EDISON

XP Power

FY22 results

Entering FY23 with positive momentum

Electronic and electrical equipment

XP Power (XP) battled through FY22 to meet strong customer demand despite numerous supply chain challenges. H2 performance was significantly better than H1 as supply chain pressures started to ease, and XP enters FY23 with a record £308m order book. The company is targeting 10% organic revenue growth across the cycle and a return to historic profitability levels; we expect XP to make progress towards these targets in FY23 and FY24 while reducing gearing.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/21	240.3	43.8	176.3	94	13.9	3.8
12/22	290.4	38.0	160.1	94	15.3	3.8
12/23e	309.5	37.3	152.3	94	16.1	3.8
12/24e	316.8	43.3	174.6	97	14.0	4.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY22: A year of two halves

XP Power entered FY22 with a strong order backlog but was hampered in manufacturing and shipping product in H122 due to COVID restrictions and supply chain disruption affecting component availability and freight costs. The situation improved in H222 when XP reported half-on-half growth of 35% for revenue and 86% for operating profit. FY22 revenue increased 21% y-o-y (6% constant currency like-for-like) while normalised diluted EPS declined 9.2%, reflecting lower gross margins and the effect of inflation on operating expenses. The final dividend of 36p, resulting in a full-year dividend of 94p, was as expected.

FY23: Investing in Asian capacity; delivering backlog

We expect capex to increase significantly in FY23 as XP invests in its new Malaysian facility and its US operations. While semiconductor production equipment customers are likely to see lower demand in 2023, XP's strong backlog (close to 12 month's visibility) supports our FY23 revenue forecast. We expect a weaker H123 for orders before an improvement in H223, leading to modest revenue growth of 2.4% in FY24. We expect gross and operating margins to improve as supply chain pressures ease and for gearing to fall as working capital reduces and profitability increases.

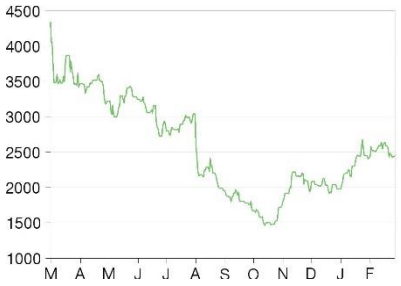
Valuation: Uncertainty weighs on share price

Over the last year, the shares have declined 44%, reflecting supply chain pressures, litigation and the uncertain economic environment. On a P/E basis for FY23 and FY24, XP is trading at a c 15% discount to global power solution companies and UK electronics companies, with a dividend yield at the top end of the range. The company generates EBITDA and EBIT margins at the upper end of both peer groups and has a record order book entering FY23. In our view, further evidence of an improving supply chain, resolution of the Comet litigation and stability in order intake will be key drivers of the share price.

28 February 2023

Price	**2,450p**
Market cap	**£481m**
	$1.21:£1
Net debt (£m) at end-FY22	151.0
Shares in issue	19.6m
Free float	93.7%
Code	XPP
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0	17.2	(43.3)
Rel (local)	(1.7)	11.3	(45.4)
52-week high/low	4,340p		1,464p

Business description

XP Power is a developer and designer of power control solutions, with production facilities in China, Vietnam, Germany and the United States, and design, service and sales teams across Europe, the United States and Asia.

Next events

Q123 update	13 April

Analyst

Katherine Thompson +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

XP Power is a research client of Edison Investment Research Limited

Investment summary

Company description: Power control solutions for industry

XP Power designs, manufactures and distributes power converter solutions to original equipment manufacturers (OEMs) in the healthcare, industrial technology and semiconductor markets. The group has headquarters in Singapore and, to remain close to its global customer base, has a sales, design and engineering presence in the United States, Europe and Asia. Unlike many in the industry, XP is vertically integrated; its manufacturing facilities in Asia, Germany and the United States allow the company to maintain quality control, improve flexibility, reduce product costs and minimise lead times.

Financials: Strong growth offset by margin pressure

XP reported strong revenue growth of 21% in FY22, including an 8% benefit from currency and 7% from the FuG and Guth acquisitions in January 2022. Trading improved markedly in H2 versus H1 as supply chain issues eased and XP was able to ship product to customers. H1 gross margin (GM) declined to 40.2% but improved to 42.5% in H222, resulting in an FY22 GM of 41.5% compared to 45.1% in FY21. Lower GM, plus the effect of acquisitions and inflation on operating expenses, resulted in a 4.9% decline in normalised operating profit and a 9.2% decline in normalised EPS. Net debt of £151m at year-end resulted in gearing (net debt/EBITDA) of 2.7x. Net debt was elevated due to a combination of higher inventories to support customer demand and payment of a large proportion of the costs relating to the Comet litigation. Our FY23 revenue forecast is essentially covered by the year-end backlog supporting our 6.6% growth forecast. We expect lower order intake during H123, mainly due to the downturn in the semiconductor sector and recessionary concerns, rising in H223 to support our 2.4% growth forecast for FY24.

Valuation: Reflects uncertainty

Over the last year, the shares have declined 44%, reflecting supply chain pressures, litigation and the uncertain economic environment. On a P/E basis for FY23 and FY24, XP is trading at a c 15% discount to global power solution companies and UK electronics companies, with a dividend yield at the top end of the range. The company generates EBITDA and EBIT margins at the upper end of both peer groups and has a record order book entering FY23. In our view, further evidence of an improving supply chain, resolution of the Comet litigation and stability in order intake will be key drivers of the share price.

Sensitivities: Demand, supply chain, currency

XP Power has cyclical exposure to global industrial technology, semiconductor and healthcare markets, so is sensitive to end-demand and product development expenditure in these markets. The company is reliant on the global supply chain for components and is sensitive to changes in freight availability and costs. With the majority of XP's revenues, manufacturing costs and opex denominated in US dollars, currency will continue to add volatility to XP's reported revenues, although it will have less impact at the net income level. XP also has more limited exposure to the euro/sterling exchange rate; to minimise this, the company enters into forward contracts. XP competes with large, global industrial companies and low-cost Asian manufacturers.

Company description: Power-control solutions

XP Power designs, manufactures and distributes power converter solutions to OEMs in the industrial technology, healthcare and semiconductor markets. Power converters 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. XP designs and manufactures the majority of its products. XP's headquarters are in Singapore and it has volume manufacturing facilities in China and Vietnam and specialist high-voltage, high-power and radio frequency (RF) power product manufacturing in the United States and Europe.

Background: Specialist designer and manufacturer

XP was formed as a specialist distributor of power converters in 1988 and listed on the London Stock Exchange in 2000. In 2002, the board decided to begin developing its own IP and designs, and bought Switching Systems International (US), which designed its own configurable power converters with an outsourced manufacturing model. Since then, XP has continued to develop its own products and brand, built out manufacturing capacity in China and Vietnam and completed the transition from distributor to designer and manufacturer. Acquisitions have expanded XP's product range from low-power AC/DC and DC/DC converters to include high-voltage, low-power converters (EMCO), RF power products (Comdel) and high-voltage, high-power products (Glassman, FuG and Guth). XP sells through 27 sales offices and multiple distributors across Europe, Asia and North America and has engineering service functions in Northern California, Germany and Singapore. FY22 revenues were generated in North America (58%), Europe (30%) and Asia (12%).

Purpose: Solving customers' power supply problems

XP's value proposition for customers is to solve their power supply problems, reduce their overall cost of design, manufacture and operation, and help them get their product to market as quickly as possible.

XP is focused on developing tailored products for applications with high reliability requirements in the industrial technology, semiconductor and healthcare equipment markets. It avoids developing commodity products for high-volume consumer electronics applications. Products in each end-market can have very different lifecycles. For example, a medical device could have a product lifecycle of 10 years or more. Once a power converter is designed into this product, it is likely to remain in it for the full life of the product. On average, the product life cycle is five to seven years. XP's balanced mix of end-customers means it has a fairly high level of revenues that are recurring and exposure to multiple end-markets mitigates the risk of individual industry cyclicality.

