

# Interim Results 2019



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POWERING THE WORLD'S CRITICAL SYSTEMS

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## OPERATIONAL HIGHLIGHTS

- **Growth in Healthcare, Industrial and Technology sectors remain robust**
- **Ongoing weakness in Semiconductor equipment manufacturing sector due to cyclical downturn**
- **Gross margin impacted by higher US trade tariffs imposed on Chinese goods and product mix**
- **Completed construction of expanded Vietnam manufacturing facility and more products being transferred mitigating tariff impact**
- **Ongoing good cash generation**

# FINANCIAL HIGHLIGHTS



- **Reported order intake down 1%**
  - Like-for-like ('LFL') orders down 10%
  - +3% contribution from Glassman acquisition
- **Reported revenue growth of 6%**
  - SemiFab slowdown (-34%) offset good performance in other sectors (+11%)
  - LFL revenue down 4%
  - +4% contribution from Glassman
- **Gross margin performance impacted by tariffs and mix**
  - Gross margin at 44.6%, down 210 bps
- **Annualisation of 2018 investments and lower gross margins result in adjusted operating profit down 12%, 19% at constant currency**
  - Adjusted operating margin 18.4%
- **Adjusted diluted EPS down 17% to 69.2p**
- **Operating cash flow up 59% YoY**
  - Inventory reduction releasing working capital
- **Total dividend for the first half year of 35 pence per share (2018: 33 pence); up 6%**

# GROUP FINANCIAL PERFORMANCE

£m	1H 2019	1H 2018	Change	Change at CER <sup>(2)</sup>	"Like for Like" Change <sup>(3)</sup>
<i>GBP/USD</i>	1.29	1.39			
Orders (£m)	100.6	101.4	(1)%	(6)%	(10)%
Revenue (£m)	98.9	93.2	6%	0%	(4)%
Gross margin (%)	44.6%	46.7%	(210)bps		
Adjusted Operating Profit (£m) <sup>(1)</sup>	18.2	20.7	(12)%	(19)%	(24)%
Adjusted Profit before tax (£m) <sup>(1)</sup>	16.6	20.3	(18)%	(23)%	(29)%
Adjusted ETR (%) <sup>(1)(4)</sup>	19.4%	20.5%			
Adjusted diluted EPS (pence) <sup>(1)</sup>	69.2p	83.7p	(17)%		
DPS (p)	35p	33p	6%		
Operating Cash flow	25.2	15.8			
Net debt (£m)	50.4	52.0 <sup>(5)</sup>			

(1) These adjusted performance measures represent the statutory results excluding specific items.

(2) At constant exchange rates ('CER') using the prior period's exchange rates.

(3) At constant exchange rates and excluding acquisitions ('LFL').

