

PERFORMANCE: OPERATIONAL REVIEW



Gavin Griggs
Chief Executive Officer

REVIEW OF OUR YEAR

We are proud of both our financial performance, and our contribution to the fight against COVID-19 in 2020. The Group produced an excellent set of results while ensuring the safety and wellbeing of our people, and we continued to make good strategic progress despite the challenges of navigating through the COVID-19 pandemic. This is all down to the hard work and commitment of the XP team globally.

The Semiconductor Manufacturing Equipment sector, which had started to recover in terms of order intake in Q4 of 2019, performed strongly throughout 2020. The strong performance was underpinned by a combination of increased end market demand and our market share gains from design wins on new tools, driven by advancements in technology in the logic and memory segments. The ongoing design wins are being supported by the development of closer relationships with our customers. In addition, we benefited from unprecedented demand from our Healthcare customers as they boosted production to provide critical care equipment in response to COVID-19. Our exposure to these two sectors more than made up for COVID-19-related weakness in our Industrial Technology sector.

The recent expansion of our Vietnamese production facility was fundamental in mitigating the effects of Section 301 Tariffs in 2019 and it has once again proven its value in 2020. Our Vietnam facility allowed us to keep product flowing to our customers while our Chinese facility was not able to operate due to Chinese government imposed COVID-19 restrictions. Our diversified manufacturing footprint and supply chain resilience is recognised as an important strategic differentiator by our key customers, many of whom are concerned about USA/China trade relations and general supply chain resiliency.

The new Enterprise Resource Planning (ERP) system, deployed in certain sites in Q4 of 2019, is running well and we are making significant progress with production and operations efficiency. The deployment is in line with our vision of being the first-choice power solutions provider, delivering the ultimate experience to our customers and making XP Power a great place to work for our people.

COVID-19 - THE RESILIENCE OF OUR BUSINESS MODEL

We first experienced the impact of COVID-19 in January 2020, as Chinese authorities extended the Chinese Lunar New Year holiday and imposed travel and operational restrictions to control the virus. These measures caused a two-week delay to the recommencement of production at our Kunshan facility,

which reopened on 17 February 2020. We immediately implemented all the recommended prevention and control procedures in our Kunshan facility and deployed these same procedures in Vietnam to protect our people and keep the business operating safely.

The difficulties our people experienced in travelling back to work and the quarantine requirements also meant that we were operating at a reduced level of capacity into April 2020. During this period, demand from our customers supplying critical healthcare equipment to treat patients with the virus soared and we received an estimated £15-20 million of additional COVID-19-specific orders. Our customers in the Semiconductor Manufacturing Equipment sector were also experiencing strong demand. The combination of these factors created an urgent need for our products at a time when our capacity in China was severely restricted. Positively, Vietnam was not affected by such severe restrictions, so we were able to produce greater quantities from Vietnam during this difficult period, while accelerating the transfer of more products and materials from China to Vietnam to maintain supply to our customers.

During Q2 of 2020, the China supply chain was operating normally with reliable supply of components and other materials re-established. We expanded headcount in both production facilities and invested in additional capital equipment in Vietnam to increase production for Q3 of 2020 and beyond.

Our production facilities in North America and logistics facilities around the world have been able to operate normally with prevention controls in place in line with all public health advice.

We have continued to invest in the business through this difficult period and have achieved an excellent set of results without benefiting from any furlough scheme, reducing our workforce, or taking advantage of discretionary government COVID-19 financing or other optional financial concessions.

BALANCE SHEET AND LIQUIDITY

In response to COVID-19, we prioritised the preservation of cash and the availability of sufficient liquidity to manage potential short-term downside risks. As a result, we took the difficult decision to cancel the 2019 final dividend, which would have represented a cash outflow of £6.9 million in April 2020, and the first quarter dividend for 2020. As the Group's position became clearer, we resumed payment of dividends from the second quarter of 2020 but continued to manage our cash tightly through 2020, whilst still investing in working capital and our manufacturing facilities to meet the increased demand from customers.

We continue to have a strong balance sheet with circa. £91 million of available liquidity and net debt to EBITDA of 0.32 times at 31 December 2020.

MARKETPLACE

The Group delivered revenue growth of 17% to £233.3 million (2019: £199.9 million).

Order intake was up 20% on a reported basis to £258.0 million (2019: £214.9 million), which included £15–20 million of COVID-19 related orders. Orders and revenue for 2020 represent a full year, book-to-bill ratio of 1.11 (2019: 1.08). The Group had an order book of £124.1 million at 31 December 2020 (31 December 2019: £98.2 million), providing good visibility for 2021.