XP designs and manufactures the majority of its products. This provides control over the quality and cost of product and allows XP to provide customers with tailored solutions. The company operates across two business lines:

- **Own-manufactured product** (c 80% of revenues). Products designed by XP, ownership of 100% of the IP and manufactured in its Chinese, Vietnamese, German or US facilities. This includes engineered solutions where XP supplies are customised for specific customer end-product design requirements, namely designing and engineering additional casings, metalwork, circuitry and connectors.
- **Labelled products** (c 20%). Customer requirements identified and product design specified by XP, but products sourced from third-party manufacturers and labelled under the XP brand.

In-house manufacturing well established

The company is vertically integrated; it manufactures power converters and magnetic components in two locations, China and Vietnam, with smaller US facilities acquired through the Comdel and Glassman deals and two German facilities acquired with the FuG and Guth acquisitions.

Majority of manufacturing in Asia

XP's first manufacturing facility was built in Kunshan, China, in 2006. In addition to making power converters at this facility, XP also produces magnetic components for prototyping and short lead-time contracts. To reduce exposure to rising Chinese labour costs and gain more control over the manufacturing process, XP expanded manufacturing into Vietnam, at a site near Ho Chi Minh City. The facility (Vietnam 1) started with the production of magnetic components (XP now manufactures virtually all its magnetics requirements in-house) before moving into the manufacture of power converters, starting with some of the less complex products. In 2019, construction of a second facility was completed (Vietnam II, a similar size to Vietnam I). The company estimates that its manufacturing capacity across China and Vietnam is c $350m/£290m.

Shifting volumes to Vietnam

To take advantage of the increased capacity in Vietnam, XP was already moving production of less complex power converters from China to Vietnam. With US tariffs on the import of components manufactured in China rising from 10% to 25% in 2019, XP accelerated this shift and due to the increased tariffs, some customers no longer design in products made in China.

In FY22, the company invested in additional capacity to meet current and future levels of demand and to support the transfer of more products from China and North America. The Vietnam facility is now capable of manufacturing most low-voltage products (>95%) and a wide range of high-voltage modules, as well as customer-specific products transferred from Silicon Valley.

XP intends to maintain its China facility, as this is used for some of the more complex converters and is also useful for production of converters for Chinese customers, who otherwise incur tariffs on products imported from the United States. This facility is also now able to manufacture RF products. The benefit of having two facilities became evident during the COVID pandemic: as Chinese and Vietnamese lockdowns happened at different times, manufacturing was able to switch between the two facilities.

Adding a third Asian facility in Malaysia (Asia III)

The company has started building a new facility in north-west Malaysia. This further diversifies geopolitical risk and will provide additional capacity for the company's growth plans. The facility is to be roughly 50% bigger than the Vietnam facility, with the first phase providing capacity of up to $150–200m per annum. The company acquired land in 2022 for £3.5m and construction has now started; this is due for completion in mid-2024, with production expected from Q424. Total costs are expected to be c £20m, of which c £10m is expected to be spent in 2023 and the remainder in 2024.

Maintaining some specialist facilities in the US and Germany

Through the US acquisitions, XP inherited facilities in the United States for the more complex high-voltage, high-power and RF products. As Glassman and Comdel products are typically more complex than XP's low-power products (and therefore higher value), it makes sense to retain some of the specialist expertise of the US-based manufacturing facilities. In addition, XP maintains a customer-focused engineering services facility in California.

XP's facility in Gloucester, Massachusetts, undertakes final assembly and test of RF products (component manufacturing is outsourced within the US) and its facility in New Jersey manufactures high-voltage products. FuG and Guth have their own facilities in Germany focused on high-voltage products.

Growth strategy

XP's strategy to drive revenue and profitability growth and gain market share has been in place and evolved over a number of years. The current strategy aims to:

- Continually develop XP's market-leading range of competitive products, organically and through selective acquisitions;
- target customer accounts where XP can add value;
- increase penetration of target accounts;
- Continually improve XP's global end-to-end supply chain, balancing high efficiency with market-leading customer responsiveness; and
- lead the industry on environmental matters.

Through this strategy, the company has the following financial targets, which we discuss in more detail in the Financial section:

Exhibit 1: Medium-term financial targets

	Target
Organic revenue growth	10% through the cycle
Gross margin	>45%
Operating margin	c 20%
Return on capital employed	>20%
Operating cash conversion	>90%
Net debt/EBTDA	1-2x

Source: XP Power

Acquisitions fill out the product range

Historically, XP designed and manufactured low-power AC/DC converters, supplying voltages up to 120V, with the majority of products sold supplying voltages up to 48V. As competition from low-cost Asian suppliers increased, XP started moving along the complexity scale. While it has invested in engineering resource to develop higher-voltage products, it has made most major product additions via acquisition. Exhibit 2 details acquisitions made and Exhibit 3 summarises how the recent FuG and Guth acquisitions have expanded the product range.

Exhibit 2: Acquisition history

Date	Company	Price	Details
2015	EMCO	$12.0m/ £7.8m	High-voltage, low-power converters. DC/DC converters can supply voltages up to 40kV, with the majority of products in the 5–12kV range.
2017	Comdel	$25.2m/ £18.8m	Designs RF power supplies, DC power supplies, impedance matching networks, multi-channel synthesisers and electrostatic chuck power supplies. Supplies standard, modified and custom products; due to the complexity of the products, we understand there is a higher proportion of custom work compared to XP's product range. Its RF power supplies are sold to the semiconductor production equipment, thin film, photovoltaics and induction heating industries.
2018	Glassman	$47.5m/ £35.7m	High-voltage, high-power products, typically used in equipment involved in the ionisation and acceleration of particles. Applications include semiconductor production equipment, vacuum/plasma processing, analytical instrumentation, medical diagnostic and test equipment. Has a very comprehensive standard product portfolio and can also provide custom solutions.
2022	FuG/Guth	€39m/ £32.8m	FuG develops and manufactures precision low- and high-voltage power solutions for industrial and scientific applications. Guth offers a variety of high-voltage solutions for power supplies, charging capacitors, insulation and measurement equipment and transformers.

Source: XP Power

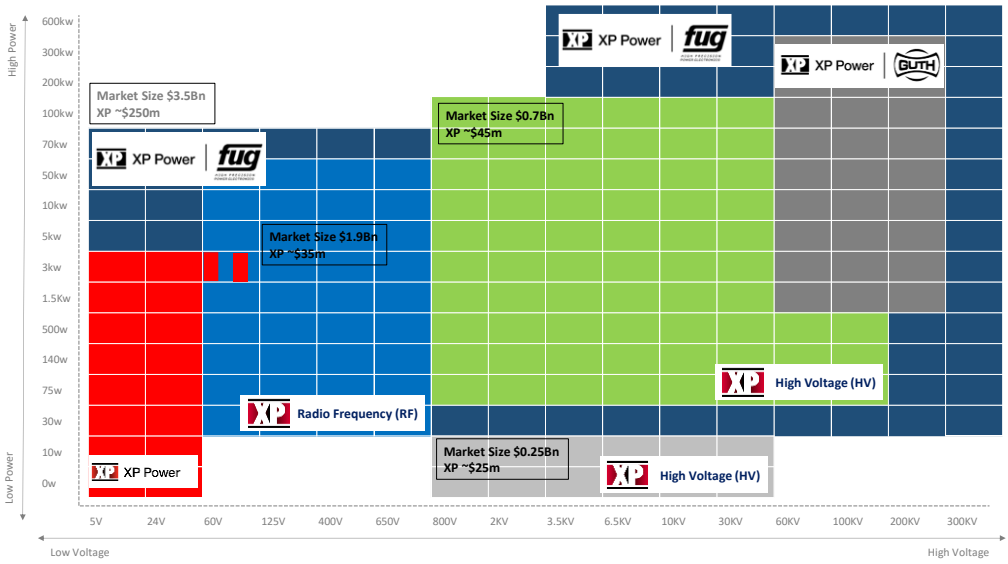
We believe XP has made the major acquisitions required to build its product portfolio and it now has a full range of solutions across the voltage and power spectrum. We expect management to focus

on integrating the recent acquisitions and maximise the cross-selling potential of those deals. In terms of future M&A, we expect XP to take an opportunistic approach, making bolt-on acquisitions to add to its product or sector offerings.

