3 March 2020

XP Power Limited
(“XP Power” or “the Group” or the “Company”)

Annual Results for the year ended 31 December 2019

XP Power, one of the world's leading developers and manufacturers of critical power control solutions for the Industrial Electronics, Healthcare, Semiconductor Equipment Manufacturing and Technology markets, today announces its annual results for the year ended 31 December 2019.

	2019	2018	Change
Order intake	**£214.9m**	£198.4m	+8%
Revenue	**£199.9m**	£195.1m	+2%
Gross margin	**45.1%**	47.3%	-220bps
Final dividend per share	**36.0p**	33.0p	+9%
Total dividend per share	**91.0p**	85.0p	+7%
Adjusted			
Adjusted operating profit[1]	**£35.9m**	£42.9m	-16%
Adjusted profit before tax[1]	**£33.2m**	£41.2m	-19%
Adjusted diluted earnings per share[2]	**145.5p**	172.8p	-16%
Free cash flow[3]	**£26.2m**	£11.1m	+136%
Reported			
Operating profit	**£26.7m**	£39.3m	-32%
Profit before tax	**£24.0m**	£37.6m	-36%
Diluted earnings per share	**105.0p**	154.9p	-32%
Operating cash flow	**£46.2m**	£26.7m	+73%
Net debt	**£41.3m**	£52.0m	-21%

- Robust order intake and revenues in Technology, Industrial Electronics and Healthcare sectors offset cyclical weakness in the Semiconductor Equipment Manufacturing sector.
- Order intake of £214.9 million (2018: £198.4 million) – an increase of 8% (4% in constant currency or 2% on a like-for-like basis).
- Full year revenues increased by 2% (2% decline in constant currency and 4% decline on a like-for-like basis) to £199.9 million (2018: £195.1 million) reflecting the cyclical weakness in the Semiconductor Equipment Manufacturing sector and short-term delay to shipments during our Enterprise Resource Planning (“ERP”) implementation in the fourth quarter.
- Gross margin reduced to 45.1% (2018: 47.3%) reflecting a combination of the impact of Section 301 trade tariffs imposed by the USA on goods imported from China and adverse product and geographic mix.
- Free cash flow up 136% to £26.2 million (2018: £11.1 million) as a result of improved working capital management, particularly around inventory.

- Expansion of Vietnamese manufacturing facility completed in Q1 2019 more than doubling our Vietnamese capacity. The Group now has the capability to manufacture more than 2,000 different products in Vietnam, up from less than 300 at the beginning of 2018.
- Good progress made with restructuring of low-power, high-voltage DC-DC manufacturing, with transfer of production from Nevada to Vietnam, resulting in annual savings of circa £4.0 million from July 2020.
- COVID-19 virus introduces caution and uncertainty, but we entered 2020 on the back of strong fourth quarter orders across all sectors, signs of a recovery in the Semiconductor Equipment Manufacturing sector, and Section 301 tariffs now being recovered from US customers.

James Peters, Chairman, commented:

"We delivered a resilient performance in 2019 despite facing a number of challenges. While growth in our Healthcare, Industrial Electronics and Technology markets remained robust, this was offset by a cyclical slowdown in the Semiconductor Equipment Manufacturing market and pressure on gross margins, resulting from the increase in US trade tariffs on Chinese manufactured goods and changes in product mix. Despite these headwinds we grew order intake and revenues over prior years, continued to win new designs and made good strategic progress."

"Trading conditions in the early months of 2020 give grounds for optimism. Signs of a recovery in the Semiconductor Equipment Manufacturing sector are reflected in our strong order intake in the fourth quarter of 2019 and are finding good opportunities for the products brought into the Group portfolio through the acquisitions of Comdel and Glassman. We also expect benefits from the transfer of production from Minden to Vietnam in the second half of 2020. However, we are affected by certain external events, such as the impact the outbreak of the COVID-19 virus had on our supply chain. This introduces some caution into our outlook, but we remain encouraged by our healthy order book."

[1]*Adjusted for acquisition costs of £0.9 million (2018: £0.6 million), amortisation of intangible assets due to business combination of £3.2 million (2018: £2.8 million), legal costs of £1.9 million (2018: £Nil million), ERP implementation costs of £2.2 million (2018: £0.2 million), and restructuring costs of £1.0 million (2018: £Nil million).*
[2]*Adjusted for items in note 1 and non-recurring tax benefits of £1.3 million (2018: £0.1 million).*
[3]*Free cash flow before dividends, acquisition related costs and net proceeds from/repayment of borrowings.*

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XP Power designs and manufactures power controllers, the essential hardware component in every piece of electrical equipment that converts power from the electricity grid into the right form for equipment to function.

XP Power typically designs power control solutions into the end products of major blue-chip OEMs, with a focus on the Industrial Electronics (circa 45% of sales), Semiconductor Equipment Manufacturing (circa 19% of sales), Healthcare (circa 23% sales) and Technology (circa 13% of sales) sectors. Once designed into a programme, XP Power has a revenue annuity over the life cycle of the customer's product which is typically 5 to 7 years depending on the industry sector.

XP Power has invested in research and development and its own manufacturing facilities in China and Vietnam, to develop a range of tailored products based on its own intellectual property that provide its customers with significantly improved functionality and efficiency.

Headquartered in Singapore and listed on the Main Market of the London Stock Exchange since 2000, XP Power serves a global blue-chip customer base from 27 locations in Europe, North America and Asia.

For further information, please visit xppowerplc.com

Chairman’s Statement

Our Progress in 2019
2019 was a challenging year and, despite growing both order intake and revenues over prior years, adjusted earnings per share declined for the first time since 2012. External factors including a cyclical decline in the Semiconductor Equipment Manufacturing sector and margin pressure, due to component price inflation and currency fluctuations, combined with the revenue impact, in our fourth quarter, of some short-term issues with the implementation of a new ERP system to reduce earnings. Despite these headwinds we continued to win new designs and made good strategic progress.

Our strong cash generation and confidence in the Group’s long-term prospects have enabled us to increase dividends consistently since listing in 2000. We are proposing a final dividend of 36p (2018: 33p) which brings the 2019 dividend per share to 91p, a 7% increase over 2018. The compound average growth rate of our dividend has been 8% over the last five years, demonstrating the Board’s commitment to its progressive dividend policy.