MARKETPLACE: SECTOR DYNAMICS

For the first time this year, we have consolidated the reporting of our Industrial and Technology sectors due to the overlap between the customer base.

Revenue from the Industrial Technology sector declined by 19% to £94.4 million (2019: £116.6 million) and represented 40% (2019: 58%) of overall revenue. Industrial Technology remains our largest sector, but it is very diversified with few of these customers making it into our top 30 customer list by revenue. Applications in this sector vary significantly and are principally driven by new and emerging electronic technologies and high-growth niches rather than traditional areas such as industrial machinery, automotive or

mining. Typical drivers for our revenue in this sector include 3D printing, analytical instruments, displays, industrial printing, renewable energy, robotics, smart grid, defence and test and measurement equipment. Industrial Technology has traditionally been a resilient, long term growth market. Anecdotal feedback and the financial results of customers in this sector suggests many suffered a drop in end demand due to COVID-19, particularly in Q2, and were short of other parts as conditions recovered, which meant their demand for power converters from XP Power also reduced. We would expect to see a recovery in this sector as conditions gradually return to normal. Our Distribution business, which represents 10% (2019: 11%) of our overall revenue and is exposed to a very diverse range of end markets, is also included within our Industrial Technology sector. Distribution has been a good growth market where we have been growing market share with existing and adding new distributors to expand geographic reach and increase our market penetration.

+20%

Order Intake

+40%

Adjusted Earnings per Share



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Revenue from Healthcare customers grew by 51% to £69.3 million (2019: £45.9 million) representing 30% of overall revenue (2019: 23%). The demand for Continuous Positive Airway Pressure (CPAP) machines, drug delivery systems, hospital beds, lung X-ray applications, patient monitors, specialist ultrasound, suction pumps, and various types of ventilators, increased significantly. By contrast, other applications such as dentistry, endoscopy, medical imaging, and robotic surgical tools showed declines compared to the prior year, as the sector focused on critical care applications for the treatment of patients with the virus.

Healthcare remains an attractive market for XP Power given long term growth demand dynamics, the safety critical nature of products, the breadth of our medical product range and high level of customer service focused on blue chip medical device manufacturers. Healthcare customers are demanding in terms of quality and reliability, making our value proposition very attractive to them. We provide mission critical power solutions for numerous applications in the healthcare arena and understand the many special requirements and regulatory approvals that a medical power solution must meet. In normal circumstances, Healthcare tends to be much less cyclical than the other sectors we address, which adds resilience to our diversified business model.

The Semiconductor Manufacturing Equipment sector remains an exciting and important area for XP Power with excellent long-term growth prospects. Revenue from these customers increased by 86% to £69.6 million (2019: £37.4 million). We believe we not only benefited from a cyclical recovery but also from

market share gains as a number of new programme wins, driven by technology advances, entered production. These included, in particular, reduced geometries in leading edge logic devices and increasing stacking in the 3D NAND market as producers moved from 64, to 96 and to 128 layers of memory and beyond, in a single device. The critical components in the smartphones, tablets, computers, and other electronic devices that drive our lives are made using extremely high technology semiconductor manufacturing tools and processes requiring numerous power conversion devices that XP Power can provide. Revenue from the Semiconductor Manufacturing Equipment sector customers represented 30% of overall revenue (2019: 19%). Our expansion into Radio Frequency ("RF") and high-voltage and high-power products, combined with our engineering services offering, has made us an attractive supplier to this market. The new higher power and higher voltage products we now have allow us to service considerably more of the opportunities in this sector, significantly expanding our addressable market, which is reflected in our robust revenue growth.

Despite the sector's historical cyclical nature, this market remains highly attractive due to its robust long term, structural growth drivers, which are being driven by the proliferation of applications including the Internet of Things (IoT), artificial intelligence (AI), autonomous vehicles, big data, and the roll out of 5G technology, which is still in its early stages. The latest generation of semiconductor logic and memory devices are becoming more capital intensive to manufacture as they become multi-layered, and as dimensions continue to shrink. This plays

to XP Power's strengths as one of the few companies in the world that can offer the whole spectrum of power and voltage required for semiconductor manufacture, and an ability to combine these into a complete power solution, making us a compelling partner to the manufacturers of these state-of-the-art tools.