(4) ETR = Effective tax rate

(5) Balance at 31 December 2018

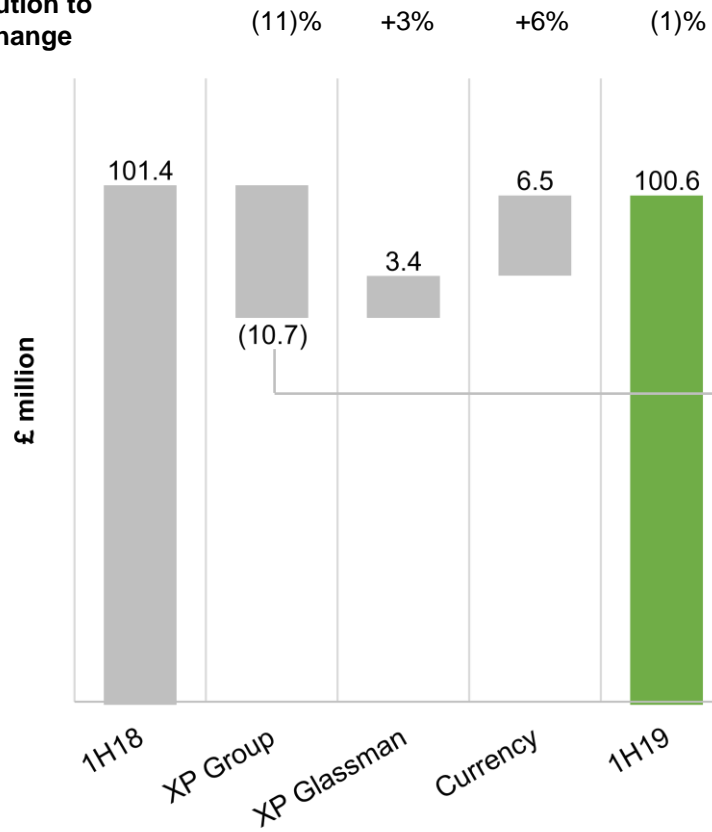




# GROUP ORDERS & REVENUE PERFORMANCE

## ORDERS

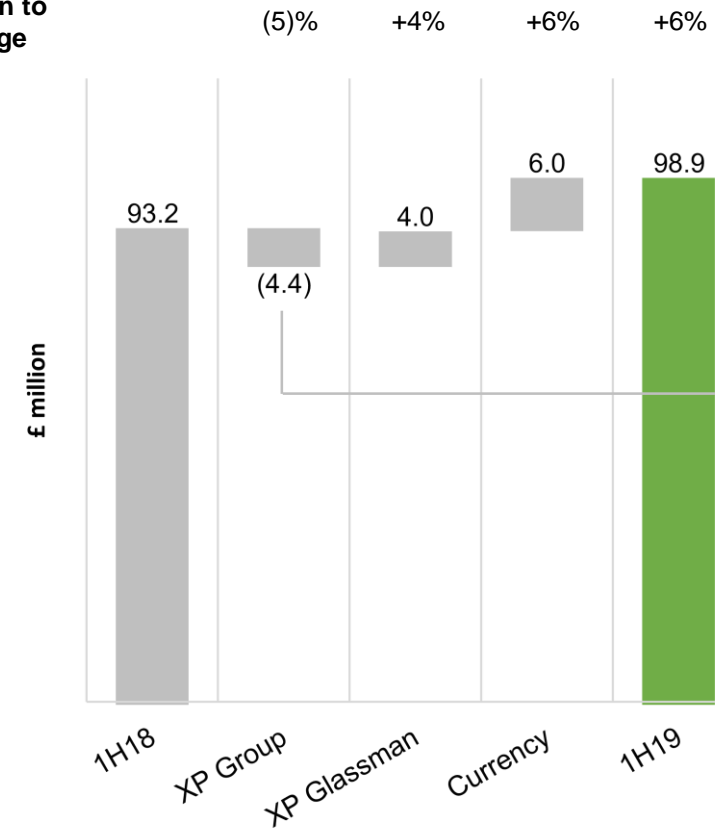
Contribution to  
YoY change



N. America: £(11.8)m  
Europe: Flat  
Asia: +£1.1m

## REVENUE

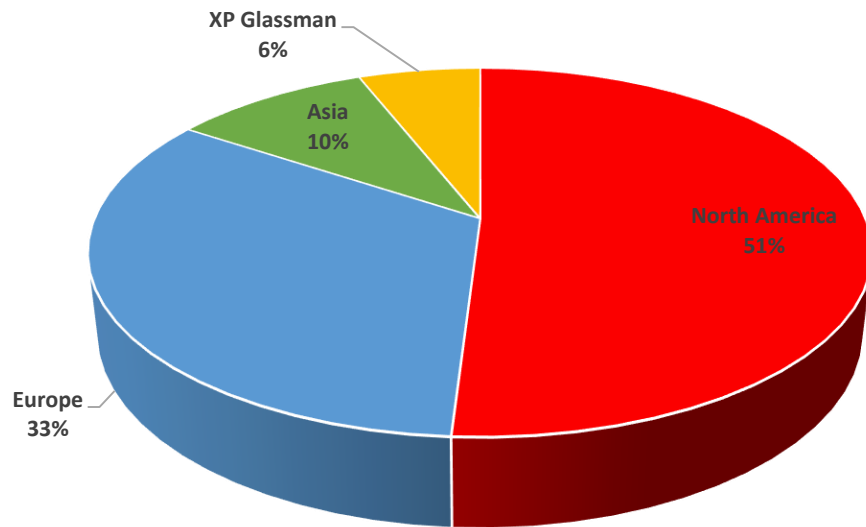
Contribution to  
YoY change



N. America: £(9.8)m  
Europe: +£2.9m  
Asia: +£2.5m

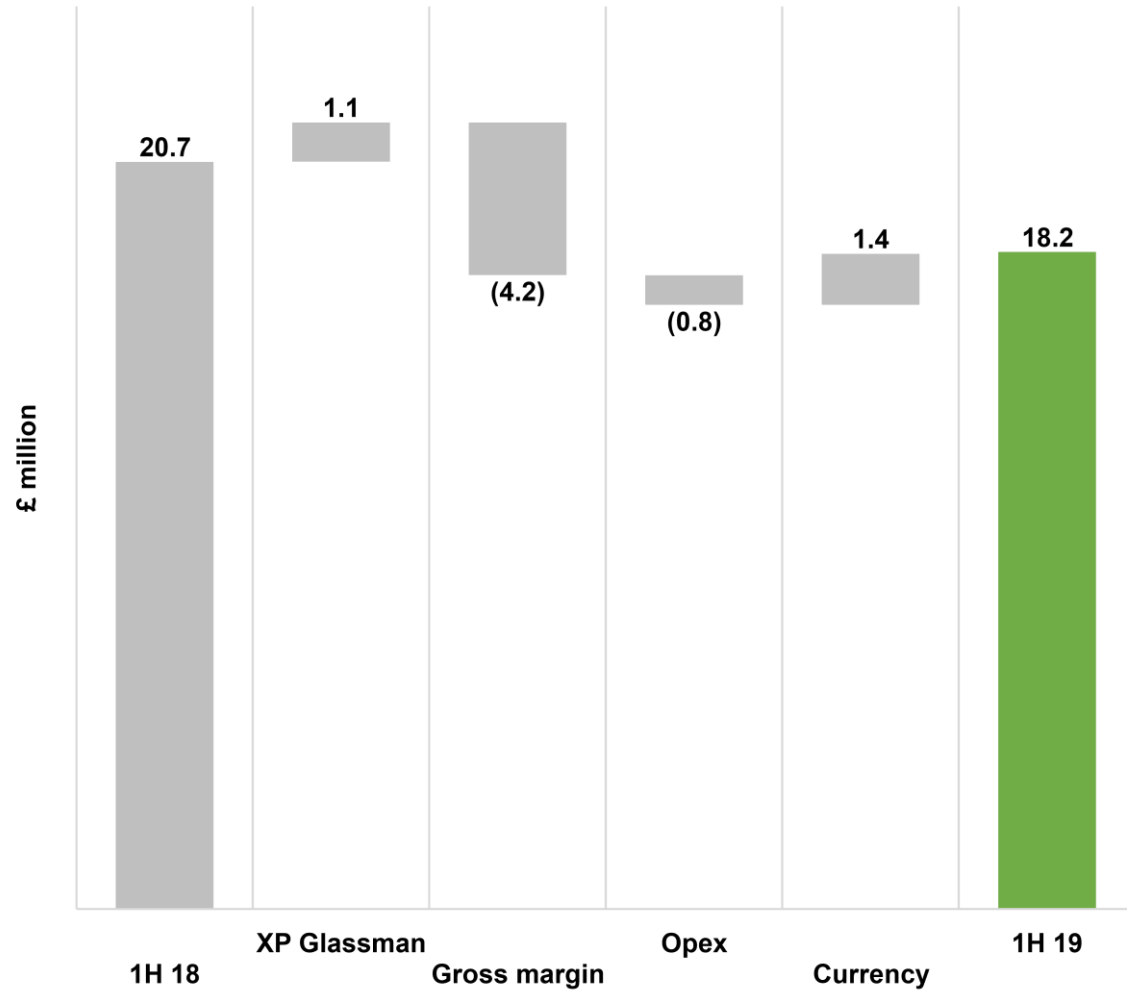
# REGIONAL REVENUE PERFORMANCE

## 1H19 Reported Revenue



Region	1H19 £m	Change vs. 1H18	LFL change 1H19 vs 1H18	1H19 "Book to Bill"
North America	50.4	(10)%	(16)%	1.00
Europe	32.9	11%	10%	1.04
Asia	9.7	48%	37%	1.12
XP Glassman	5.9	-		0.87
<b>Group</b>	<b>98.9</b>	<b>6%</b>	<b>(4)%</b>	<b>1.02</b>

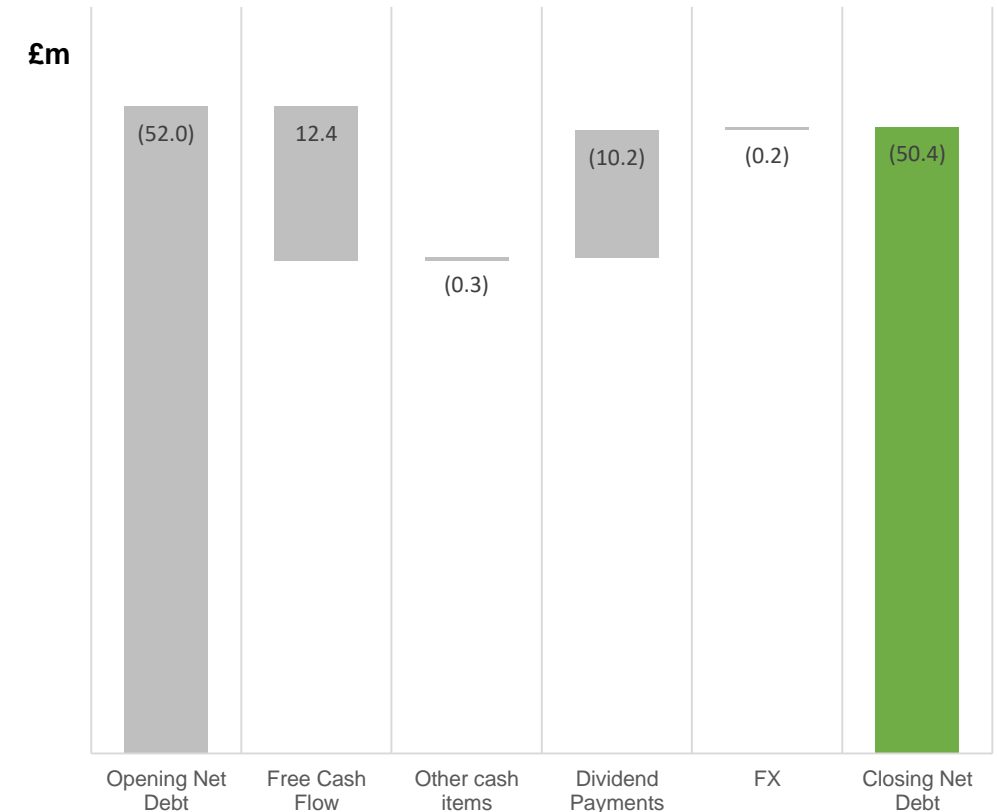