Strategy Review
The Group’s strategy has remained consistent for a significant period. It is built on the development of a market leading range of competitive products, either organically or by acquisition, to enable further penetration of existing target accounts where we still have relatively low market shares, combined with a drive to move our product portfolio up the power and voltage scale. We are one of a few companies in the world with a product portfolio across the power and voltage spectrum and can use our engineering services skills to combine these capabilities and provide customers with a complete power solution.

During the year the Board completed its annual review of Group strategy. This determined that our strategy continued to work effectively to achieve long-term earnings growth, market share gains in our target sectors and customers, and our brand strength, as demonstrated by the consistent revenue growth generated in all sectors except Semiconductor Equipment Manufacturing, which was impacted in 2019 by cyclical weakness. We are confident we can continue to develop market leading products and encouraged by the potential of our product and sales pipeline to continue to deliver organic growth. Following a refinancing in 2019, we have sufficient committed funds to support targeted acquisitions. We continue to make improvements to our systems and processes, product life cycle management and supply chain to support the sales growth we are generating, as well as bringing new talent into the business to support our growth.

Our Board
Pauline Lafferty joined the Board on 3 December 2019 as a Non-Executive Director. Pauline brings a wealth of international business experience to the Group and significant expertise in strategic human resources. She is already making a considerable contribution to the Board.

Mike Laver, Executive Director responsible for Corporate Development, retired from the Board at the Annual General Meeting on 16 April 2019. I would like to thank Mike for his significant contribution to the development of the Group over many years.

Our People and Our Values
The success of any organisation is dependent on its culture and the people and talent within it. The Board worked closely with the Executive Leadership Team during 2019 to ensure the Group is identifying and developing its key people and bringing new talent and capabilities into the business to ensure that it can continue to grow and take market share. We have expanded our engineering capability significantly in the last two years and are taking steps to bring more talent into our Supply Chain team during 2020.

In addition to our core values of Integrity, Knowledge, Flexibility, Speed and Customer Focus, a commitment to Health and Safety remains an essential part of our DNA and underpin the value proposition we offer our customers. We have conducted annual employee engagement surveys since 2015 and I am pleased that we have shown strong scores each time, having taken action to address any issues arising from the results of the prior year. One of the main findings from these employee surveys is that our employees are proud to be part of our Company, highlighting the significant engagement we have between the business and our people. The survey score is one of our non-financial key performance indicators.

Sustainability

We are committed to the long-term sustainable success of XP Power in all its aspects. We have helped lead the industry in developing "green" products which consume less energy while powering the application or in standby mode. These products reduce CO_2 emissions year on year and are by far the biggest positive impact we can make on the environment.

Sustainability also resonates with our employees. We have adopted energy and water saving practices throughout the Group and have a network of passionate environmental representatives who promote best practices and raise awareness of sustainability issues across our global workforce.

Outlook

We delivered a resilient performance in 2019 despite facing a number of challenges. While growth in our Healthcare, Industrial Electronics and Technology markets remained robust, this was offset by a cyclical slowdown in the Semiconductor Equipment Manufacturing market and pressure on gross margins, resulting from the increase in US trade tariffs on Chinese manufactured goods and changes in product mix. Despite these headwinds we grew order intake and revenues over prior years, continued to win new designs and made good strategic progress.

Trading conditions in the early months of 2020 give grounds for optimism. Signs of a recovery in the Semiconductor Equipment Manufacturing sector are reflected in our strong order intake in the fourth quarter of 2019 and are finding good opportunities for the products brought into the Group portfolio through the acquisitions of Comdel and Glassman. We also expect benefits from the transfer of production from Minden to Vietnam in the second half of 2020. However, we are affected by certain external events, such as the impact the outbreak of the COVID-19 virus had on our supply chain. This introduces some caution into our outlook, but we remain encouraged by our healthy order book.

James Peters
Chairman

Performance: Operational Review

Review of our year

The 2019 financial year presented several challenges to our business. A combination of cyclical weakness in the Semiconductor Equipment Manufacturing sector, which had begun in 2018, the trade dispute between China and the USA, the knock-on impact of the component price inflation we experienced in 2018, fluctuating Sterling to US Dollar exchange rates and some destocking in our distribution channels, combined to produce tougher business conditions. Against this backdrop we continued to make good progress with the execution of our strategy, putting the business on a stronger footing to grow in the future by continuing to improve our product life cycle management procedures and upgrading our processes and systems in our sales organisations in Asia, Europe and North America.

We exited 2019 having delivered an ERP implementation, with Section 301 tariffs now being recovered from customers and a strong order book as the Semiconductor Equipment Manufacturing sector showed signs of recovery in the fourth quarter. We are making significant progress, in line with our vision of being the first-choice power solutions provider, delivering the ultimate experience to our customers and our people.

Our design wins were strong in 2019, boding well for future market share and revenue growth. We continued to move our product portfolio to higher power and technically more complex applications, and to expand the number of design wins with higher engineering solutions content.

We are one of the few 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 which makes us an ideal partner for many of our target customers and greatly expands our addressable market.

Marketplace

Demand and order intake in the Industrial Electronics, Healthcare and Technology sectors was robust throughout the year. In the Semiconductor Equipment Manufacturing sector, the cyclical weakness which had started in the second half of 2018 gathered pace in the first part of 2019, before starting to recover in the final quarter of the year.

Group order intake was up 8% on a reported basis to £214.9 million (2018: £198.4 million). In constant currency order intake increased by 4% and on a like-for-like basis, excluding Glassman, which was acquired at the end of May 2018, order intake growth was 2%. The resulting book-to-bill ratio was 1.08.

Overall revenues grew by 2% to £199.9 million (2018: £195.1 million) on a reported basis. Revenues were reduced by approximately £5 million due to the short-term issue with the implementation of a new ERP system in the fourth quarter of 2019, as discussed later in this review. In constant currency revenues reduced by 2% and by 4% on a like-for-like basis, excluding the acquisition of Glassman completed in May 2018.

The average exchange rate for US Dollar to Sterling was 1.28 in 2019 versus 1.34 in 2018, representing a 4% weakening. We discuss the impact of foreign exchange volatility in more detail in our Financial Review.

