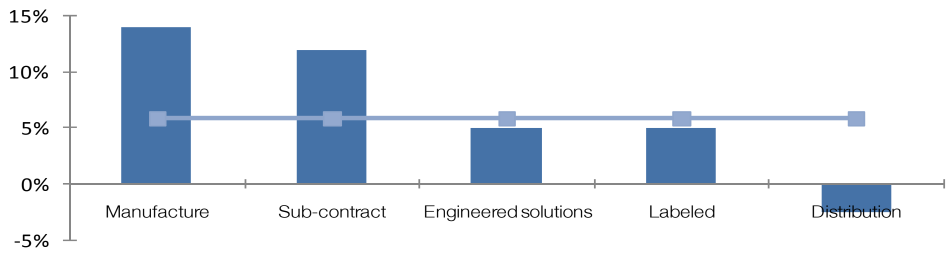
Recent trading – FY07 Results and outlook

FY07 results were largely in-line with the company's previous trading statement. H2 sales fell by nearly 20% year-on-year (compared with 12% H1 on H1) reflecting a fall-off in US demand from the early summer. However, the shift in the business model was evident. Most of the reduction in revenues was the pull-back from third-party sales and overall group gross margins in H2 reached 43.6% (versus 38.3% H206). Year-end net debt was £19.4m but the company grew the dividend by 11% to 20.0p. In terms of outlook, management highlighted that the economic backdrop is uncertain and any downturn in global demand will impact sales. However, management believe their competitive position remains strong and they expect to take further market share in FY08.

Revenue and margin outlook

As we have highlighted, we estimate that the group's end markets are probably growing at 3-5% in value terms. We recognise that any broad economic slowdown will continue to impact XP's volumes in the short-term. However, in our forecasts assume; (1) that the group's strategy to shift their business model contributes to significantly faster growth for its own IP products (for example we assume annual growth over the next five years of 14% for own manufactured products and 12% for outsourced products) and negative growth for the pure distribution operation (reflecting the strategy to move away from low margin distribution customers); (2) overall we assume that XP can grow at the top end of the market rate (we assume compound growth of 6%).

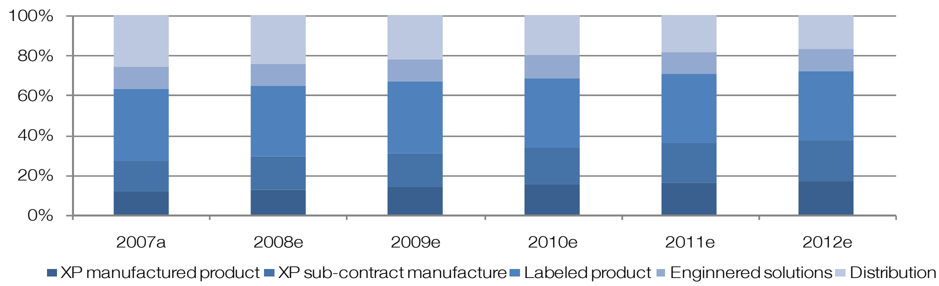
Exhibit 5: Revenue forecasts by sales channel and Group average



Source: Edison Investment Research

On a five year view this translates into the higher margin manufacturing, outsourced, engineering solutions and labeled products accounting for 83% of revenue (XP define these as XP 'own brand' revenues).

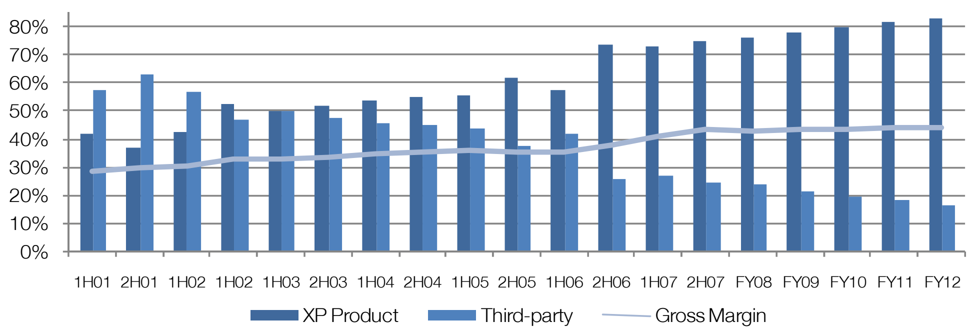
Exhibit 6: Shift in the business model



Source: Edison estimates

The shift in the revenue mix and our margin assumptions for each sales channel (highlighted in exhibit 7) translate into a forecast of further improvement in the gross margin to 43% by 2012). In our model we estimate that this improvement in gross margin together with our assumed revenue growth can drive a 300 Bpt improvement in margins to nearly 17% over the period.