# ADJUSTED OPERATING PROFIT PERFORMANCE





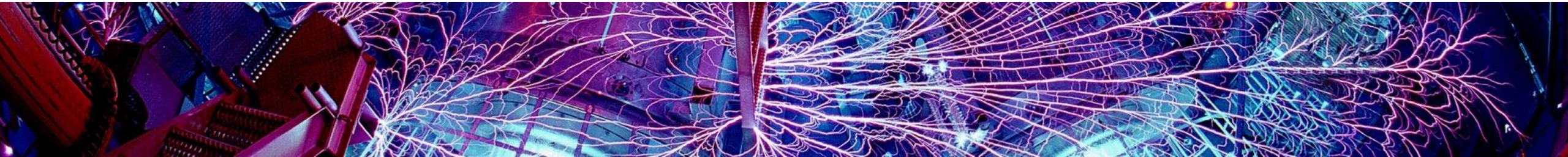
# CASH FLOW STATEMENT AND NET DEBT

£m	1H 19	1H 18
<b>Adjusted Operating Profit</b>	<b>18.2</b>	<b>20.7</b>
Amortisation of product development costs	1.8	1.4
Depreciation	2.6	1.5
Unrealised currency losses/(gains)	(0.5)	1.1
Equity award charges	0.5	0.3
Change in working capital	4.2	(8.8)
<b>Adjusted Operating Cash Flow</b>	<b>26.8</b>	<b>16.2</b>
Specific items	(1.6)	(0.4)
<b>Cash generated from Operations</b>	<b>25.2</b>	<b>15.8</b>
Income tax paid, net of refund	(2.6)	(2.4)
Purchase of property and equipment (net of disposals)	(2.5)	(2.8)
Capitalised product development costs	(4.4)	(2.8)
Capitalised software development costs	(1.9)	-
Interest paid	(1.4)	(0.4)
<b>Free cash flow</b>	<b>12.4</b>	<b>7.4</b>