Marketplace: Sector Dynamics

Revenues from Industrial Electronics customers grew by 7% to £89.2 million (2018: £83.7 million) representing 45% (2018: 43%) of overall revenues. Although Industrial Electronics is our largest sector, it is very diversified with few of these customers making it into our top 30 customer list. Applications in this sector vary significantly and are principally driven by new and emerging electronic technologies and high growth niches rather than traditional areas like industrial machinery, automotive or mining. Typical drivers for our revenues in this sector include renewable energy, analytical instruments, test and measurement equipment, displays, 3D printing, smart grid and industrial printing. Our Distribution business, which represents 11% of our overall business and is exposed to a very diverse range of end markets, is also included within the Industrial Electronics sector.

The Semiconductor Equipment Manufacturing sector remains an important area for XP Power. Revenue from these customers reduced by 21% to £37.4 million (2018: £47.4 million) as a cyclical decline took hold in the latter part of 2018, before reaching a low point in the first half of 2019. We began to see signs of a recovery in this sector in our order intake in the fourth quarter of 2019. Revenue from Semiconductor Equipment Manufacturing sector customers represented 19% of overall revenue (2018: 24%). Our expansion into 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 we see in this sector, significantly expanding our addressable market.

Despite the sector's cyclicality this market remains highly attractive due to its robust fundamentals, which are being driven by the proliferation of applications involving the internet of things (IoT), artificial intelligence (AI), autonomous vehicles, big data and the roll out of 5G technology. The latest generations of semiconductor logic and memory devices are becoming more capital intensive to manufacture as they become multilayer, and as dimensions continue to shrink. This plays to XP Power's strengths as one of few companies in the world that can offer the whole spectrum of power and voltage required for Semiconductor Equipment Manufacturing, making us a compelling partner to the manufacturers of these state-of-the-art tools.

Revenue from Healthcare customers grew by 5% to £45.9 million (2018: £43.6 million) representing 23% of overall revenues (2018: 22%). Healthcare remains another attractive market for XP Power given the breadth of our medical product range and high level of customer service. 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, from patient contact applications such as robotic surgery, to diagnostic equipment such as MRI and ultrasound, through to ventilators and laboratory equipment. We also understand the many special requirements and regulatory approvals that a medical power solution has to meet. Healthcare tends to be much less cyclical than the other sectors we address which adds resilience to our diversified business model.

Revenue from Technology customers grew 34% to £27.4 million (2018: £20.4 million) representing 13% of overall revenues (2018: 11%). The strong growth achieved in 2019 was partly due to a large programme for test equipment in Asia which had been dormant for several years. Other typical applications in technology include areas such as broadcast, high-end communications such as satellite and telecom base stations, and high-end computing. These programmes are often quite large but generally have much shorter lifetimes than the seven to eight years which are typical in the other market sectors we serve.

Marketplace: North America

North America revenue was US$147.5 million in 2019 (2018: US$159.5 million), a decrease of 8%. The decrease was 12% after excluding US$14.8 million of revenue from the Glassman business (2018: US$8.8 million) which was acquired at the end of May 2018. North America represented 58% of overall revenue (2018: 61%).

North America was adversely affected by the cyclical decline in the Semiconductor Equipment Manufacturing sector which began in 2018 and persisted throughout the majority of 2019, as discussed above. We started to see signs of a recovery in the Semiconductor Equipment Manufacturing sector in the order intake in the last quarter of 2019, which appears to be predominately driven by increased demand for next generation technology tools and reduction in excess customer inventory. Notwithstanding the disappointing performance in the Semiconductor Equipment Manufacturing sector, the Industrial Electronics, Healthcare and Technology sectors all grew year on year.

Order intake in North America was US$161.7 million (2018: US$158.1 million), an increase of 2% resulting in a book-to-bill ratio of 1.10. After excluding the order intake from the Glassman acquisition of US$14.0 million (2018: US$9.4 million), orders reduced by 1%.

The Section 301 tariffs imposed by the US government on Chinese sourced products had an adverse impact on XP Power. From September 2018 a 10% tariff was imposed on power converters imported from China, where the Group has a manufacturing facility. In May 2019 the tariff was increased to 25%. The introduction of these tariffs necessitated the implementation of a process to recover this from customers to avoid a severe impact on our margins in North America. We recovered more than 90% of the Section 301 tariffs from customers in 2019. Whilst this shortfall is almost neutral to our reported absolute gross margin, it does reduce our reported gross margin percentage by approximately 60 basis points.

Our manufacturing facility in Vietnam presented an opportunity for the Group to shift production away from China to a location where the new tariffs did not apply. We had already started shifting production of our lower power products from China to Vietnam and the introduction of the Section 301 tariffs has caused us to accelerate this process. We are now able to produce over 2,000 different products in our Vietnam facility and the majority of these have been transferred from our China facility. Many customers have now qualified our Vietnam facility so they can begin to take product from Vietnam rather than China. We believe that our established production capabilities in Vietnam give us a significant advantage against competitors who primarily have a China only manufacturing footprint.

Marketplace: Europe
Our European business grew revenue by 5% to £64.4 million (2018: £61.1 million) despite weakness in continental Europe. Growth was driven by Industrial Electronics and Healthcare, with Technology revenue being in line year on year. The European Industrial Electronics business remains highly fragmented, and comprises of many customers and numerous applications, but growth is being driven by areas such as analytical instruments, renewable energy, industrial printing and other niches rather than traditional industrial manufacturing equipment. Semiconductor Equipment Manufacturing was the only sector to decline but this makes up less than 1% of our European business. Europe represented 32% of overall revenues (2018: 31%).

Order intake in Europe was £65.0 million (2018: £64.6 million), an increase of 0.6%, resulting in a book-to-bill ratio of 1.01.

Marketplace: Asia
Asia revenues were US$25.6 million in 2019 (2018: US$19.9 million), an increase of 29%, with the strongest growth in Technology which benefited from a large customer programme for burn-in test equipment that was reinvigorated. Our Asia business is also benefitting from the RF and high-voltage high-power products brought into the product portfolio as a result of the Comdel and Glassman acquisitions. Prior to acquisition, these companies had minimal sales representation in Asia which presents a significant future opportunity for the Group. Asia represented 10% of overall revenues (2018: 8%).

Order intake in Asia was US$28.2 million (2018: US$21.4 million), an increase of 32%, resulting in a book-to-bill ratio of 1.10.