Comprehensive product range across power and voltage ranges

The chart below illustrates where XP's products fit across the power and voltages spectrum and the relative size of those markets.

Exhibit 3: Product map



Source: XP Power

Product development: Add functionality, build out high voltage

XP aims to have the most comprehensive and up-to-date product range in its target markets. In 2022, XP spent £23.3m on R&D (pre-capitalisation, amortisation and write-down), up 14% from the £20.5m spent in 2021.

XP splits its R&D activities between developing new standard products and modifying existing products to meet specific customer requirements. With competition coming from Asian manufacturers of low-complexity converters, XP is focused on serving customers with more complex requirements and undertakes custom design work for large customers. It is moving up the value chain by providing engineering solutions that make it easier for the customer to integrate power solutions into their critical systems, including software and firmware that enable the power solution to communicate with the application controlling it. XP increasingly services the low-power segment with third-party products designed to XP's specifications and quality standards.

XP has built up its engineering services teams globally to provide this face-to-face support during the design process, and has engineering solutions teams in Europe, North America and Asia.

Product development is focused on four main areas:

- **High voltage:** developing new applications to expand the served addressable market eg mass spectrometry, print and weld, e-chuck. XP has acquired four companies that produce high-voltage solutions so it already has good coverage of the market, but management estimates it currently only serves c $280m of the $700m total addressable market and estimates it can expand this to $500m through new product development.

- **Low voltage/high power (>750W):** products in this area tend to power the process rather than control systems. Customers want programmable products that provide feedback on the process, which allows XP to develop more differentiated products.
- **Refresh existing product range:** keep products up-to-date to protect XP's core business. For example, in healthcare, products need to meet current regulations.
- **RF power:** XP's existing RF products do not use the IP that has been banned in the Comet dispute. Product development is focused on enhancing products to help XP make incremental gains in the market.

Targeting key accounts: New and existing

XP Power has more than 4,500 direct active customers. The largest customer made up c 17% of FY22 revenue across c 200 programmes. In 2022, the top 30 customers made up 59% of revenues. Exhibit 4 shows the three key markets XP Power supplies.

Exhibit 4: End-market breakdown

Sector	FY22 revenue split	Types of products
Industrial technology	41%	Factory automation, automated test equipment, industrial control, 3D printing, test and measurement, instrumentation, hazardous environments, defence, avionics, audio visual broadcast equipment, mobile and wireless communications, computing and data processing.
Healthcare	20%	Medically approved power solutions for use in patient vicinity applications and in the lab environment, including homecare devices, highly efficient convection-cooled designs for low-noise patient area devices and defibrillator-proof DC/DC converters for applied part applications.
Semiconductors	39%	Semiconductor production equipment.

Source: XP Power

Leverage approved supplier status

XP's in-house manufacturing helps it sign up blue-chip customers, particularly in the medical equipment and semiconductor equipment markets. Stable and secure power supply is so crucial to the operation of these customers' products they demand complete control over their supply chain and product manufacture to ensure quality. XP has achieved approved or preferred supplier status at a large number of customers, including all of the main healthcare equipment companies, and is now working to expand its share of business at each customer with its full range of power solutions.

Focus on operational excellence

Prior to COVID and the supply chain disruption it caused, XP generated gross margins above 45% and operating margins around 20%. Since the US and China started imposing trade tariffs in 2019, the company has had to navigate a more complex supply chain environment, further exacerbated by COVID and now the war in Ukraine. Many components have very extended lead times (although this is improving) and XP built up safety stocks of key components over the last two years to ensure it can meet customer demand. This should gradually be worked down as the backlog is delivered. The engineering team also designed out particularly problematic components. During FY22, freight costs increased and the company used a higher proportion of air freight to ensure on-time deliveries; these costs started to ease in Q422.

The company continually looks at ways to maintain and improve its performance. This includes the focus on lean manufacturing, as well as improvements to internal processes to enable XP to share information internally more effectively and provide better customer service.

In 2018, XP started upgrading its SAP ERP software to SAP S/4HANA, initially in existing sales operations and the manufacturing facility in Sunnyvale, California. The company delayed implementing it in the Asian manufacturing facilities during COVID, completing it in FY22. XP will next focus on designing the software into the new Malaysian facility before implementing it in the remaining US and German facilities.

Good track record on sustainability issues

In 2009, XP established an environmental committee led by the CEO, which set the goal of leading the industry on environmental matters, and relaunched this sustainability committee in FY21. XP is a full member of the Responsible Business Alliance. XP incorporated green technologies into the Vietnamese facility and has water and energy saving practices in place throughout the group. In recognition of its efforts, customer ASM International awarded XP its inaugural PRISM award for sustainability in FY21 and Lam Research gave XP its inaugural ESG award in FY22.

Having manufacturing facilities and products that meet high environmental standards helps XP to win approved supplier status with large OEMs, but its main ongoing contribution to sustainability is to design ever-more efficient power converters. For example, a 95%-efficient product such as the CCM250 only wastes 5% of the input energy, thereby requiring a lower-power input to achieve the same output as a device operating at a lower efficiency. The wasted power is often converted to heat, which in turn requires additional power or physical heat sinks to provide cooling, adding to the upfront and running costs of the product. XP expects that legislation will become more stringent on efficiency requirements for power converters. Revenues generated from 'XP Green Power' products totalled £59.3m in FY22 (+21% y-o-y), 20% of group revenues.

Assessing impact, setting targets

XP has worked to reduce its environmental impact (and that of its customers) for many years. In 2020 the company engaged with key stakeholders to better understand which aspects of their relationship with XP were most important to them, with a focus on sustainability. Feedback was incorporated into XP's sustainability strategy, covering product responsibility, attracting and retaining talent, health and safety, employee welfare, reducing emissions and diversity and inclusion. The board and senior management have undertaken sustainability training to improve internal capability and to develop the next stage of the strategy.

In 2021, XP started a mapping exercise to ascertain scope 1, 2 and 3 emissions, and finished this process in 2022. While it can reduce its impact through product design and efficiency, the majority of emissions come from the components acquired and the use of its products so supplier engagement will be crucial to bring down overall emissions. The company is committed to a proactive strategy to reduce these in absolute terms and will submit targets to SBTi in 2023, having submitted its commitment in July 2022.

Targets set include:

- Reduce CO_2 emissions intensity by at least 3% per annum over the short and medium term.
- Reach net zero by 2040.

Market performance and outlook

Exhibit 5 shows the split of revenues by geography and end-market over the last two years.