Net debt bridge

# 2019 FINANCIAL GUIDANCE



- **Ongoing design wins, level of backlog and order momentum supports revenue growth in H2 2019**
- **Tariff recovery will support H2 margin**
- **Continued investment in the business to deliver future potential**
  - Planned capital expenditure around £7-8 million
  - Expect specific items of circa £3-4 million relating to ERP, Legal costs & restructuring
- **Finance charge at circa £2.7-3.0m**
  - Working capital will reduce as component lead times come back down
  - US Dollar denominated debt
- **Effective tax rate of around 17 - 19%**

# OUR STRATEGY IS DELIVERING

- ✓ Develop a market leading range of competitive products
- ✓ Target accounts where we can add value
- ✓ Vertical penetration of target accounts
- ✓ Build a Global Supply Chain which balances high efficiency with market leading customer responsiveness
- ✓ Lead our industry on environmental matters
- ✓ Make selective acquisitions in identified strategic markets to expand our product offering





# XP POWER CONVERTERS EVERYWHERE

## Technology

- High end computing
- Broadcast
- Displays
- Communications
- Security

## Trends

- Higher power
- Higher engineering services content
- Increased connectivity of the power converter to the customer's equipment

## Semifab

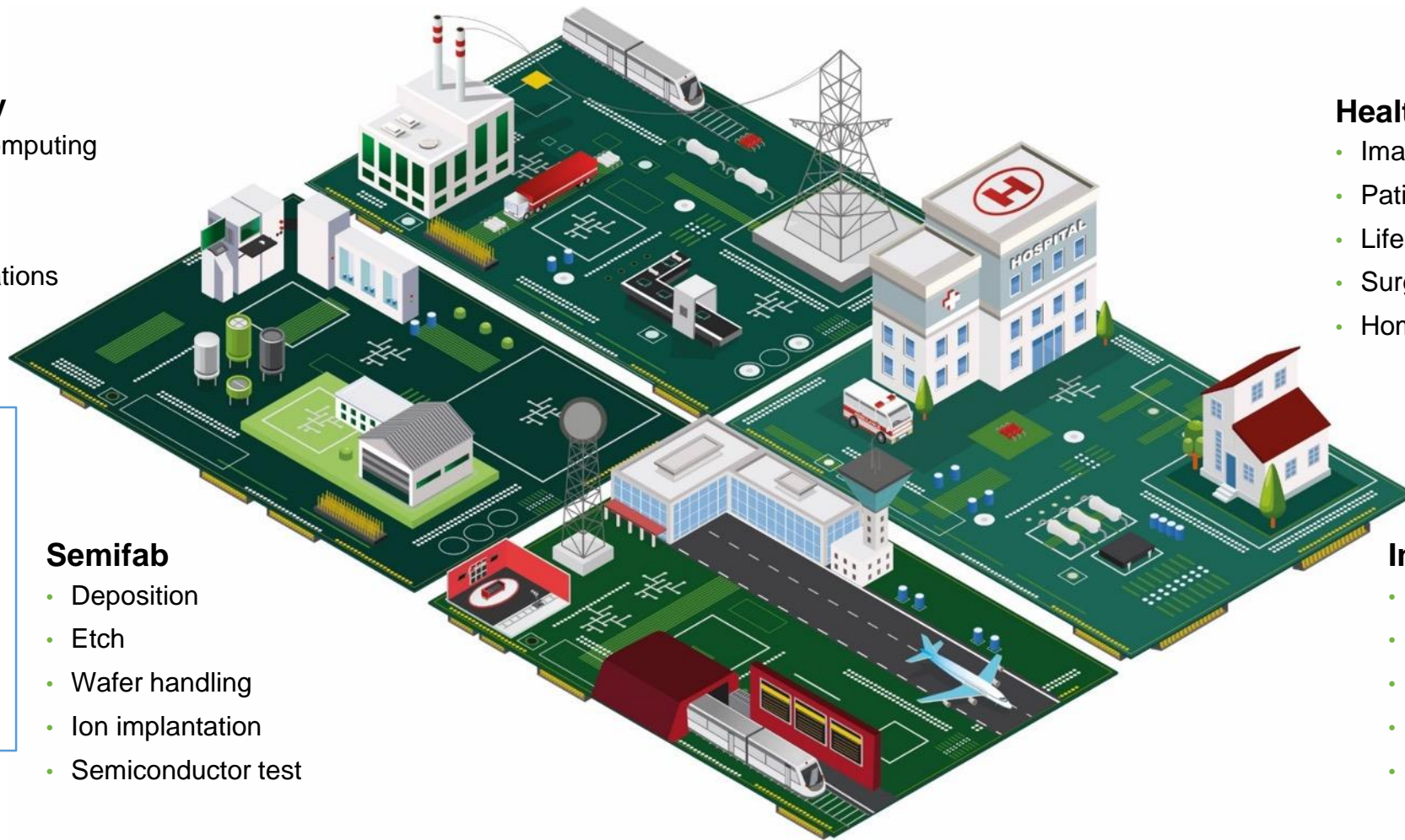
- Deposition
- Etch
- Wafer handling
- Ion implantation
- Semiconductor test