MARKETPLACE: NORTH AMERICA

Our North America revenue was US\$188.1 million in 2020 (2019: US\$147.5 million), an increase of 28%. North America represented 63% of overall revenue (2019: 58%).

Order intake in North America was US\$209.8 million (2019: US\$161.7 million), an increase of 30%, resulting in a healthy book-to-bill ratio of 1.12.

MARKETPLACE: ASIA

Asia revenue was US\$26.8 million in 2020 (2019: US\$25.6 million), an increase of 5%, with strong growth in Healthcare and Semiconductor Manufacturing Equipment, offset by weakness in Industrial Technology. Our Asia business is benefiting from new design wins with the RF and high voltage/high power products added to the product portfolio through the Comdel and Glassman acquisitions. We expect these designs to contribute to revenue in 2021 and beyond. Prior to acquisition, these companies had minimal sales representation in Asia, which presents a significant future opportunity for the Group. Asia represented 9% of overall revenue (2019: 10%).

Order intake in Asia was US\$25.7 million (2019: US\$28.2 million), a decrease of 9%, resulting in a book-to-bill ratio of 0.96.

MARKETPLACE: EUROPE

Our European revenue grew by 1% to £65.0 million (2019: £64.4 million). While Europe benefited from significantly higher demand for critical healthcare products, it was also most impacted by the decline in the Industrial Technology sector due to COVID-19. Europe represented 28% of overall revenues (2019: 32%).

Order intake in Europe was £72.6 million (2019: £65.0 million), an increase of 12%, resulting in a strong book-to-bill ratio of 1.12.

OUR STRATEGY AND VALUE PROPOSITION

Our vision is to be the first-choice power solutions provider, delivering the ultimate experience for our customers and making XP Power a great place to work. Over time, we have gradually moved our product portfolio up the power and voltage scale to enhance our margins and provide our customers with a broader offering to solve their power problems. We have also increased our engineering resource to provide enhanced engineering services capabilities, so we are able to deliver a complete power solution to our key customers. We are now one of very few providers who can offer customers a complete spectrum of power and voltage capabilities and package several power converters into an overall solution customised to the customer's application. This makes us an extremely attractive partner to our key customers and is a key driver in our market share gains.

We have followed a consistent strategy that has enabled us to produce strong results over a sustained period. The fundamental essence of this strategy is targeting key accounts where we can add value and gain more of the customer's available business, combined with moving the product line up in power, voltage, and complexity. Although this strategy continues to remain appropriate and effective, we constantly challenge and refine it, as we have done again in 2020.

Our strategy can be summarised as follows:

- Develop a market-leading range of competitive products, organically and through selective acquisitions;
- Target accounts where we can add value;
- Increase penetration of those target accounts;
- Build a global end-to-end supply chain that balances high efficiency with market-leading customer responsiveness; and
- Lead our industry on environmental matters.

The challenges of managing the effects of COVID-19 have not diverted us from our strategic path and we continue to invest for the medium and long term. We continued to execute well against our strategy in the period, gaining further design wins with our newer product introductions, particularly in higher power applications, and our increased focus on engineering solutions, which provide more value to our customers. Acquisitions have been a key part of our growth strategy expanding our product portfolio and expanding the addressable market that we can sell into. The successful implementation of our strategy continues to drive market share gains and the strength of our new programme wins is encouraging despite the challenges of COVID-19. We continue to focus our own engineering resources on high-power applications and address the lower power applications through third-party products. It was for this reason that we took the decision in January 2020 to close our UK design centre in Fyfield, Essex, which was focused on low-power, low voltage products. Costs relating to the closure were £1.7 million, which have been treated as restructuring costs within specific items. These costs include the write down of capitalised product development work of £1.2 million in progress at the time of the site closure.

Our value proposition to customers is to solve their power problems, reduce their overall cost of design, manufacture and operation, and help them get their product to market as quickly as possible. We achieve this by providing excellent sales engineering support and producing new highly reliable products that are easy to design into the customer's system, consume less power, take up less space and reduce installation times.

Looking forward, whilst our strategy is clearly working and adding Shareholder value, it will continue to evolve building further organisational and supply chain agility to better serve our customers and further enhance execution. We will also increase our focus on people and development to ensure we are able to continue to grow our business.