Exhibit 5: Revenues by geography and end-market, £m

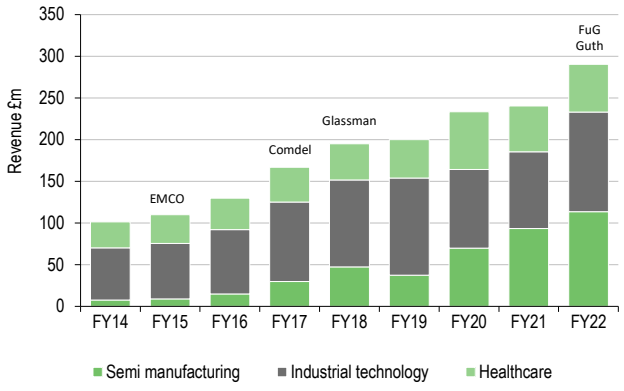
Europe	FY22	FY21	y-o-y	Asia	FY22	FY21	y-o-y
Semi manufacturing	2.7	3.0	-10%	Semi manufacturing	16.9	15.1	12%
Industrial technology	61.3	43.7	40%	Industrial	13.8	11.2	23%
Healthcare	22.5	20.6	9%	Healthcare	6.0	5.5	9%
Total	**86.5**	**67.3**	**29%**	**Total**	**36.7**	**31.8**	**15%**
North America				**Group**			
Semi manufacturing	93.8	75.2	25%	Semi manufacturing	113.4	93.3	22%
Industrial technology	44.5	37.1	20%	Industrial	119.6	92.0	30%
Healthcare	28.9	28.9	0%	Healthcare	57.4	55.0	4%
Total	**167.2**	**141.2**	**18%**	**Total**	**290.4**	**240.3**	**21%**

Source: XP Power. Note: FY22 exchange rate $1.25/£.

- **Industrial technology sector:** this is the most fragmented market, with fewer customers in XP's top 30. Applications in this sector vary significantly and are mainly driven by new and emerging electronic technologies and high-growth niches rather than traditional areas such as industrial machinery, automotive or mining. This sector grew 18% y-o-y in constant currency. The acquisitions of FuG and Guth contributed £14.5m to the segment in FY22, implying 14% reported organic revenue growth year-on-year.
- **Healthcare sector:** revenue from this sector declined 7% in constant currency in FY22, mainly due to component shortages limiting the ability to ship to customers. Demand and revenue increased materially in H222. FuG and Guth contributed £1.9m to the segment in FY22, implying 1% reported organic revenue growth year-on-year.
- **Semiconductor manufacturing sector:** this sector maintained high levels of demand through 2020–2022. XP also believes it gained share in this sector as it was designed into new programmes. XP saw 9% constant currency revenue growth in FY22 (FY21: 46%, FY20: 84%). Despite its cyclicality, the company views this as a structural growth sector due to demand for chips from applications such as artificial intelligence (AI), the internet of things (IoT) and 5G.

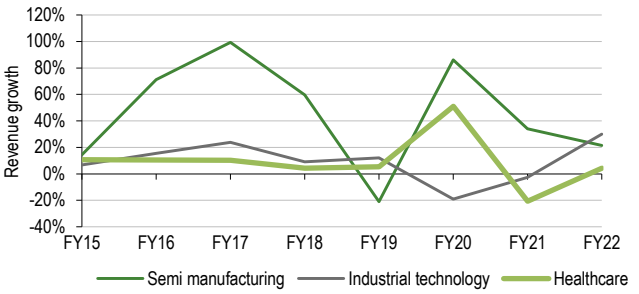
The charts below show revenue by sector since FY14 (with acquisitions noted on the chart) and revenue growth by sector since FY15. The company has not disclosed organic growth rates on a sector basis (we show this at a group level in the Financials section) and as most acquisitions serve more than one sector, we have not attempted to calculate it ourselves. As the semiconductor manufacturing sector has shown more extreme performance over the period, we also show industrial technology and healthcare in separate charts (Exhibits 6 and 7) for both FY15–22 and FY15–19, to show performance both including and excluding the COVID effect.

Exhibit 6: Revenue by sector FY14–22



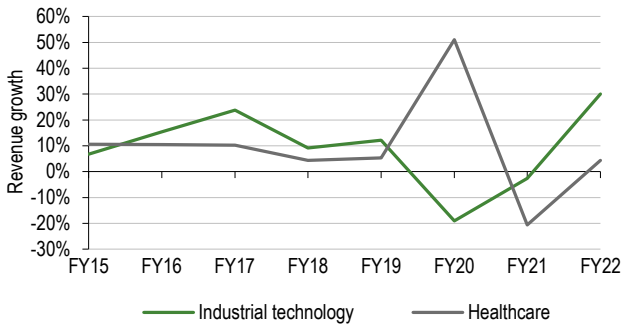
Source: XP Power

Exhibit 7: Revenue growth by sector, FY15–22



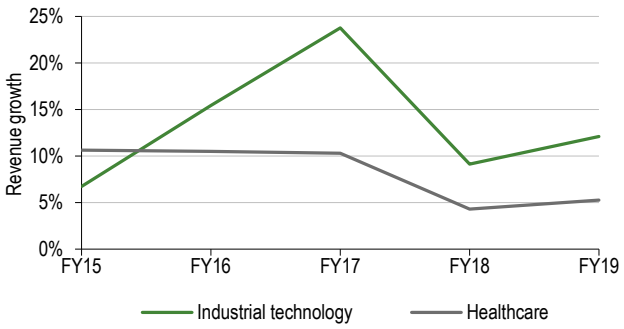
Source: XP Power

Exhibit 8: Revenue growth FY15–22



Source: XP Power

Exhibit 9: Revenue growth FY15–19



Source: XP Power

Long-term growth drivers

Key drivers of market growth include:

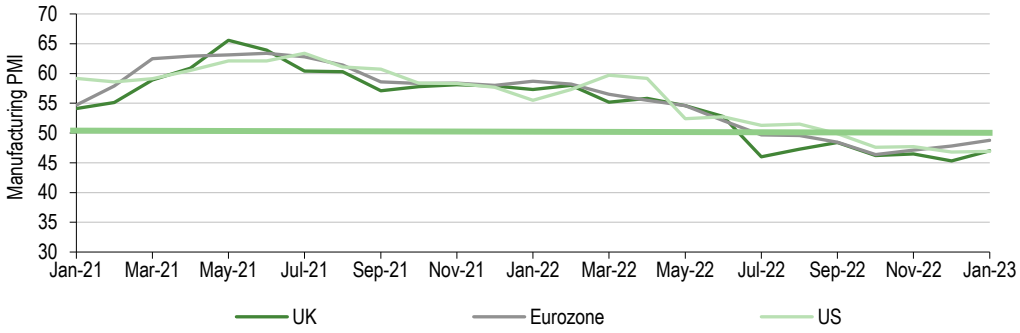
- **Regulation:** legislation and consumer pressure are driving OEMs to reduce the power consumption of their products. Legislation also extends to the efficiency of power converters, driving demand for new products. XP's new products are designed to maximise efficiency.
- **Healthcare:** as the population ages while continuing to grow overall, people are living longer with chronic diseases, driving overall healthcare spending.
- **Technology:** multiple trends are driving demand for processing power and memory, including IoT, AI, big data, blockchain, augmented and virtual reality, and autonomous vehicles. It is possible the growth of each of these technologies in parallel could reduce the cyclicality of the semiconductor industry.
- **Alternative energy:** technologies are evolving for lighting (eg LEDs) and power generation (eg solar, wind), which all have specific power-conversion needs.
- **Innovation:** customers increasingly need to differentiate their products from the competition. XP's in-house design capabilities enable it to develop products for niche applications.

Short-term outlook

Economic pressures evident

The strength of the industrial market depends on the health of the global economy. The Purchasing Managers Index (PMI) data in the chart below show the month-on-month change in economic activity in the manufacturing sector. The three regions below saw a strong rebound post-COVID in summer 2021, remaining well above 50 (the level above which marks expansion) into early 2022. However, high inflation, rising interest rates and the war between Ukraine and Russia have made the economic outlook more uncertain, with all regions moving below 50 from mid-2022 and remaining there.