Exhibit 7: Revenue mix and gross margin (management definition of "own" IP)



Source: Company reports, Edison estimates

Earnings forecasts

Given the uncertain economic outlook we assume broadly flat revenues in FY08 (growth in manufacturing revenues offsetting modest declines in distribution). However, a further improvement in margins and a 25% tax charge (reflecting the longer-term benefit of the Singapore structure) mean a marginally improved normalised earnings forecast of 32.4p a share. In FY09 we forecast earnings of 37.0p (15% growth) reflecting top line growth (6%) and a 80 bpt improvement in margins.

Cash flow and dividends

XP Power finished 2007 with £19.4m of debt. We assume that operating cash flow in FY08 of £10.2m and £10.5m in FY09. After capital expenditure and the progressive dividend policy we assume that net debt falls to £17.6m in FY08 (gearing of 51%) and £16.2m in FY09 (43%). We assume an increase in the dividend to 21p in FY08 and 23p in FY09.

Sensitivities

XP Power is a global electronics company supplying a broad range of end markets. The company is not immune from economic slowdown but this diversification and the low cost structure affords the company some earnings resilience versus competitors.

- Economic sensitivity. The group has cyclical exposure to global industrial, telecoms and medical markets. Therefore, any slowdown in end demand in these markets or cut backs in product development expenditure will impact XP's revenues.
- Orderbook visibility. The group has around three months of order book visibility at any one time. However, it is essentially a tier 2 supplier to the electronics industry and has a significant proportion of distributor revenues. Therefore visibility of customer volumes is limited and, as such, individual customer orders can be volatile.
- Dollar revenues. The company operates in a largely dollar based market. The group has an offsetting large proportion of costs in the US as well as low cost Asian overheads. However, it does carry costs in Europe and the UK and of course reports in sterling. In addition, the manufacturing strategy is based upon low cost Chinese input costs.
- Competition. As we have highlighted, competition ranges from significantly larger players with big balance sheets through to smaller innovative companies.

Valuation: Differentiating the revenue streams

Cheap on multiples and valuation support

Shares in XP Power have more than halved over the last year, driven by downward earnings revisions and the overall pull-back in investor appetite for UK small-cap technology stocks. At current levels the shares are trading on 0.9x EV/Sales and only 6.8x forecast earnings. More intriguingly on our forecast 21p dividend this year (1.6x covered by earnings and 2.5x by operating cash flow) the shares are yielding over 9%. Clearly investors would appear to be discounting further pressure on forecasts this year and a cut in the dividend. While it is too early in the year to be confident about our forecasts in this report, against a backdrop of some economic uncertainty, we do believe that downside is relatively limited (certainly compared with other UK technology stocks).

Identifying the value in high-margin manufacturing

We believe that a major part of the apparent valuation anomaly is the perception of the company as a pure distributor of electronic components. As we have highlighted in this report, this was certainly the original conception of the group, but the transformation towards a business model with IP and manufacturing capability is happening rapidly. In exhibit 8 we show a sum of the parts DCF approach where we have valued our forecast cash flows (EBITDA less working capital, capital expenditure and tax) for each of the channels to market and then adjusted for central costs (assumed to be c.£2m in FY08) and our forecast net debt (£18m). This approach highlights an enterprise value for the manufacturing, outsourced and engineered solutions channels to market of £58m (this backs out at around 11.0x our FY08 'divisional' EBITDA which compares for example with the much larger Emerson Electric which trades on c.10x) and £48m for the labelled business (i.e. total valuation of over £100m for XP's 'own brand' revenues). Attaching a very conservative value to the distribution business of £7m (which back out at 4.2x EBITDA) would imply a group market value of £71m (or 376p a share)

Exhibit 8: XP Power valuation

SOTP DCF valuation	% owned	£m	Per share	FY08 EV/EBITDA	Assumptions		
Manufacture/Outsource/Engineered	100.0%	58	306	11.1x	WACC: 12%	No of shares	19.0m
XP Power Labelled	100.0%	48	253	10.6x	WACC: 12%	Shr price	223.50p
Distribution	100.0%	7	35	4.2x	WACC: 12%	Mkt cap	£42.5m
Less: taxed central costs NPV		(24)	(125)		WACC: 12%	Exch rate (US$/£):	2.00
Group Enterprise Value		89	469				
Less: Adjusted net debt		(18)	(93)				
Group Equity Value £m		**71**	**376**		**Up / (down)side from current price**	**68%**	