## Healthcare

- Imaging
- Patient monitoring
- Life science
- Surgical tools
- Home healthcare

## Industrial

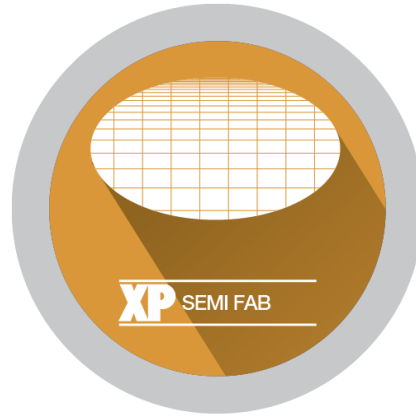
- 3D printing
- Process control
- Test and measurement
- Smart grid
- Transport



# SECTOR DYNAMICS



- **47% of revenue**
- **Grew 12%** (constant currency YoY)
- Most diverse sector with high level of innovation
  - 3D printing
  - Industrial printing
  - Industrial LED lighting
  - Smart Grid
  - Signage



- **18% of revenue**
- **Contracted 34%** (constant currency YoY)
- Comdel and Glassman facilitate greater penetration
- Attractive long-term growth drivers
- Design win pipeline very strong

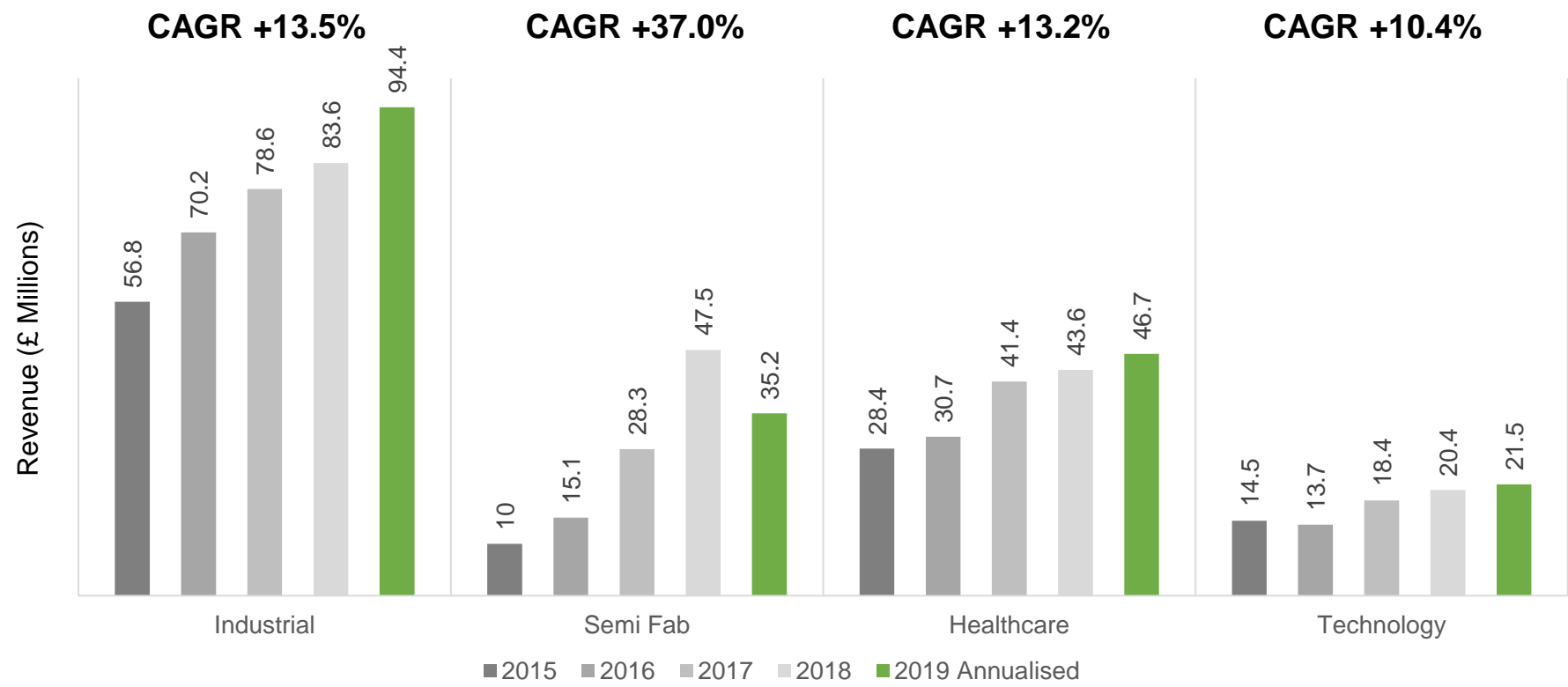


- **24% of revenue**
- **Grew 8%** (constant currency YoY)
- Building a leading position, strong order performance
- High efficiency products well received due to high reliability
- Corporate approvals with all the major players



- **11% of revenue**
- **Grew 12%** (constant currency YoY)
- Broadcast
- Communications – Satellite, secure, harsh environments
- High end computing

# REVENUE BY SECTOR



Circa 6% positive impact in 2019 relating to the translation effect of the strengthening of Sterling