Exhibit 10: Manufacturing PMI data – January 2021 to January 2023



Source: Refinitiv

Moderating growth in the technology sector

After a strong growth year for the technology sector in 2021, industry analysts forecast moderating growth in 2022. The overall IT sector actually saw a small decline (compared to a forecast for 5% growth at the start of the year) and both the semiconductor and semiconductor equipment sectors saw slower growth than originally forecast. After several years of tight chip supply, mainly due to COVID-related supply chain issues as well as strong demand for cryptocurrency and hybrid working-related technology, certain verticals started to see weaker end-demand. This translated into lower chip demand towards the end of 2022, and with a weaker economic outlook expected in 2023, is likely to feed through to lower demand for semiconductor equipment. At the same time, the European Union and United States governments believe that they are over-reliant on Asian manufacturers and have announced plans to support increased manufacturing capacity in the EU and the US, respectively. After a correction in 2023, industry analysts expect a rebound in equipment spending in 2024.

Exhibit 11: Industry forecasts

	CY21a	CY22e*	CY22a	CY23e	CY24e	CY21a	CY22e*	CY22a	CY23e	CY24e
Global IT spend ($tn)	4.2	4.5	4.4	4.5	N/A	9.0%	5.1%	(0.2%)	2.4%	N/A
Semiconductor revenue ($bn)	553	601	580	557	N/A	25.6%	8.8%	4.4%	(4.1%)	N/A
Front-end semiconductor equipment revenue ($bn)	88.0	98.9	94.8	78.8	92.4	44%	12.4%	8.3%	(16.8%)	17.2%

Source: Gartner, WSTS, SEMI. Note: *Forecast at start of 2022.

Reverting to ‘normal’ in the healthcare market

In 2021 the focus started to shift back to the treatment of non-COVID-19-related illness, although healthcare technology companies continued to benefit from COVID-related sales such as antigen test-related technology, equipment for critical care and imaging tools to diagnose and monitor the illness. COVID-related revenues declined in 2022 and we expect the healthcare market to revert to pre-COVID patterns of spending in 2023. Siemens Healthineers reported an equipment book-to-bill of 1.36x for Q123 (quarter ended 31 December 2022), with 5% growth in both Imaging revenues and Advanced Therapies. Excluding antigen-related revenues, for FY22 (year-end 30 September 2022) it reported like-for-like revenue growth of 3.8% and expects revenue growth on this basis of 6–8% for FY23. GE Healthcare saw 7% growth in organic revenues with a book-to-bill of 1.08x for CY22. For CY23, it expects 5–7% organic revenue growth. Philips’s performance in 2022 was affected by the ongoing product recall in its Respironics business (which includes CPAP machines and some ventilators) as well as by inflation, COVID in China and the Russia-Ukraine war, and the company reported a 2.8% like-for-like revenue decline. The company is targeting low single-digit like-for-like revenue growth for CY23 and estimates that its addressable health technology markets will grow at 3–6% pa from 2022 to 2025.

Competitive positioning

XP estimates that it has an addressable market of c $6bn, which has a long-term growth rate of c 6% pa:

- Low power/low voltage and low power/high voltage: market size c $3.5bn, of which XP has a c 8% share.
- RF power: $1.9bn market size, of which XP has c 2% share; and
- High voltage/high power: $0.7bn market, of which XP has c 6% share including FuG and Guth. The company notes that it currently focuses on c $0.5bn of this market and it estimates it has the number two position in the market.

The low market shares that XP has in each area highlights the opportunity for the company to grow revenues by increasing vertical penetration with existing customers as well as signing up new customers.

Exhibit 12 summarises the main competitors in each of the product areas that XP operates in. In the low-power, low-voltage market, XP competes most often with TDK-Lambda and Mean Well and with some local Asian suppliers.

Exhibit 12: Competition by product type

Low voltage	High voltage	RF power
Advanced Energy Industries	Advanced Energy Industries	Advanced Energy Industries
Cosel	Matsusada Precision	COMET Holding
Delta Electronics	Spellman High Voltage Electronics	MKS Instruments
Mean Well		TRUMPF Huettinger
TDK-Lambda (TDK Corporation)		

Source: Edison Investment Research

Sensitivities

XP Power is a global electronics company supplying a broad range of end-markets. XP is not immune to economic slowdown, but diversification and the low-cost structure afford XP some earnings resilience versus competitors.

- **Economic sensitivity:** the group has cyclical exposure to global industrial, technology and healthcare markets. Therefore, any slowdown in end-demand in these markets or cutbacks in product development expenditure will have an impact on XP's revenues.
- **Order book visibility:** the group historically had around four to five months of order book visibility at any one time, although this is currently running at closer to 12 months. As the supply chain normalises and customers feel more confident that they do not have to place orders so far ahead to ensure delivery, we expect order visibility will decrease.
- **Currency:** around 84% of XP's revenues, more than 90% of cost of sales and c 70% of opex are US dollar denominated. XP reports in sterling, exposing its results to fluctuations in the US$/£ exchange rate. While moves in the exchange rate will affect reported revenues, the overall impact of currency at the net income level is much less pronounced. To minimise the effect, the company enters into forward contracts.
- **Large competitors:** competition ranges from significantly larger players with big balance sheets through to smaller innovative companies. The deeper pockets of large competitors may make it more difficult for XP to keep pace with product development.
- **Geopolitical risks:** with manufacturing facilities in China and Vietnam (and soon in Malaysia), XP is exposed to risks relating to the governments of those countries, such as regulation and tariffs. In addition, the COVID-19 pandemic highlighted how exposed the global manufacturing

industry is to disruptions to the supply chain in Asia. The war in Ukraine has further disrupted supply chains and increased commodity prices.

Financials

Review of FY22 results

XP reported revenue and orders in line with its January trading update. Normalised operating profit was marginally lower than our forecast, with gross margin 1.1pp below our forecast, partially offset by lower operating costs. Reported operating profit included £4.1m in acquired intangibles amortisation, £59.7m in costs relating to the Comet case (accrued damages and legal costs: £52.2m, write-down of capitalised development costs: £7.5m), £3.8m costs relating to the ERP project and other specific items totalling a net credit of £0.6m. Underlying interest costs were slightly below our forecast, as was tax, resulting in normalised diluted EPS 5.6% ahead of our forecast. Net cash of £151m was marginally below our forecast. The company proposed a Q4 dividend of 36p, equating to a full-year dividend of 94p, in line with our forecast.

Exhibit 13: FY22 actuals versus estimates

£'m	FY22e	FY22a	Diff	y-o-y
Revenues	**290.6**	**290.4**	**(0.1%)**	**20.8%**
Gross profit	124.0	120.6	(2.7%)	11.4%
Gross margin	*42.7%*	*41.5%*	*(1.1%)*	*(3.5%)*
EBITDA	55.9	56.4	0.9%	1.6%
EBITDA margin	*19.2%*	*19.4%*	*0.2%*	*(3.7%)*
Normalised operating profit	**43.4**	**42.9**	**(1.2%)**	**(4.9%)**
Normalised operating margin	*14.9%*	*14.8%*	*(0.2%)*	*(4.0%)*
Reported operating profit	(22.1)	(24.1)	9.1%	(181.1%)
Reported operating margin	*(7.6%)*	*(8.3%)*	*(0.7%)*	*(20.7%)*
Normalised PBT	37.7	38.0	0.8%	(13.2%)
Reported PBT	(28.8)	(30.2)	4.9%	(206.3%)
Normalised net income	**30.3**	**31.5**	**4.0%**	**(10.0%)**
Reported net income	(23.6)	(20.0)	(15.3%)	(188.5%)
Normalised basic EPS (p)	154.3	160.6	4.1%	(10.5%)
Normalised diluted EPS (p)	**151.6**	**160.1**	**5.6%**	**(9.2%)**
Reported basic EPS (p)	(120.2)	(102.0)	(15.2%)	(188.0%)
Dividend per share (p)	94.0	94.0	0.0%	0.0%
Net debt/(cash)	151.8	151.0	(0.6%)	513.8%
Orders	362.7	362.9	0.1%	5.7%
Net debt/EBITDA (x)	2.8	2.7		

Source: XP Power, Edison Investment Research

FY23 a year of investment in Malaysia and the US

We estimate that the bulk of the cost of the new manufacturing facility in Malaysia will be incurred in FY23, for which we include £10m in tangibles capex. XP is relocating its Sunnyvale staff to a newly leased building in San Jose and the fit out of this building is likely cost £8–10m in FY23. In total, the company expects to spend c £30m on tangible assets in FY23 before dropping back to the typical £10–15m range in FY24. The company expects to capitalise c £9m of development costs in FY23.