MANUFACTURING

We completed the construction of an extension to the factory on our existing site in Vietnam in Q1 of 2019, adding, at a conservative estimate, more than US\$150 million of manufacturing capacity per year and increasing our total Asian manufacturing capacity to more than US\$350 million per year. The move into Vietnam, and the subsequent capacity expansion, have proved particularly timely given the continued deterioration in trade relations between China and the USA. The US Government implemented Section 301 tariffs at a rate of 10% from September 2018 and increased these to 25% in May 2019. Many of our competitors have Chinese-based manufacturing facilities, which puts them at a significant commercial disadvantage if they are selling into the USA. The ability to manufacture in Vietnam has become a compelling value proposition to our customers wherever they are located.

The outbreak of COVID-19 further underlined the benefits of our diversified manufacturing footprint as we were able to divert production from China to Vietnam when COVID-19 severely disrupted supply from our Chinese factory and supply chain in February and March 2020. Several of our customers have subsequently accelerated their qualification processes to transfer production from our China facility to our Vietnam facility to address the impact of Section 301 tariffs and COVID-19. This is a compelling option for our customers as they have become increasingly focused on the security and certainty of supply following COVID-19.

During 2020, we invested in additional equipment in Vietnam to expand capacity with a new surface mount line, and additional test and burn-in facilities, to meet demand from both increased business due to COVID-19 and the transfer of more products into Vietnam from China and our North American manufacturing facilities, as we seek to reduce costs.

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Vietnam is now qualified to produce a total of 2,616 different low-voltage products (2019: 2,080), demonstrating our progress with the transfer of production capabilities. In addition, the transfer of low-power, high-voltage DC-DC modules, previously manufactured in Minden, Nevada, was completed in 2020 and there are now 476 different high-voltage modules capable of being manufactured in Vietnam.

We expect this important strategic capability of having production facilities in both Vietnam and China to enable us to win more design slots with key customers. A number of customers have already informed us that they will no longer design-in products manufactured in China due to concerns over China/USA trade tensions.

Our end objective is to provide a resilient and flexible supply chain with the capability to manufacture the majority of products in both China and Vietnam to provide enhanced business continuity planning. We also have three manufacturing facilities in North America. We have a customer focused Engineering services facility in California, a site in New Jersey focused on high voltage products and an RF focused facility in Massachusetts. These facilities have continued to operate throughout 2020 except for short periods where decontamination occurred following COVID-19 cases. The demand for RF products has led to some supply shortages and we are increasing capacity to meet the demand levels.

We monitor market dynamics closely working through our supply partners and maintain a level of safety stocks of key components. Towards the end of the period, we began to see supply issues for certain components and increased safety stocks to manage through any future supply issues.

RESTRUCTURING OF LOW-POWER, HIGH-VOLTAGE MANUFACTURING AND TRANSFER TO VIETNAM

To take advantage of our expanded Vietnam capacity, competitive labour rates and excellent quality, in August 2019 we announced that we would be transferring the manufacture of all our low-power, high voltage DC-DC modules from our Nevada factory to Vietnam. We completed this transfer in 2020, closing the Minden

manufacturing facility in September. We expect that this will result in annualised cost savings of approximately £3 million. Approximately £1 million of these cost savings will be reinvested back into the business to expand and strengthen our new product introduction team. The enlarged team will facilitate further transfers of existing engineering services production from our facility in Sunnyvale, California, to Vietnam, as well as new standard products as they are introduced, resulting in additional future savings. We incurred £0.6 million in costs associated with the closure of the Minden site, which are included in specific items.

RESEARCH AND DEVELOPMENT

New products are fundamental to our revenue growth. The broader our product offering, the higher the probability that we will have a product that will work in the customer's application with or without a modification by our engineering team. By expanding into RF Power, and high voltage in 2017 and 2018, we estimate that our addressable market has increased from around US\$2.7 billion to approximately US\$4.7 billion.

The design-in cycles required by our customers to qualify the power converter into their equipment and to gain the necessary safety agency approvals are lengthy. Typically, we see a period of around 18 months, or even longer in Healthcare, from first identifying a customer opportunity to receiving the first production order. Revenue will then start to build from this point, often peaking a number of years later. The positive aspect of this characteristic is that our business has a strong annuity base where programmes typically last five to seven years. Another aspect of this model is that the many new products we have introduced over the last three years have yet to make a meaningful impact on our revenue, creating a significant benefit for future years.

We have continued to invest in research and development to further expand our portfolio of products and the size of our addressable market opportunity. We released 20 new product families in 2020 (2019: 32), and 17 of these can be classified as "Green XP Power" products having ultra-high efficiency and/or low standby power (2019: 27). We had a particularly high number of new products introductions in

2019 from our third-party design partners, particularly DC-DC converters.