Ratio Analysis	2008f	2009f
EV/Sales	0.9	0.8
EV/EBITDA	5.8	5.1
EV/EBIT	6.4	5.6
Price/Book	1.2	1.1
Price/Earnings	7.0	6.0
Price/Op Cash Flow	4.2	4.1
ROE	18%	19%
Gearing	51%	43%
Interest Cover	7.2	8.8

Grp DCF Scenario's	Terminal growth rate 3.00%	Terminal growth rate 5.00%
WACC 14.00%	267p	282p
WACC 13.00%	306p	328p
WACC 12.00%	354p	387p
WACC 11.00%	415p	465p
WACC 10.00%	494p	574p
Breakeven WACC	15.7%	

Dividend Yield	FY08e
Dividend	21.0
Dividend Cover	1.5
Yield	9.4%
UK Small Cap Yield	5.5%
Yield Relative	**171%**

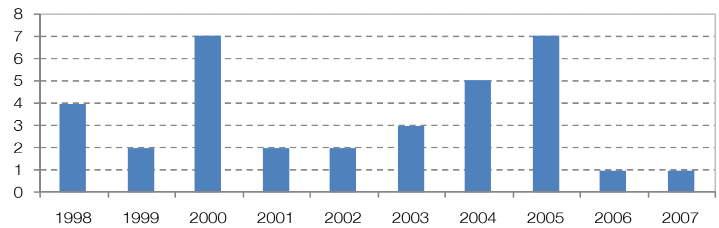
Revenue sensitivity				
Multiple	0.5x	1.0x	1.5x	2.0x
Revenue Y2 £m	76	76	76	76
Implied EV £m	38	76	113	151
Net (debt)/cash £m	(18)	(18)	(18)	(18)
Group equity value £m	20	58	96	133
Per share (p)	**106**	**305**	**503**	**702**

Source: Edison Investment research

Sector M&A

There has been a long history of consolidation in the power supply industry and we expect this to continue as scale, time to market, shorter product life cycles, keeping pace with legislation and design costs make it harder for the small custom manufacturers to compete. This may provide further acquisition opportunities for XP to scale. We believe at current valuations the group could be highly attractive to one of the larger players looking to supplement growth.

Exhibit 9: Power supply industry M&A history – number of large and mid-tier deals

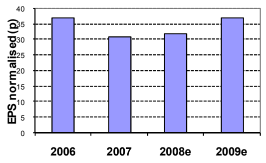
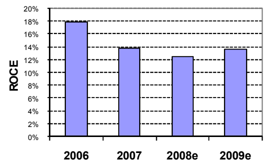
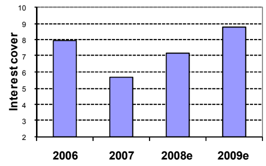