Supply Chain
As previously announced, during the first half of 2018 we started to see a significant tightening of the supply chain for certain electronic components, which resulted in increased lead times, in some cases moving from 12 to 52 weeks, and component cost inflation. In response, we went into the market to increase our safety inventories of critical components, at prices beyond our standard costs, in order to ensure we could continue to meet our lead times to customers. The higher prices we had to pay for components were a drag on gross margins in the second half of 2018 and in 2019. As expected, we have seen an unwinding of this inventory position in 2019 which has resulted in a reduction in working capital in the period.

We remain vigilant and are keeping supply chain dynamics under close review given the advent of the COVID-19 outbreak in China, as we are now entering a period where demand for the next generation of semiconductor manufacturing equipment appears to be rising. We have already started to see the first signs of lengthening lead times for certain components such as multi-layer ceramic capacitors, purportedly driven by the roll out of 5G technology. Power semiconductor devices have also continued to be on long lead times throughout 2018 and 2019. We will continue to proactively manage our inventory to ensure continuity of supply but expect the levels to reduce further in 2020.

COVID-19 Virus
The situation regarding the COVID-19 virus outbreak in Wuhan, China in mid-December has been widely reported. We send our heartfelt thoughts to everyone affected by the virus outbreak, particularly our colleagues at our Kunshan manufacturing site, who we are providing with all necessary support. Our first priority is to ensure the safety of our people and we have taken epidemic prevention and control measures at both our Kunshan and Vietnam manufacturing facilities.

The Chinese authorities extended the Chinese Lunar New Year holiday and imposed a number of travel restrictions and operational restrictions on companies. These measures caused a two-week delay to the recommencement of production at our Kunshan facility, which re-opened on 17 February 2020. The difficulties our people have experienced in travelling back to work and the self-quarantine requirements also mean that we have been operating at a reduced level of capacity and do not expect to be operating at full capacity until mid-March at the earliest. Our local supply chain has experienced similar issues and we now have a backlog of production orders to catch up. There will be an inevitable slippage of revenues from the first quarter of 2020, but it is too early to determine whether this will have a material effect on our first half performance and to what extent the worldwide economic conditions will be affected by this situation.

Our Vietnamese facility recommenced production following the Lunar New Year holiday as planned on 1 February 2020 and is operating normally. We have been taking mitigating action by accelerating the transfer of more products and materials from China to Vietnam to maintain the supply of products to our customers.

Adapting to the market and the competition
Over the last two decades XP Power has evolved from a specialist distributor of power conversion products to a designer, and then manufacturer, of power solutions for the Industrial Electronics, Healthcare, Semiconductor Equipment Manufacturing and Technology markets. Our product portfolio has moved up the power and voltage spectrum, and now also includes RF power conversion products.

We continue to perform well against our traditional established competition. Our broad range of standard products, now augmented by recent acquisitions, and excellent customer service, delivered by the largest direct sales force in our industry, is an attractive customer proposition. We are now one of very few power solutions providers who can supply our target customers with a portfolio of products from low to high-power and low to high voltage, including RF power. This capability, when combined with our engineering services offering, which can take standard products and tailor them to provide complete plug and play power systems, often incorporating custom firmware communications, makes us a compelling business partner as the equipment we power gets more sophisticated and connected.

Our low-cost Asian competitors continue to be competitive for low-power/low-complexity products without demanding or critical applications and it is straightforward for customers to source low-cost/low-power products directly through this channel. However, this market is not growing, with revenue from these products remaining stable. By contrast, engineering solutions of the type provided by XP Power are not easily managed remotely and work most effectively when situated close to the customer, so design discussions and design reviews can take place face-to-face. We continue to add significant value to our customers as we expand our engineering service groups across the globe and customers demand more connectivity and digital control of the power solutions that power their applications. These trends are driving our order and revenue growth.

We are building a broad and compelling product offering supported by an excellent engineering services capability which makes us an increasingly attractive partner for leading companies in the Industrial Electronics, Healthcare, Semiconductor Equipment Manufacturing and Technology sectors to choose to power their mission-critical applications.

Strategic Progress

We have followed a consistent strategy which has enabled us to produce strong results over a sustained period of time. The fundamental essence of this strategy is targeting key accounts where we can add value and gain more of the available business in those accounts, 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 2019.

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 vertical penetration of 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.

We continue to make significant progress against each of these strategic objectives. We believe we have the broadest, most up-to-date portfolio of products, many of which are class-leading in terms of efficiency and low stand-by power. We continue to move our product portfolio up in power and voltage to expand our addressable market and protect our margins. We are also enhancing our proposition to our target customers by expanding our engineering services capabilities. This allows us to combine our products into one complete power solution to power a customer's application.

The executive leadership team undertook an in-depth critical review of our strategy during 2019 which was presented and challenged by the Board. The key outcomes of this review were:

- Upgrade key talent so we have the capabilities to profitably scale the business, particularly in developing an end to end global supply chain;
- Ensure product development resources are focused on the appropriate product segments. This is resulting in more internal resources being focused on higher power products and away from the low-voltage/low-complexity market which we can address via third parties. As a result of this, we have closed our low-voltage design centre in Fyfield in the UK;
- Enhance product life cycle management from capture of requirements, through concept and feasibility, development, production and eventually end of life; and
- Upgrade systems and processes using our new ERP system as a platform for robust control and excellent customer service and responsiveness.

Task Force for Climate Related Financial Disclosures

We are cognisant of the increasing concerns our people, customers, suppliers and shareholders have around climate change. 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 the lifetime of the equipment that our products power. The Task Force for Climate Related Financial Disclosures ("TCFD") encourages us to provide financial guidance to investors regarding the risks and opportunities that climate change might have on our business.

In general, 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 generated revenues of £43.2 million in 2019 (2018: £42.1 million) representing 22% of total revenue. The Company is committed to leading the industry in this area. We believe that legislation regarding 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 spread to industrial and healthcare applications where we will be well positioned. Concerns over climate change should lead to an increasing emphasis by our customers of efficiency and more revenue opportunities to power renewable energy systems and controllers – smart grid being a prime example where we have already been successful.