We continue to move our product portfolio up the power and voltage scale and away from our more traditional low-power/low-voltage offering, to protect our margins and expand our addressable market. RF Power is a significant long-term opportunity and is a market that contains many interesting and significant niches beyond the Semiconductor Manufacturing Equipment sector including medical equipment, induction and dielectric heating, and industrial lasers. We have, therefore, directed more of our internal product development resources away from low-power/low-voltage applications and are supplementing the low-power area with more third-party products designed to our specifications and quality standards while expanding the RF development resources.

ENGINEERING SOLUTIONS

As well as expanding our product offering, we have continued to expand our engineering solutions groups, particularly in Asia and North America. As we continue to move our capabilities up to higher power and higher voltages, we are becoming an increasingly attractive partner for customers whose applications are becoming more and more demanding. These demands include not only power delivery and management, but also sophisticated connectivity, involving software and firmware that enable the customer's application to control the power solution and the power solution to communicate back to the application. As the world becomes more connected and the fourth industrial revolution gains traction, we expect this trend to gather pace. Customers place a high value on our engineering solutions capabilities, which differentiate us from many of our competitors, who focus only on providing standard products with little additional value added.

Our engineering solutions groups work closely with the customer's engineering teams to provide these customised solutions. Speed and proximity to the customer are critical as the power solution is often one of the last parts of the system to be designed, so is invariably one of the gating items to get the end product to market. This is an area where XP Power adds significant value to its customers, and we are seeing increasing demand for these services.

We are one of the few power companies that can offer its customers a full range of solutions across the voltage and power spectrum and provide the engineering services to package these together to provide a complete power solution, including communication with the customers' application through firmware. This is a powerful proposition that makes us an ideal partner for many customers and greatly expands our addressable market.

SUSTAINABILITY

We are acutely aware of the increasing concerns our people, customers, suppliers, governments, and Shareholders have around climate change and sustainability issues in general. We consider that we have taken a lead in our industry in developing and promoting high-efficiency products, which consume less energy and, therefore, help reduce carbon emissions over their lifetime in use. We established a Sustainability Committee as early as 2009 and set ourselves the bold goal of becoming the leader in our industry regarding sustainability matters. We have consistently included sustainability factors into our decision making and have adopted environmentally responsible practices in our facilities. In particular, we believe that our Vietnamese production facility is the most environmentally friendly in our industry with its efficient building envelope, building management system, water recycling and solar panel array.

We determined many years ago that one of the biggest impacts we could have on the environment was designing and promoting "XP Green Power" products, which consume and, therefore, waste less energy over their operational lifetimes. This results in significant and ongoing reductions in CO₂ emissions generated by our customers' equipment. "XP Green Power" products generated revenues of £52.7 million in 2020 (2019: £43.2 million), representing 23% (2019: 22%) of total revenue.

In 2020, we engaged with our employees and key customers, and suppliers, to better understand their material areas of focus and concern regarding sustainability matters. We have also better understood the priorities of our Shareholders. The results of this engagement allowed us to build the topics that are most important to our stakeholders into our sustainability strategy. We were encouraged to discover that the most material interests of our stakeholders align very closely with those of executive management. These topics include product responsibility, attracting and retaining talent, health and safety (incorporating occupational), employee welfare, reducing emissions, diversity and inclusion.

We regard the continuing emphasis and concern over climate change as a positive for our business as our customers have embraced our high-efficiency "XP Green Power" products. These products are not

only significantly more environmentally friendly due to their ongoing reduced carbon emissions, but are inherently more reliable, making them a compelling economic proposition. XP Power is committed to continuing to lead the industry in this area. We also believe that legislation on the efficiency requirements for power conversion will become more and more stringent and the standards currently in place for higher volume consumer applications, such as external power supplies, will be extended to industrial and healthcare applications where we will be well positioned to address this customer need. Concerns over climate change should lead to an increasing emphasis by our customers on efficiency and more revenue opportunities to power renewable energy systems and controllers.

We have set Company targets to reduce CO₂ emissions intensity by a minimum of 3% per annum over the short and medium term and an aspiration to achieve carbon neutrality by 2040. During 2021 we will develop further strategies to bring this date forward.

The Strategic Report on pages 18–83 has been reviewed and approved by the Board.

Gavin Griggs
Chief Executive Officer

2 March 2021