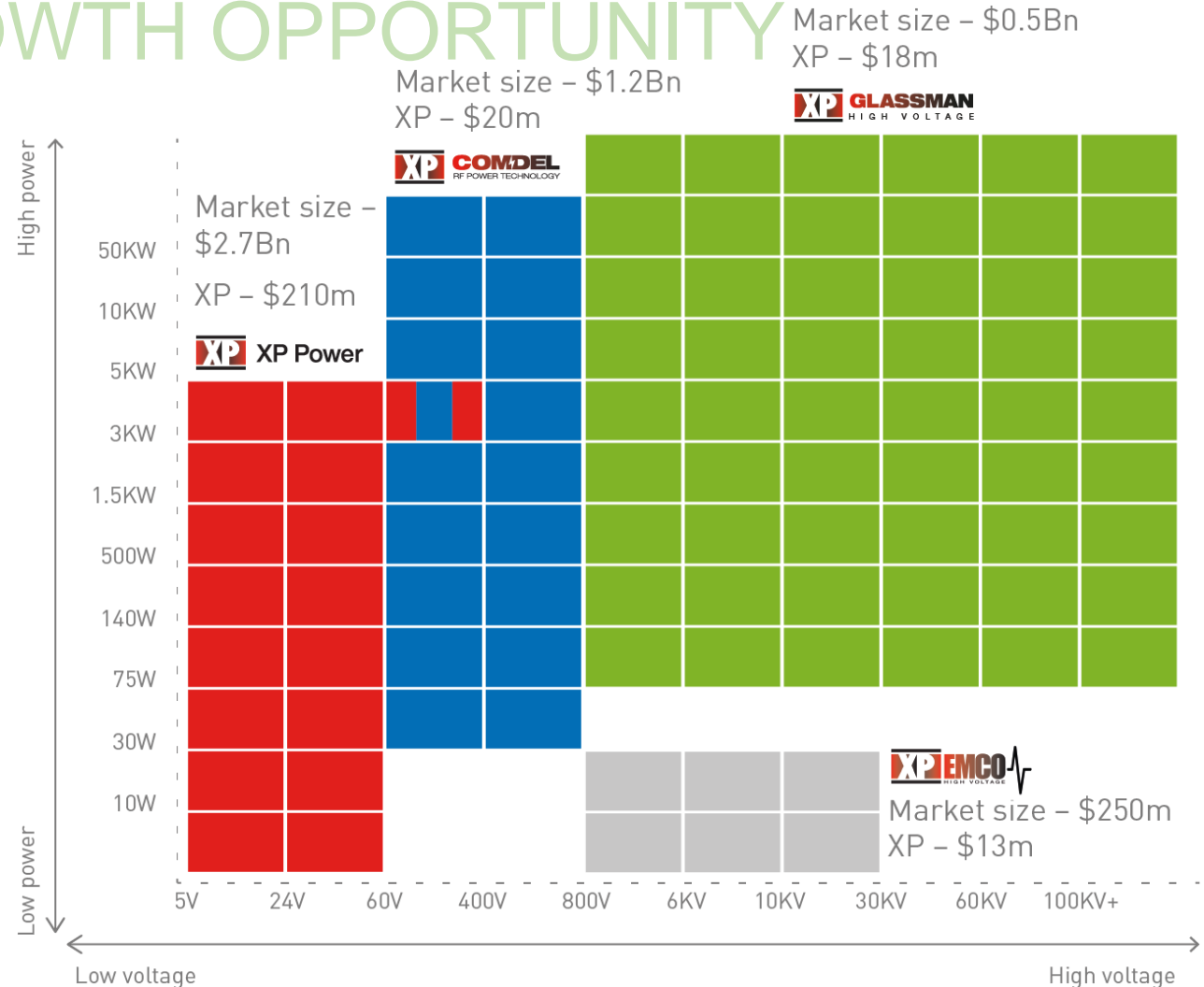




# PRODUCT PORTFOLIO

## SIGNIFICANT GROWTH OPPORTUNITY

- Acquisitions in high voltage (EMCO and Glassman) and Radio Frequency (RF) power expand our addressable market from \$2.7Bn to \$4.7Bn
- One of few companies in the world who can provide solutions right across the power and voltage spectrum
- Can use our engineering services capabilities to combine different products to give the customer a complete solution
- Presents significant long-term growth opportunity



## VIETNAM SUPPLY CHAIN FLEXIBILITY

- Significant capacity increase (75%)
- Cost advantage over China
- Construction of Vietnam II now complete – production commenced in Q2 2019
- Over 1,800 different products now approved for production in Vietnam

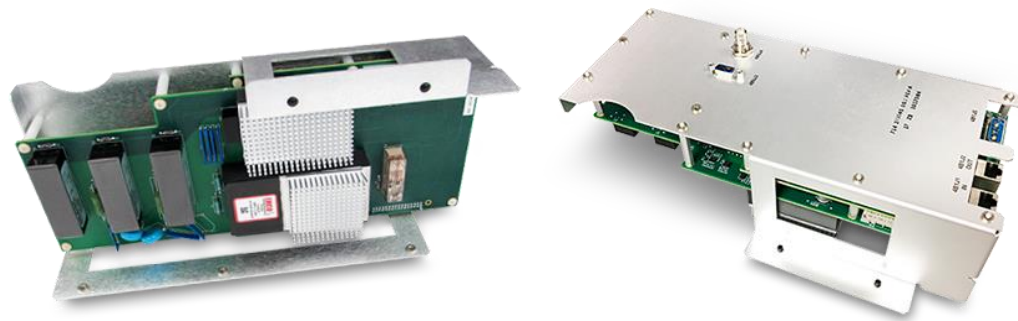


- Helps mitigate Section 301 Tariffs and provides a competitive advantage over competitors with Chinese based manufacturing