Our geographic footprint is diverse, and we do not generally operate in locations that could be exposed to sea level rises or are particularly vulnerable to dramatic swings in weather patterns. We are continually reviewing the potential primary impacts on the business. The secondary effects of measures to combat climate change could also impact the Group. However, if more stringent legislation regarding power conversion efficiency were introduced, we believe we are well positioned to take advantage of such changes.

New ERP System

Efficient and robust systems are essential for us to manage an international business and supply chain with a highly diverse customer base. The Group had operated a global Customer Relationship Management system across its businesses, which allowed it to collaborate, share information and provide efficient and effective customer service. In our 2017 Annual Report, we announced a project to implement the latest version of SAP's ERP software across our entire global supply chain. Priority would be given to our sales companies in Asia, Europe and North America, which were already running an older version of SAP, with our China and Vietnam manufacturing facilities and our recent acquisitions to follow.

The implementation of the new system will have significant benefits in terms of factory planning and customer responsiveness, and it will give us significant operational advantages, with our factory systems running on the same platform as our sales companies. Further gains will be realised when we migrate the acquired Comdel and Glassman businesses to the new platform.

We transitioned to the new SAP ERP system in mid-October 2019. However, during the system migration and in the first few weeks of operation as the teams across the Group went up the learning curve with the new processes, we experienced some short-term disruption to the implementation which led to shipments temporarily falling behind expected run rates. This resulted in approximately £5 million of scheduled order backlog moving from the fourth quarter of 2019 into 2020.

We are confident that the new SAP ERP system will deliver significant long-term benefits to the Group's ability to run its global business and supply chain.

In 2019, the Group capitalised £3.4 million (2018: £1.1 million) of development costs and incurred £2.2 million (2018: £0.2 million) of other project related costs in respect of this project. In 2020, we expect to capitalise a further £2.5-3.0 million and the other project related costs will be circa £1.0 million.

Manufacturing

In October 2017, we commenced construction of a second manufacturing facility in Vietnam on our existing site near Ho Chi Minh City. Construction was completed in early 2019. Our existing manufacturing facility in China and our first Vietnam facility have an annual revenue capacity of US$170 million. Vietnam II conservatively adds an additional US$130 million of capacity, bringing our total Asian manufacturing capacity up to US$300 million per annum.

This additional capacity is necessary to accommodate our growth trajectory. It also gives us the opportunity to transfer production from China to Vietnam, thereby saving the costs of the Section 301 Tariffs currently imposed on Chinese goods by the USA authorities. We have transferred over 2,000 different products to Vietnam from China and are also well advanced in transferring production of our high-voltage/low-power DC-DC modules from Minden, Nevada to Vietnam. We believe this will give us a cost advantage over many of our competitors with Chinese based manufacturing.

Our end objective is to have the flexibility to be able to build all products in either China or Vietnam to provide flexibility and robust business continuity planning.

Restructuring of Low-power, High-voltage Manufacturing and Transfer to Vietnam

In order 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 to our Vietnamese facility. Our manufacturing facility in Minden, Nevada will close by June 2020. We expect that this will result in annualised cost savings of approximately £4.0 million. Approximately £1-2 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 expect to incur approximately £1-2 million in costs associated with the full closure of the Minden site over the next 12 months which will be excluded from adjusted results.

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 which 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.

Research and Development
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 32 new product families in 2019 (2018: 27) and 25 of these can be classified as "Green XP Power" products having ultra-high efficiency and/or low standby power (2018: 20).

We continue to move our product portfolio up in power and voltage range and away from our traditional low-power/low-voltage offering, to protect our margins and expand our addressable market. As part of this process we took the decision to close our design centre in Fyfield, UK which was focused on low-power, low-voltage product. RF power is a significant long-term opportunity and is a market which contains many interesting and significant niches. We have therefore directed more of our internal product development resources away from low-power/low-voltage 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.

Duncan Penny
Chief Executive Officer

Performance: Financial Review

XP Power delivered a resilient performance in 2019. The business generated strong free cash flow due to good working capital management and continues to have a robust financial position.

Statutory Results
On a statutory basis, revenue was £199.9 million (2018: £195.1 million), representing growth of 2%. Operating profit was £26.7 million (2018: £39.3 million), a decrease of 32% over the prior year, with operating margin at 13.4% (2018: 20.1%). Net finance costs were £2.7 million (2018: £1.7 million) resulting in profit before tax of £24.0 million (2018: £37.6 million) and an income tax expense of £3.2 million (2018: £7.2 million), equivalent to an effective tax rate of 13% (2018: 19%). Basic earnings per share were 107.0 pence (2018: 157.8 pence), a decrease of 32%.

Adjusted Results
Throughout this results announcement, adjusted and other alternative performance measures are used to describe the Group's performance. These are not recognised under International Financial Reporting Standards (IFRS) or other generally accepted accounting principles (GAAP).

When reviewing XP Power's performance, the Board and management team focus in particular on adjusted results rather than statutory results. There are a number of items that are included in statutory results, but which are considered to be one-off in nature or not representative of the Group's performance and which are excluded from adjusted results. The tables on page 21 show the full list of adjustments between statutory operating profit and adjusted operating profit, between statutory profit before tax and adjusted profit before tax, as well as between statutory profit after tax and adjusted profit after tax at Group level for both 2019 and 2018.

Revenue Performance
The Group generated revenue growth of 2% during the year on a reported basis. Revenues were reduced by approximately £5 million due to the short-term issue with the implementation of a new ERP system in the fourth quarter of 2019, as discussed elsewhere in this review. In constant currency revenues reduced by 2% and by 4% on a like-for-like basis, excluding the acquisition of Glassman.

The Group's revenue performance was impacted by the cyclical downturn in the Semiconductor Equipment Manufacturing sector, with revenue in this sector declining by 21% to £37.4 million (2018: £47.4 million). This was offset by growth all other sectors, with the Technology sector growing 34% to £27.4 million (2018: £20.4 million), the Industrial Electronics sector, increasing by 7% to £89.2 million (2018: £83.7 million) and the Healthcare sector, which grew 6% to £45.9 million (2018: £43.6 million).

Our North American region was impacted by the Semiconductor Equipment Manufacturing sector slowdown, which contributed to revenue declining by 8% to US$147.5 million from US$159.5 million. On a like-for-like basis, after excluding Glassman revenue of US$14.8 million North America decreased by 12%. Europe delivered growth of 5% to £64.4 million (2018: £61.1 million), driven by a good performance in the Nordics, up 22% and Central Europe, up 9%. Asia revenue grew by 29% to US$25.6 million (2018: US$19.9 million).