Gearing to reduce over FY23/FY24

The company refinanced its debt during H122, increasing its revolving credit facility (RCF) from $150m to $255m and the accordion option from $30m to $75m, due in 2026 with an extension option to 2027. In late 2022, the company secured better covenant flexibility, with maximum net debt/EBITDA multiples of 3.5x at the end of FY22, 3.25x at end-H123 and 3x at end-FY23. The RCF is priced at SOFR (secured overnight financing rate – currently 4.55%) plus a 1.2–2.8% margin for using the facility and a margin of 1.7% for the unused portion of the facility. At the end of

FY22, c $210m of the facility was used. Net debt/EBITDA at the end of FY22 was 2.68x and the company expects this to reduce through the course of FY23 and FY24 as inventory unwinds and profitability increases. The target is to operate in the range 1–2x, which we currently forecast XP to achieve by the end of FY24.

Comet litigation ongoing

In March 2022, in a trade secrets misappropriation case brought by Comet, a jury awarded damages of $40m against XP. In September 2022, the judge for the case confirmed the jury's decision to award damages to Comet and imposed an injunction on XP against using three of the four trade secrets in question. The company has no current orders or revenue based on the RF technology covered by the injunction; in H122 the company wrote down £7.5m of capitalised development costs for products. The damages award and related legal fees were provided for in FY22 (£52.2m in total), and in H222 XP made a $44m/£36.9m collateral payment for the damages award – this has been accounted for as the purchase of a court bond that is sitting in current assets as a bond receivable. The company has filed various motions with the Court of the Northern District of California to review the validity and level of damages as well as the quantum of legal fees claimed by Comet. Pending the outcomes of these motions, XP may consider an appeal.

Outlook and changes to estimates

XP saw order intake of £362.9m for FY22, up 6% y-o-y (down 2% in constant currency (cc) and down 6% in constant currency like-for-like (cc l-f-l)). For Q422, order intake of £68.7m was down 23% y-o-y and 32% q-o-q (down 31% y-o-y cc, down 34% cc l-f-l). We have revised our forecasts to reflect FY22 results and to add forecasts for FY24. Our FY23 revenue forecast is supported by the £308m backlog at the end of FY22 and FY24 revenue will depend on order intake in FY23. Orders declined significantly in Q422, mainly due to the downturn in the semiconductor cycle. We expect bookings to remain at lower levels in H123 before starting to pick up again in H223 and increasing through FY24, resulting in our forecast for 2.4% revenue growth in FY24. Reflecting the higher interest rate environment, we have increased our net interest expense for FY23. We forecast a flat dividend in FY23, as we assume the company will focus on reducing gearing.

Exhibit 14: Changes to forecasts

£'m	FY23e Old	FY23e New	Change	y-o-y	FY24e New	y-o-y
Revenues	**309.5**	**309.5**	**(0.0%)**	**6.6%**	**316.8**	**2.4%**
Gross profit	134.7	134.7	(0.0%)	11.7%	142.1	5.5%
Gross margin	*43.5%*	*43.5%*	*(0.0%)*	*2.0%*	*44.8%*	*1.3%*
EBITDA	65.6	65.3	(0.3%)	15.9%	71.8	9.9%
EBITDA margin	*21.2%*	*21.1%*	*(0.1%)*	*1.7%*	*22.7%*	*1.6%*
Normalised operating profit	**50.0**	**49.3**	**(1.2%)**	**15.0%**	**54.3**	**10.1%**
Normalised operating margin	*16.1%*	*15.9%*	*(0.2%)*	*1.2%*	*17.1%*	*1.2%*
Reported operating profit	45.8	45.2	(1.1%)	(287.7%)	50.2	11.0%
Reported operating margin	*14.8%*	*14.6%*	*(0.2%)*	*22.9%*	*15.9%*	*1.2%*
Normalised PBT	40.0	37.3	(6.6%)	(1.7%)	43.3	16.0%
Reported PBT	35.8	33.2	(7.0%)	(210.1%)	39.2	18.0%
Normalised net income	**32.1**	**30.0**	**(6.6%)**	**(4.8%)**	**34.4**	**14.7%**
Reported net income	28.8	26.7	(7.2%)	(233.4%)	31.1	16.6%
Normalised basic EPS (p)	163.6	152.8	(6.6%)	(4.9%)	175.2	14.7%
Normalised diluted EPS (p)	**160.8**	**152.3**	**(5.3%)**	**(4.9%)**	**174.6**	**14.7%**
Reported basic EPS (p)	146.5	135.9	(7.2%)	(233.3%)	158.5	16.6%
Dividend per share (p)	97.0	94.0	(3.1%)	0.0%	97.0	3.2%
Net debt/(cash)	140.8	144.4	2.5%	(4.4%)	131.9	(8.6%)
Orders	276.4	280.6	1.5%	-22.7%	317.4	13.1%
Net debt/EBITDA (x)	2.2	2.3			1.8	

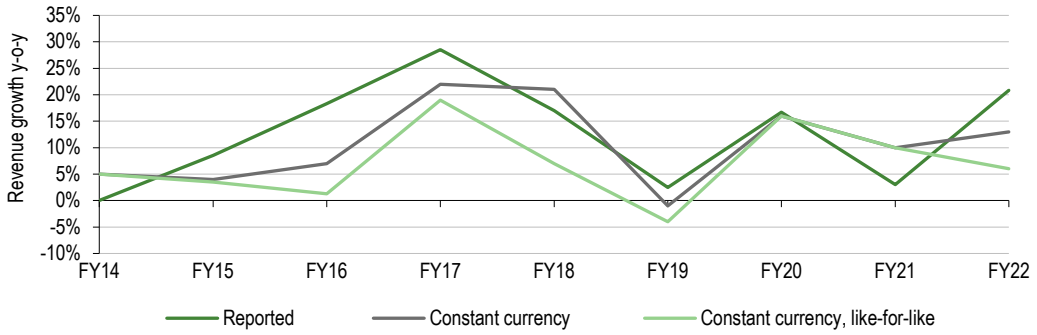
Source: Edison Investment Research

Progress with medium-term financial targets

In Exhibit 1, we summarise XP's financial targets. XP has previously achieved gross and operating margins in line with these targets but recent issues with trade tariffs, COVID and the war in Ukraine have complicated the supply chain and made it more expensive to produce and deliver products to customers. We expect that as the supply chain normalises, XP will be able to grow gross and operating margins back towards these targets.

The chart below shows XP's revenue track record since 2014, detailing reported, constant currency and like-for-like growth. The average growth rate over the period 2014–2022 is 13%, 11% and 7%, respectively. In the shorter term, we are forecasting lower growth than the organic target, reflecting the semiconductor cycle and the current uncertain economic environment, but we would expect growth to accelerate as both situations improve.