Source: Efore, Edison Investment research

Exhibit 10: Financials

£m 31-December	2005 UK GAAP	2006 UK GAAP	2007 UK GAAP	2008e UK GAAP	2009e UK GAAP
PROFIT & LOSS					
Revenue	69.5	78.7	66.3	66.7	70.6
Cost of Sales	(44.7)	(49.5)	(38.3)	(38.1)	(40.1)
Gross Profit	24.8	29.2	28.0	28.6	30.5
EBITDA	9.0	11.0	10.2	10.3	11.6
Operating Profit (before GW and except.)	8.4	10.3	9.4	9.4	10.6
Goodwill Amortisation	0.0	0.0	(0.3)	(0.3)	(0.3)
Exceptionals	0.0	(1.0)	(2.4)	0.0	0.0
Other	0.3	0.1	0.1	0.0	0.0
Operating Profit	8.7	9.4	6.7	9.1	10.3
Net Interest	(0.8)	(1.3)	(1.7)	(1.3)	(1.2)
Profit Before Tax (norm)	7.9	9.1	7.7	8.1	9.4
Profit Before Tax (FRS 3)	7.9	8.1	5.0	7.8	9.1
Tax	(1.7)	(2.0)	(1.4)	(2.0)	(2.3)
Profit After Tax (norm)	5.9	7.0	6.3	6.2	7.1
Profit After Tax (FRS 3)	6.2	6.1	3.6	5.9	6.8
Average Number of Shares Outstanding (m)	19.6	18.9	17.8	19.0	19.0
EPS - normalised (p)	30.1	37.0	31.6	32.4	37.3
EPS - normalised fully diluted (p)	30.1	37.0	31.4	32.1	37.0
EPS - FRS 3 (p)	31.6	32.3	19.1	30.8	35.7
Dividend per share (p)	16.0	18.0	20.0	21.0	23.0
Gross Margin (%)	35.7	37.1	42.3	42.9	43.2
EBITDA Margin (%)	12.9	14.0	15.4	15.5	16.4
Operating Margin (before GW and except.) (%)	12.1	13.1	14.2	14.1	14.9
BALANCE SHEET					
Fixed Assets	33.6	36.6	36.7	36.1	36.0
Intangible Assets	30.2	32.7	32.8	32.3	31.8
Tangible Assets	3.0	3.2	3.4	3.8	4.2
Investment in associates	0.4	0.7	0.5	0.0	0.0
Current Assets	30.1	32.6	30.3	30.3	31.3
Stocks	8.1	11.1	10.5	10.6	11.2
Debtors	17.2	17.2	16.2	16.3	17.2
Cash	4.8	4.2	3.6	3.4	2.8
Current Liabilities	(32.0)	(21.5)	(13.2)	(12.2)	(11.7)
Creditors	(12.1)	(13.9)	(10.5)	(10.5)	(11.0)
Short term borrowings	(19.9)	(7.6)	(2.7)	(1.7)	(0.7)
Long Term Liabilities	(4.5)	(18.3)	(24.0)	(19.3)	(18.3)
Long term borrowings	0.0	(14.4)	(20.3)	(19.3)	(18.3)
Other long term liabilities	(4.5)	(3.9)	(3.7)	0.0	0.0
Net Assets	27.2	29.4	29.8	34.8	37.2
CASH FLOW					
Operating Cash Flow	8.0	7.8	8.3	10.2	10.5
Net Interest	(0.8)	(1.3)	(1.7)	(1.3)	(1.2)
Tax	(0.7)	(2.5)	(1.4)	(2.0)	(2.3)
Capex	(0.8)	(1.2)	(1.9)	(1.3)	(1.4)
Acquisitions/disposals	(4.2)	(1.8)	(1.4)	0.0	0.0
Financing	(3.7)	(.5)	0.4	(0.0)	0.0
Dividends	(2.8)	(3.2)	(3.8)	(3.9)	(4.2)
Net Cash Flow	(5.0)	(2.7)	(1.5)	1.8	1.4
Opening net debt/(cash)	10.1	15.1	17.8	19.4	17.6
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0
Other	0.0	(0.0)	(0.1)	0.0	(0.0)
Closing net debt/(cash)	15.1	17.8	19.4	17.6	16.2

Source: Company accounts / Edison Investment Research

Growth	Profitability	Balance sheet strength
		

Sensitivities evaluation	
Litigation/regulatory	○
Pensions	○
Currency	◖
Stock overhang	○
Interest rates	◖
Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	
EPS CAGR 05-09e	5.3	ROCE 08e	14.1	Gearing 08e	50.6
EPS CAGR 07-09e	8.5	Avg ROCE 05-09e	18.8	Interest cover 08e	7.2
EBITDA CAGR 05-09e	6.4	ROE 08e	17.7	CA/CL 08e	2.5
EBITDA CAGR 07-09e	6.5	Gross margin 08e	42.9	Stock turn 08e	58
Sales CAGR 05-09e	0.4	Operating margin 08e	14.1	Debtor days 08e	89
Sales CAGR 07-09e	3.2	Gr mgn / Op mgn	3.1	Creditor days 08e	45

Company details	
Address:	
401 Commonwealth Drive, Haw Par Technocentre, Lobby B, 02-02, Singapore 149598	
Tel	+65 6411 6900
Fax	+65 6479 6305
www.xppower.com	

Principal shareholders	%
James Peters	15
Larry Tracey	14
Aberdeen Asset Managers	11
Lion Trust Asset Management	7
Credit Suisse Asset Management	4
Brewin Dolphin	3

Forthcoming announcements/catalysts	Date
Final Results	February
AGM	March
Trading update	May
Interim results	August

Management team
CEO: Duncan Penny
Duncan qualified as an accountant with Coopers & Lybrand and between 1980 and 1990 held a senior financial management position with LSI Logic and Dell Computer Corp. He joined XP in 2000 as Group FD. In February 2003, he was appointed as Chief Executive.
Deputy Chairman: James Peters
James has over 25 years experience in the industry with Marconi and Coutant Lambda, before joining Powerline in 1980. In November 1988, he founded XP Power. In 2000, he was appointed as European MD. In February 2003, he was appointed as Deputy Chairman.
Chairman: Larry Tracey
Larry co-founded Powerline plc in 1979, floated it in 1984 on the USM exchange of the LSE and sold it to Chloride plc in 1987. In 1990, Larry joined the Board of XP Power, in April 2000 he was appointed as CEO and in 2002 he was appointed as Executive Chairman. In February 2003 he stepped down from the role of CEO.

Edison Investment Research

Bracton House, 34-36 High Holborn, London, WC1V 6AE ■ tel: +44 (0)20 7190 1760 ■ fax: +44 (0)20 7190 1759 ■ www.edisoninvestmentresearch.co.uk
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