Order intake was up 8% on a reported basis to £214.9 million (2018: £198.4 million). Orders and revenue for 2019 represent a full year, book-to-bill ratio of 1.08 (2018: 1.02).

Gross Profitability
Gross margin decreased to 45.1% (2018: 47.3%), largely due to the impact of the Section 301 tariffs imposed on Chinese goods imported into the USA, the knock-on impact of the component price inflation experienced in 2018 and product mix.

Adjusted Operating Expenses and Margins
The Group continued to invest in the business, which resulted in adjusted operating expenses increasing by 11% to £54.2 million (8% in constant currency and 4% on an organic constant currency basis). Investing in our people remains a focus and resulted in payroll and staff costs

increasing by 20%. Headcount, excluding factories, increased by 5% compared to 2018 as we invested in our engineering and sales capabilities. Non-cash share-based payment charges amounted to £0.7 million (2018: £0.8 million) and related to a grant to senior management under the Long-Term Incentive Scheme during the year. Adjusted operating margin decreased to 18.0% (2018: 22.0%) due to the lower revenues and gross margin in 2019 combined with the annualization of increased investments in 2018.

Foreign Exchange

The Group reports its results in Sterling, but the US Dollar continues to be our principal trading currency, with approximately 83% (2018: 84%) of our revenues denominated in US Dollars. The average Sterling to US Dollar exchange rate decreased by 4%, from 1.34 to 1.28. The Sterling to US Dollar exchange rate saw large movements during the year but ultimately the net impact on the Group's 2019 results was not significant.

Finance Cost

Net finance cost increased to £2.7 million (2018: £1.7 million) due to increased average borrowings following the acquisition of Glassman in May 2018.

Interest cover (EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility) was 17 times (2018: 32 times) which is well in excess of the four times minimum required in our banking covenants. Net debt to EBITDA at the year-end was comfortable at 0.92 (2018: 1.07). The covenant level for net debt to EBITDA is a maximum of three times.

The Company renewed its financing facilities with effect from 8 November 2019, increasing the revolving credit facility by US$15m to US$120m, with a US$60m accordion option. The facility is provided by HSBC UK Bank PLC, J.P. Morgan Securities PLC and DBS Bank Ltd on similar terms to the previous arrangements, with a four-year term up to November 2023.

Adjusted Profit Before Tax

The Group generated adjusted profit before tax and specific items of £33.2 million, down 19% compared to last year, due to the higher direct costs incurred.

Specific Items

Specific items are excluded from management's assessment of profit because by either their size, or their nature they are non-repetitive and therefore could distort the Group's underlying earnings.

In 2019, the Group incurred £9.2 million (2018: £3.6 million) of specific items, predominantly related to £3.2 million for amortisation of intangible assets due to business combination (2018: £2.8 million), costs associated with acquisitions of £0.9 million (2018: £0.6 million) and ERP implementation costs of £2.2 million (2018: £0.2 million). In addition, the Group incurred legal costs of £1.9 million (2018: £Nil) related to a non-customer related legal dispute in North America and restructuring costs of £1.0 million (2018: £Nil) related to the transfer of the manufacturing of all our low-power, high-voltage DC-DC modules to our Vietnamese facility.

Taxation

The effective tax rate on adjusted profit before tax decreased by 790bps to 9.6% (2018: 17.5%). The lower effective tax rate was due to one-off credits related to prior year tax assessments in the United States.

The effective tax rate on profit before tax decreased by 580 bps to 13.3% (2018: 19.1%). Going forward, XP Power expects the effective tax rate to be approximately 18-20% depending predominantly on the regional mix of profits.

Adjusted Earnings Per Share

Basic and diluted adjusted earnings per share from continuing operations before specific items both decreased by 15% to 148.3 pence and 145.5 pence respectively (2018: 176.1 pence and 172.8 pence).

Cash Flow
The Group generated £46.2 million net cash from operations compared with £26.9 million in the previous year. The higher level of operating cash flows was largely a result of improved working capital management, specifically related to a £12.4 million reduction in inventory levels.

Free cash flow before acquisitions, dividends and repayment of borrowings was £26.2 million (2018: £11.1 million).

Net Debt and Dividends
We finished 2019 in a net debt position of £41.3 million (2018: £52.0 million), with the decrease due to improved cashflow generation and foreign exchange movements. The Group continued its progressive dividend policy which meant returning £16.7 million (2018: £15.3 million) to shareholders in the form of dividends.

The attractive cash flow generated by the XP Power business model has enabled the Company to pursue a progressive dividend policy over a sustained period of time.

This year's cash flow performance has enabled us to recommend a final dividend of 36 pence per share for the fourth quarter of 2019. This dividend will be payable to members on the register on 27 March 2020 and will be paid on 28 April 2020. When combined with the interim dividends for the previous three quarters, the total dividend for the year will be 91 pence per share (2018: 85 pence), an increase of 7%.

The policy is to increase dividends progressively whilst maintaining an appropriate level of dividend cover. Dividend cover for the year was 1.2 times (2018: 1.9 times). We expect dividend cover to re-build based on strong long-term prospects.

Fixed Assets
We continue to invest in our business with the majority of the spend being on manufacturing and supporting our future sales growth. We plan to invest circa £8 million during the new financial year, in line with 2019. This investment is principally related to upgrading our ERP system.

Financial Instruments
The Group's financial instruments consist of cash, money market deposits, and various other items such as trade receivables and trade payables that arise directly from its business operations.

The Group uses forward currency contracts to hedge highly probable forecast transactions. The instruments purchased are denominated in the currencies of the Group's principal markets. The Group had no forward currency contracts outstanding at 31 December 2019 (2018: £10.8 million).

Brexit
In terms of the broader economic impacts of Brexit on our business, we do not consider that they will be material. Our products are made in Asia and are already imported into Europe where we have warehouses in both Germany and the United Kingdom and hence, we could ship our product destined for the European Union directly into Germany or another appropriate location. Plans are in place that will help minimise any logistical issues that may arise following the United Kingdom's exit from the European Union.