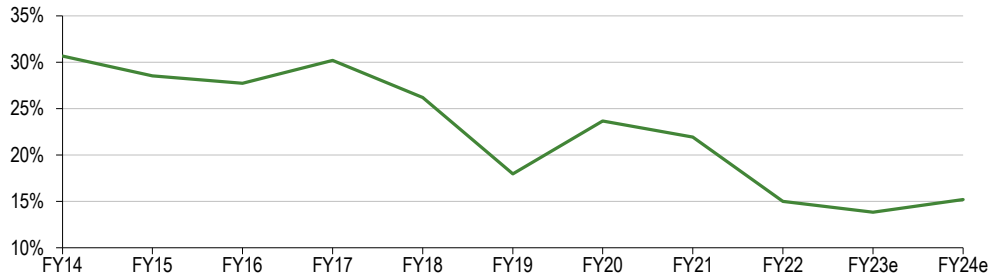
Exhibit 15: Revenue growth FY14–22



Source: XP Power

Return on capital employed (ROCE) has gradually declined as the company has made a series of acquisitions, but was above 20% for the period FY14–21 (apart from a small dip below in FY19). ROCE fell more materially in FY22 as the company acquired FuG and Guth, supply chain issues depressed margins and working capital rose. Over the next couple of years, the company will be investing in the Malaysian facility, which will weigh on ROCE, although there should be some benefit from the unwinding of working capital and improving margins.

Exhibit 16: Return on capital employed, FY14–24e



Source: Edison Investment Research

Valuation

There is a limited number of listed power solution companies, as many businesses are part of larger industrial companies. We show below the financial performance of those listed peers and a group of UK-listed companies active in the electronics space.

Over the last 12 months, the stock has declined 44%. Compared to both peer groups, XP is trading at a c 15% discount on a P/E basis for FY23 and FY24. Even after the dip in profitability in FY22,

XP generates EBITDA and EBIT margins at the upper end of both peer groups. Further evidence of an improving supply chain, resolution of the Comet litigation and stability in order intake are key triggers to boost the share price, in our view.

Exhibit 17: Peer group financial metrics

	Market	Share	Listing	Revenue growth			EBITDA margin			EBIT margin		
	cap (m)	price	ccy	LY	CY	NY	LY	CY	NY	LY	CY	NY
XP Power	**481**	**2450**	**GBp**	**20.8%**	**6.6%**	**2.4%**	**19.4%**	**21.1%**	**22.7%**	**14.8%**	**15.9%**	**17.1%**
Cosel	40712	1140	JPY	3.9%	20.7%	2.9%	14.5%	16.0%	15.8%	N/A	N/A	N/A
Delta Electronics	751005	286.5	TWD	22.2%	11.5%	11.3%	N/A	16.1%	16.4%	10.8%	11.5%	11.8%
Advanced Energy Industries	3442	91.86	USD	26.8%	-8.8%	8.4%	18.1%	16.0%	18.0%	16.2%	12.0%	14.6%
Comet Holdings	1625	209	CHF	12.7%	-12.5%	20.6%	20.8%	20.1%	22.1%	17.1%	15.6%	18.2%
Average power converter companies				**16.4%**	**2.7%**	**10.8%**	**17.8%**	**17.0%**	**18.1%**	**14.7%**	**13.0%**	**14.9%**
Diploma	3441	2760	GBp	28.6%	13.3%	4.7%	20.0%	20.4%	20.3%	18.9%	17.5%	17.5%
DiscoverIE	782	812	GBp	-16.5%	14.4%	3.5%	17.6%	14.3%	14.5%	10.9%	11.3%	11.5%
Electrocomponents	4661	986	GBp	27.5%	16.9%	4.2%	14.6%	14.7%	14.6%	12.5%	12.7%	12.5%
Gooch & Housego	124	493	GBp	0.6%	10.7%	5.0%	14.3%	13.7%	15.1%	7.1%	7.4%	8.9%
TT Electronics	348	197	GBp	25.0%	4.7%	3.0%	9.9%	10.8%	11.3%	7.0%	8.1%	8.6%
Average UK electronics companies				**13.0%**	**12.0%**	**4.1%**	**15.3%**	**14.8%**	**15.2%**	**11.3%**	**11.4%**	**11.8%**

Source: Edison Investment Research, Refinitiv (as at 27 February)

Exhibit 18: Valuation metrics

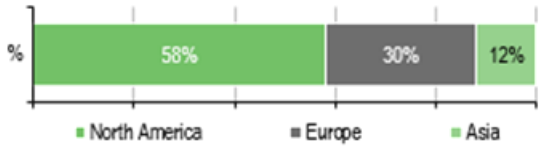
	P/E (x)		EV/EBIT (x)		Div yield	
	CY	NY	CY	NY	CY	NY
XP Power	**16.1**	**14.0**	**11.8**	**10.8**	**3.8%**	**4.0%**
Cosel	12.5	13.2			2.7%	2.8%
Delta Electronics	19.6	17.1	15.8	13.8	2.8%	3.0%
Advanced Energy Industries	19.9	15.3	16.6	12.6	0.2%	0.1%
Comet Holdings	26.1	18.4	20.8	14.8	1.7%	1.7%
Average power converter companies	**19.5**	**16.0**	**17.7**	**13.7**	**1.9%**	**1.9%**
(Discount)/premium	***-18%***	***-12%***	***-33%***	***-22%***	***106%***	***108%***
Diploma	23.9	22.4	19.2	18.3	2.1%	2.2%
DiscoverIE	24.4	23.7	17.3	16.4	1.4%	1.5%
Electrocomponents	16.4	16.6	12.2	11.9	2.1%	2.1%
Gooch & Housego	16.9	12.7	14.0	11.1	2.6%	2.7%
TT Electronics	10.3	9.1	9.8	8.9	3.4%	3.8%
Average UK electronics companies	**18.4**	**16.9**	**14.5**	**13.3**	**2.3%**	**2.5%**
(Discount)/premium	***-12%***	***-17%***	***-18%***	***-19%***	***65%***	***61%***

Source: Edison Investment Research, Refinitiv (as at 27 February)