	Revenue Capacity (\$M)*	Current Utilisation
China	100	100%
Vietnam I	70	60%
Vietnam II	130	-

# SUPPLY CHAIN RE-ENGINEERING TRANSFER TO VIETNAM

- Manufacture of our low power/high voltage DC-DC modules will transfer from Minden, Nevada to Vietnam
- Minden facility expected to be closed by June 2020
- Expect annualised cost savings of approximately £4 million



- £1-2 million of the savings to be invested back into the business to expand and strengthen our new product introduction team
- Charges associated with the site closure of approximately £1-2 million will be taken over the 12 months to June 2020



## OUTLOOK

- Semiconductor manufacturing equipment recovery not anticipated before 2020. XP will benefit from recovery and share gains from recent high value design wins
- Continuing momentum in Industrial, Healthcare and Technology sectors



- Larger addressable market; the product range, engineering support and customer reach enable XP to take further market share
- Vietnam production facility brings cost competitive supply chain advantage
- Tariff mitigation steps and cost benefits of transferring production from Nevada to Vietnam will aid margin recovery in 2020

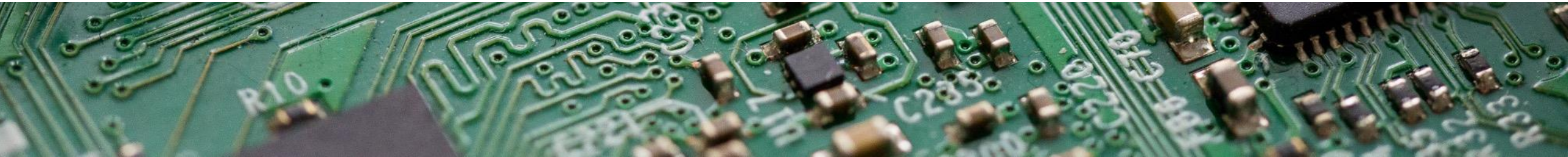
# Interim Results 2019 - Appendices



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# MARKET DATA



Market 2018 (\$ Millions)	Size	Share
Asia	1,303	1.6%
Europe	679	12.0%
North America	1,098	12.0%
<b>Total</b>	<b>3,080</b>	<b>7.6%</b>
RF Power	1,200	1.8%
High power/high voltage	500	3.6%
<b>Grand total</b>	<b>4,780</b>	<b>5.5%</b>

XP 2018 Revenue (£ Millions)	Asia	Europe	North America	Total	Share of XP (%)
Healthcare	3.1	11.2	29.3	<b>43.6</b>	22%
Industrial	9.9	43.2	30.6	<b>83.7</b>	43%
Semifab	0.7	0.5	46.2	<b>47.4</b>	24%
Technology	1.2	6.2	13.0	<b>20.4</b>	11%
<b>Total</b>	<b>14.9</b>	<b>61.1</b>	<b>119.1</b>	<b>195.1</b>	<b>100.0%</b>
<i>Share of XP (%)</i>	<i>7.6%</i>	<i>31.3%</i>	<i>61.0%</i>	<i>100.0%</i>	

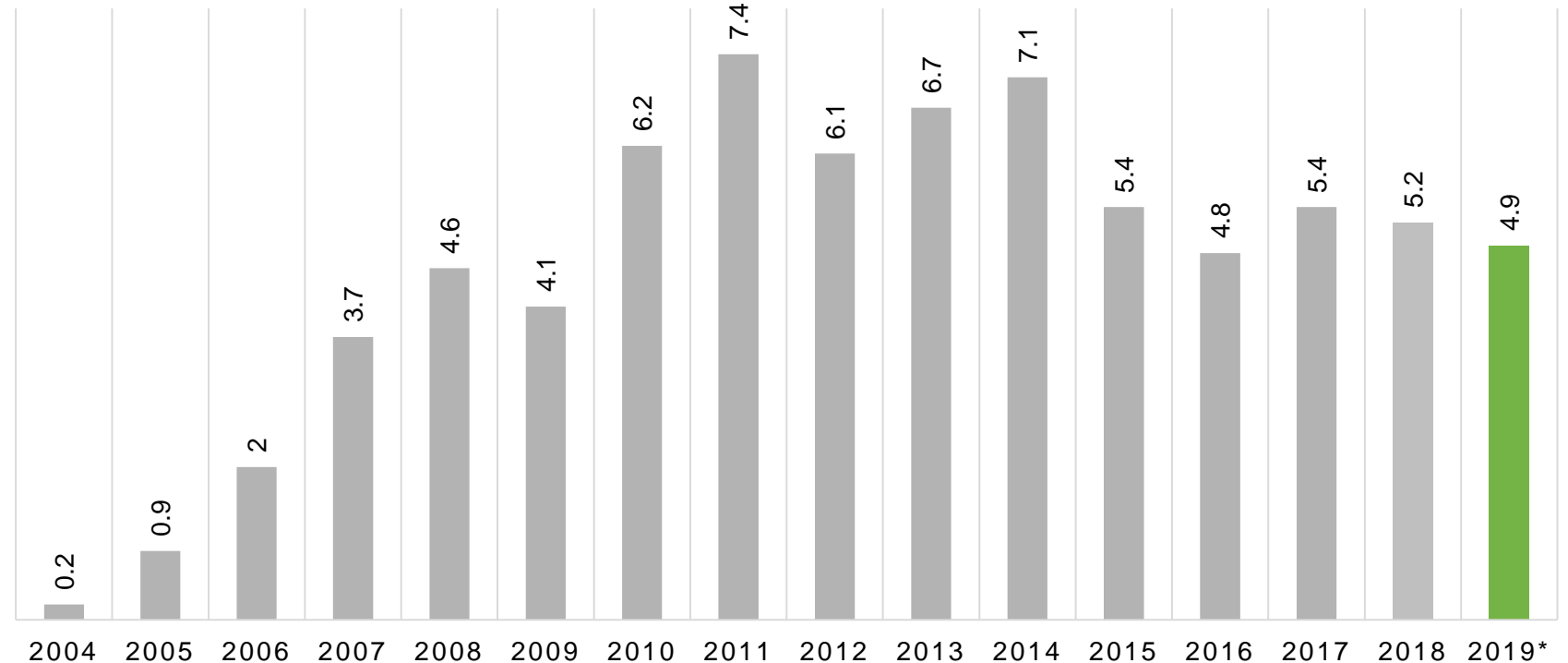
Source: Micro-Tech Consultants and XP Power Management