Gavin Griggs
Chief Financial Officer

XP Power Limited
Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2019

£ Millions	**Note**	**2019**	2018
Revenue	2	**199.9**	195.1
Cost of sales		**(109.8)**	(102.8)
Gross profit		**90.1**	92.3
Expenses			
Distribution and marketing		**(43.2)**	(38.7)
Administrative		**(7.2)**	(2.9)
Research and development		**(13.0)**	(11.4)
Operating profit		**26.7**	39.3
Finance charge		**(2.7)**	(1.7)
Profit before tax		**24.0**	37.6
Income tax expense	3	**(3.2)**	(7.2)
Profit after tax		**20.8**	30.4
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(0.1)**	0.3
Exchange differences on translation of foreign operations		**(4.2)**	4.4
		(4.3)	4.7
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		**(0.1)**	0.2
Other comprehensive (loss)/income for the year, net of tax		**(4.4)**	4.9
Total comprehensive income for the year		**16.4**	35.3
Profit attributable to:			
Equity holders of the Company		**20.5**	30.2
Non-controlling interests		**0.3**	0.2
		20.8	30.4
Total comprehensive income attributable to:			
Equity holders of the Company		**16.2**	34.9
Non-controlling interests		**0.2**	0.4
		16.4	35.3
Earnings per share attributable to equity holders of the Company (pence per share)			
- Basic earnings per share	5	**107.0**	157.8
- Diluted earnings per share	5	**105.0**	154.9

*Balance is less than £100,000.

The accompanying notes form an integral part of these financial statements.

XP Power Limited
Consolidated Balance Sheet
As at 31 December 2019

£ Millions	Note	2019	2018
ASSETS			
Current assets			
Corporate tax recoverable		**2.0**	0.8
Cash and cash equivalents		**11.2**	11.5
Inventories		**44.1**	56.5
Trade receivables		**34.8**	33.0
Other current assets		**3.3**	3.3
Derivative financial instruments		**0.6**	*
Total current assets		**96.0**	105.1
Non-current assets			
Goodwill		**53.2**	54.1
Intangible assets		**46.4**	43.6
Property, plant and equipment		**29.3**	30.7
Right-of-use assets		**6.6**	-
Deferred income tax assets		**1.8**	0.6
ESOP loan to employees		**0.1**	0.2
Total non-current assets		**137.4**	129.2
Total assets		**233.4**	234.3
LIABILITIES			
Current liabilities			
Current income tax liabilities		**3.1**	4.2
Trade and other payables		**25.2**	22.4
Derivative financial instruments		**-**	0.2
Lease liabilities		**1.6**	-
Accrued consideration		**0.5**	-
Total current liabilities		**30.4**	26.8
Non-current liabilities			
Accrued consideration		**1.2**	1.4
Borrowings	6	**52.5**	63.5
Deferred income tax liabilities		**5.5**	4.7
Provisions		**0.1**	0.5
Lease liabilities		**4.8**	-
Total non-current liabilities		**64.1**	70.1
Total liabilities		**94.5**	96.9
NET ASSETS		**138.9**	137.4
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**27.2**	27.2
Merger reserve		**0.2**	0.2
Share option reserve		**3.9**	2.1
Treasury shares reserve		**(0.5)**	(1.0)
Hedging reserve		**-**	0.1
Translation reserve		**(0.2)**	4.0
Other reserve		**(0.8)**	(0.8)
Retained earnings		**108.4**	104.6
		138.2	136.4
Non-controlling interests		**0.7**	1.0
TOTAL EQUITY		**138.9**	137.4

*Balances are less than £100,000.

The accompanying notes form an integral part of these financial statements.

XP Power Limited
Consolidated Statement of Changes in Equity
For the financial year ended 31 December 2019

£ Millions	Share capital	Share option reserve	Treasury shares reserve	Merger reserve	Hedging reserve	Translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to equity holders of the Company										
Balance at 1 January 2018	27.2	2.2	(1.8)	0.2	(0.2)	(0.4)	(0.8)	90.0	116.4	0.9	117.3
Sale of treasury shares	-	-	0.8	-	-	-	-	(0.3)	0.5	-	0.5
Employee share option plan expenses	-	0.8	-	-	-	-	-	-	0.8	-	0.8
Tax on employee share option plan expenses	-	(0.9)	-	-	-	-	-	-	(0.9)	-	(0.9)
Dividends paid	-	-	-	-	-	-	-	(15.3)	(15.3)	(0.3)	(15.6)
Exchange difference arising from translation of financial statements of foreign operations	-	-	-	-	-	4.4	-	-	4.4	0.2	4.6
Net change in cash flow hedges	-	-	-	-	0.3	-	-	-	0.3	-	0.3
Profit for the year	-	-	-	-	-	-	-	30.2	30.2	0.2	30.4
Total comprehensive income for the year	-	-	-	-	0.3	4.4	-	30.2	34.9	0.4	35.3
Balance at 31 December 2018	**27.2**	**2.1**	**(1.0)**	**0.2**	**0.1**	**4.0**	**(0.8)**	**104.6**	**136.4**	**1.0**	**137.4**
Sale of treasury shares	-	-	0.5	-	-	-	-	*	0.5	-	0.5
Employee share option plan expenses	-	0.7	-	-	-	-	-	-	0.7	-	0.7
Tax on employee share option plan expenses	-	1.1	-	-	-	-	-	-	1.1	-	1.1
Dividends paid	-	*	-	-	-	-	-	(16.7)	(16.7)	(0.5)	(17.2)
Exchange difference arising from translation of financial statements of foreign operations	-	*	-	-	-	(4.2)	-	-	(4.2)	(0.1)	(4.3)
Net change in cash flow hedges	-	-	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Profit for the year	-	-	-	-	-	-	-	20.5	20.5	0.3	20.8
Total comprehensive income for the year	-	*	-	-	(0.1)	(4.2)	-	20.5	16.2	0.2	16.4
Balance at 31 December 2019	**27.2**	**3.9**	**(0.5)**	**0.2**	**-**	**(0.2)**	**(0.8)**	**108.4**	**138.2**	**0.7**	**138.9**

*Balances are less than £100,000.
The accompanying notes form an integral part of these financial statements.