Exhibit 19: Financial summary

£'m	2017	2018	2019	2020	2021	2022	2023e	2024e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue	166.8	195.1	199.9	233.3	240.3	290.4	309.5	316.8
Cost of Sales	(89.2)	(102.8)	(109.8)	(123.2)	(132.0)	(169.8)	(174.8)	(174.7)
Gross Profit	77.6	92.3	90.1	110.1	108.3	120.6	134.7	142.1
EBITDA	41.7	49.2	44.5	56.8	55.5	56.4	65.3	71.8
Normalised operating profit	36.4	42.9	35.0	46.0	45.1	42.9	49.3	54.3
Amortisation of acquired intangibles	(0.6)	(2.8)	(3.2)	(3.2)	(2.8)	(4.1)	(4.1)	(4.1)
Exceptionals	(3.3)	(0.8)	(5.1)	(5.4)	(12.6)	(62.9)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	32.5	39.3	26.7	37.4	29.7	(24.1)	45.2	50.2
Net Interest	(0.3)	(1.7)	(2.7)	(1.7)	(1.3)	(4.9)	(12.0)	(11.0)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional & other financial	0.0	0.0	0.0	0.0	0.0	(1.2)	0.0	0.0
Profit Before Tax (norm)	36.1	41.2	32.3	44.3	43.8	38.0	37.3	43.3
Profit Before Tax (reported)	32.2	37.6	24.0	35.7	28.4	(30.2)	33.2	39.2
Reported tax	(3.6)	(7.2)	(3.2)	(4.0)	(5.4)	10.6	(6.3)	(7.8)
Profit After Tax (norm)	28.8	33.9	27.9	39.2	35.4	31.9	30.3	34.7
Profit After Tax (reported)	28.6	30.4	20.8	31.7	23.0	(19.6)	26.9	31.4
Minority interests	(0.3)	(0.2)	(0.3)	(0.2)	(0.4)	(0.4)	(0.3)	(0.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	28.5	33.7	27.6	39.0	35.0	31.5	30.0	34.4
Net income (reported)	28.3	30.2	20.5	31.5	22.6	(20.0)	26.7	31.1
Basic average number of shares outstanding (m)	19.1	19.1	19.2	19.3	19.5	19.6	19.6	19.6
EPS - basic normalised (p)	149.4	176.1	144.1	201.8	179.4	160.6	152.8	175.2
EPS - diluted normalised (p)	147.0	172.8	141.4	198.4	176.3	160.1	152.3	174.6
EPS - basic reported (p)	148.3	157.8	107.0	163.0	115.8	(102.0)	135.9	158.5
Dividend (p)	78	85	55	74	94	94	94	97
Revenue growth (%)	28.5	17.0	2.5	16.7	3.0	20.8	6.6	2.4
Gross Margin (%)	46.5	47.3	45.1	47.2	45.1	41.5	43.5	44.8
EBITDA Margin (%)	25.0	25.2	22.3	24.3	23.1	19.4	21.1	22.7
Normalised Operating Margin	21.8	22.0	17.5	19.7	18.8	14.8	15.9	17.1
BALANCE SHEET								
Fixed Assets	88.1	129.2	137.4	135.2	150.5	255.1	276.5	279.4
Intangible Assets	63.9	97.7	99.6	98.8	108.8	147.4	147.3	147.7
Tangible Assets	22.5	30.7	35.9	33.5	38.5	91.5	113.0	115.5
Investments & other	1.7	0.8	1.9	2.9	3.2	16.2	16.2	16.2
Current Assets	83.5	105.1	96.0	107.0	121.7	226.6	201.3	202.7
Stocks	37.8	56.5	44.1	54.2	74.0	114.4	93.4	93.3
Debtors	23.8	33.0	34.8	30.2	30.8	42.4	42.4	43.4
Cash & cash equivalents	15.0	11.5	11.2	13.9	9.0	22.3	22.0	26.5
Other	6.9	4.1	5.9	8.7	7.9	47.5	43.5	39.5
Current Liabilities	(25.1)	(26.8)	(30.4)	(34.7)	(49.0)	(106.2)	(101.1)	(101.3)
Creditors	(21.4)	(22.4)	(25.2)	(28.3)	(44.7)	(52.6)	(57.5)	(57.7)
Tax and social security	(3.5)	(4.2)	(3.1)	(4.9)	(2.5)	(4.9)	(4.9)	(4.9)
Short term borrowings	0.0	0.0	(1.6)	(1.5)	(1.8)	(2.6)	(2.6)	(2.6)
Other	(0.2)	(0.2)	(0.5)	0.0	0.0	(46.1)	(36.1)	(36.1)
Long Term Liabilities	(29.6)	(70.1)	(64.1)	(43.0)	(50.8)	(236.0)	(227.8)	(219.6)
Long term borrowings	(24.0)	(63.5)	(57.3)	(35.2)	(39.9)	(223.1)	(214.9)	(206.7)
Other long term liabilities	(5.6)	(6.6)	(6.8)	(7.8)	(10.9)	(12.9)	(12.9)	(12.9)
Net Assets	116.9	137.4	138.9	164.5	172.4	139.5	148.8	161.2
Minority interests	(0.9)	(1.0)	(0.7)	(0.7)	(0.9)	(0.8)	(0.9)	(0.9)
Shareholders' equity	116.0	136.4	138.2	163.8	171.5	138.7	148.0	160.3
CASH FLOW								
Op Cash Flow before WC and tax	41.7	49.2	44.5	56.8	55.5	56.4	65.3	71.8
Working capital	0.4	(21.6)	10.6	(6.2)	(4.0)	(33.5)	26.0	(0.8)
Exceptional & other	(6.3)	3.2	(4.4)	(1.7)	(10.9)	(57.7)	(10.0)	0.0
Tax	(6.1)	(4.1)	(4.5)	(3.3)	(4.2)	(4.1)	(2.3)	(3.8)
Net operating cash flow	29.7	26.7	46.2	45.6	36.4	(38.9)	79.0	67.2
Capex	(10.1)	(15.0)	(16.3)	(14.9)	(21.9)	(19.4)	(40.0)	(23.0)
Acquisitions/disposals	(18.3)	(35.4)	0.0	(0.5)	0.0	(33.0)	0.0	0.0
Net interest	(0.2)	(1.5)	(2.7)	(1.3)	(0.9)	(5.5)	(12.0)	(11.0)
Equity financing	(0.2)	0.6	0.5	3.5	0.6	0.0	0.0	0.0
Dividends	(14.2)	(15.6)	(17.2)	(7.3)	(18.4)	(19.0)	(18.6)	(19.0)
Other	0.0	0.0	(1.5)	(1.7)	(1.7)	(5.8)	(1.7)	(1.7)
Net Cash Flow	(13.3)	(40.2)	9.0	23.4	(5.9)	(121.6)	6.6	12.4
Opening net debt/(cash)	(3.7)	9.0	52.0	41.3	17.9	24.6	151.0	144.4
FX	0.6	(2.7)	1.7	0.0	(0.8)	(4.8)	0.0	0.0
Other non-cash movements	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)	9.0	52.0	41.3	17.9	24.6	151.0	144.4	131.9

Source: XP Power, Edison Investment Research

Contact details	Revenue by geography
19 Tai Seng Avenue #07-01, 534054 Singapore +65 64116900 www.xppower.com	

Management team

CEO: Gavin Griggs	CFO: Oskar Zahn (until 31 March 2023)
Gavin was appointed CEO from the start of 2021, before which he served as the CFO. Prior to joining the group in October 2017, Gavin was CFO of Alternative Networks, a listed Telecoms and IT services business until December 2016 when it was acquired by Daisy, whereupon he became FD of the larger group. Gavin has worked in various senior international finance positions including roles at Logica, SABMiller, PepsiCo and Sodexo.	Oskar joined XP Power in May 2021 as CFO. He has over 30 years' experience within large complex international businesses with continuous improvement and growth focused cultures. Prior to joining XP, he was CFO at Scapa Group, a leading global manufacturer to the healthcare and industrial markets, from 2018 until its acquisition by SWM International. Prior to Scapa, Oskar was CFO at Spearhead International (joined in 2008), and before that, he held leadership roles at Telefex, British Airways and Georgia-Pacific.
Interim CFO: David Stibbs (from 1 April 2023)	**Chair designate: Jamie Pike**
David joined XP in October 2021 as group finance director. He was previously group finance control director at Britvic (2013-2019) and a management consultant with EY (2007-2013).	Jamie was appointed to the board in March 2022 as a non-executive director and chair designate and will take on the chair role when James Peters retires. Jamie is currently non-executive chair of Spirax-Sarco Engineering. He was CEO of Burmah Castrol Chemicals before leading the Foseco buy-out in 2001 and its subsequent flotation in 2005. Prior to joining Burmah, he was a partner at Bain & Company.
Chair (until FY23 AGM): James Peters	
James has over 25 years' experience in the industry with Marconi and Coutant Lambda, before joining Powerline in 1980. In 1988, he founded XP Power. In 2000, he was appointed as European MD. In 2003, he was appointed deputy chair and in 2014 became chair.	

Principal shareholders	(%)
Aberdeen Standard	10.2
Kempen Capital Management	6.0
James Peters	5.1
Mawser Investment Management	4.9
Capital Research	4.4
Montanaro Asset Management	4.0
Aberdeen Asset Managers	3.8
Royce Investment Partners	3.4
McInroy & Wood	3.0

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United Kingdom

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20 Red Lion Street
London, WC1R 4PS
United Kingdom