# TYPICAL PRODUCT LIFE CYCLE

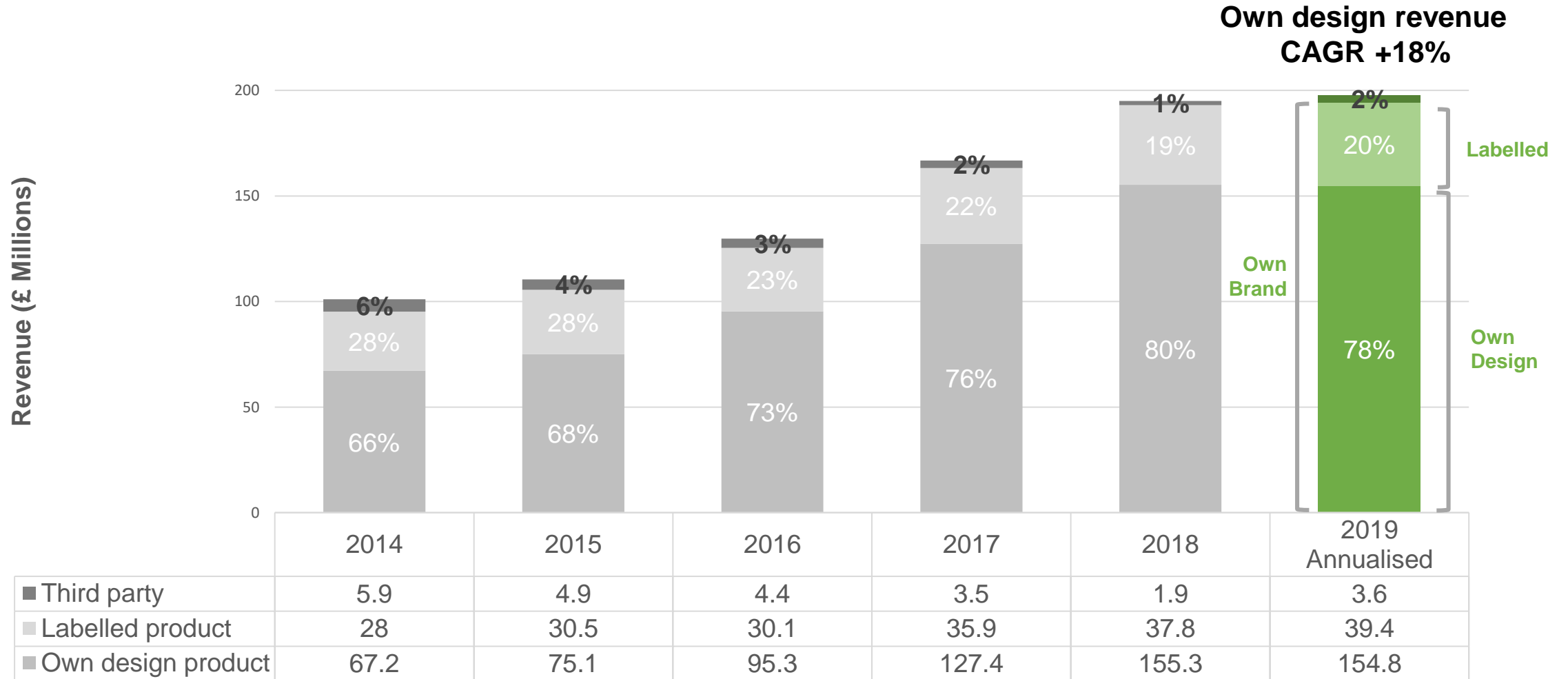
- Substantial revenue annuity
- Design in cycle typically 18 months
- 2009 and 2012 dips due to market downturn and not typical

REVENUE (£ MILLIONS)



\*2019 annualised

# OWN DESIGN REVENUE TREND



# WHAT MAKES XP POWER SUCCESSFUL?

## Service and Support - Key Differentiators:

- Large technical sales team
- Significant support at the design-in stage allowing customer faster time to market
- Flexibility in terms of product modifications and logistics
- Speed and agility

## Quality

- Quality is a given and paramount for mission critical solutions

## Product Offering

- Product has to solve the customer's power problem and work in their application
- XP Power breadth of product is a competitive advantage
- Customers prefer standard/modified standards over custom solutions

## Cost

- Not the customers' top priority but product needs to be cost competitive
- Low cost Asian manufacturing an advantage against local/smaller in competition
- Vietnam expansion timely given Section 301 tariffs in the USA





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