XP Power Limited
Consolidated Statement of Cash Flows
For the financial year ended 31 December 2019

£ Millions	**Note**	**2019**	2018
Cash flows from operating activities			
Profit after tax		**20.8**	30.4
Adjustments for:			
- Income tax expense	3	**3.2**	7.2
- Amortisation and depreciation		**12.7**	9.1
- Finance charge		**2.7**	1.7
- Equity award charges, net of tax		**0.7**	0.8
- Fair value (gain)/loss of derivative financial instruments		**(0.9)**	0.5
- Unrealised currency translation loss		**0.9**	2.7
Change in working capital, net of effects from acquisitions:			
- Inventories		**10.3**	(16.4)
- Trade and other receivables		**(3.7)**	(5.6)
- Trade and other payables		**4.5**	(0.1)
- Provision for liabilities and other charges		**(0.5)**	0.5
Cash generated from operations		**50.7**	30.8
Income tax paid, net of refund		**(4.5)**	(4.1)
Net cash provided by operating activities		**46.2**	26.7
Cash flows from investing activities			
Acquisition of a business, net of cash acquired		**-**	(35.5)
Purchases and construction of property, plant and equipment		**(4.7)**	(7.9)
Capitalisation of research and development expenditure		**(8.0)**	(6.2)
Capitalisation of intangible software and software under development		**(3.6)**	(0.9)
Proceeds from disposal of property, plant and equipment		*****	0.1
Repayment of ESOP loans		*****	0.1
Net cash used in investing activities		**(16.3)**	(50.3)
Cash flows from financing activities			
Proceeds from borrowings		**-**	39.4
Repayment of borrowings		**(8.8)**	(3.4)
Principal payment of lease liabilities		**(1.5)**	-
Sale of treasury shares		**0.5**	0.5
Interest paid		**(2.7)**	(1.5)
Dividend paid to equity holders of the Company		**(16.7)**	(15.3)
Dividend paid to non-controlling interests		**(0.5)**	(0.3)
Net cash (used in)/provided by financing activities		**(29.7)**	19.4
Net increase/(decrease) in cash and cash equivalents		**0.2**	(4.2)
Cash and cash equivalents at beginning of financial year		**11.5**	15.0
Effects of currency translation on cash and cash equivalents		**(0.5)**	0.7
Cash and cash equivalents at end of financial year		**11.2**	11.5

*Balances are less than £100,000.

The accompanying notes form an integral part of these financial statements.

Notes to the Annual Results Statement
For the year ended 31 December 2019

1. Basis of preparation

This financial information is presented in Pounds Sterling and has been prepared using the accounting principles incorporated within International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. Segmental reporting

The Group is organised on a geographic basis. The Group's products are a single class of business; however, the Group is also providing information in respect of sales by end market to assist the readers of this report.

The revenue by class of customer and location of the design win is as follows:

	Year to 31 December 2019				Year to 31 December 2018			
£ Millions	**Europe**	**North America**	**Asia**	**Total**	Europe	North America	Asia	Total
Semiconductor Equipment Manufacturing	**0.4**	**36.6**	**0.4**	**37.4**	0.5	46.2	0.7	47.4
Technology	**6.2**	**14.4**	**6.8**	**27.4**	6.2	13.0	1.2	20.4
Industrial Electronics	**45.8**	**33.3**	**10.1**	**89.2**	43.2	30.6	9.9	83.7
Healthcare	**12.0**	**31.2**	**2.7**	**45.9**	11.2	29.3	3.1	43.6
Total	**64.4**	**115.5**	**20.0**	**199.9**	61.1	119.1	14.9	195.1

Revenues of £20.5 million (2018: £27.9 million) are derived from a single external customer. These revenues are attributable to the Semiconductor Equipment Manufacturing sector.

Reconciliation of segment results to profit after tax:

£ Millions	**2019**	2018
Europe	**16.4**	15.9
North America	**32.0**	40.8
Asia	**6.6**	4.9
Segment results	**55.0**	61.6
Research and development	**(8.4)**	(8.7)
Manufacturing	**(3.8)**	(2.7)
Corporate cost from operating segment	**(6.9)**	(7.3)
Adjusted operating profit	**35.9**	42.9
Finance charge	**(2.7)**	(1.7)
Specific items	**(9.2)**	(3.6)
Profit before tax	**24.0**	37.6
Income tax expense	**(3.2)**	(7.2)
Profit after tax	**20.8**	30.4

Reconciliation of adjusted measures

Adjusted measures

The Group presents adjusted operating profit and adjusted profit before tax by making adjustments for costs and profits which management believes to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. Such items may include, but are not limited to, costs associated with business combinations, gains and losses on the disposal of businesses, fair value movements, restructuring charges, acquisition related costs and amortisation of intangible assets arising on business combinations.

In addition, the Group presents an adjusted profit after tax measure by adjusting for certain tax charges and credits which management believe to be significant by virtue of their size, nature or incidence or which have a distortive effect.

The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting. See below for a reconciliation of operating profit to adjusted operating profit, profit before tax to adjusted profit before tax and profit after tax to adjusted profit after tax.

(i) A reconciliation of operating profit to adjusted operating profit is as follows:

£ Millions	**2019**	2018
Operating profit	**26.7**	39.3
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	-
Restructuring costs	**1.0**	-
	9.2	3.6
Adjusted operating profit	**35.9**	42.9

(ii) A reconciliation of profit before tax to adjusted profit before tax is as follows:

Profit before tax ("PBT")	**24.0**	37.6
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	-
Restructuring costs	**1.0**	-
	9.2	3.6
Adjusted PBT	**33.2**	41.2

(iii) A reconciliation of profit after tax to adjusted profit after tax is as follows:

Profit after tax ("PAT")	**20.8**	30.4
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	-
Restructuring costs	**1.0**	-
Non-recurring tax benefits[1]	**(1.3)**	(0.1)
	7.9	3.5
Adjusted PAT	**28.7**	33.9

[1] Adjusted for tax on specific items relating to completed acquisitions of £0.2 million (2018: £0.1 million), costs related to ERP implementation of £0.4 million (2018: £Nil million), legal costs of £0.5 million (2018: £Nil million), and restructuring costs of £0.2 million (2018: £Nil million).

3. Income taxes

£ Millions	2019	2018
Singapore corporation tax		
- current year	**2.5**	3.5
- over-provision in prior financial year	**(0.2)**	(0.2)
Overseas corporation tax		
- current year	**0.9**	3.3
- (over)/under-provision in prior financial year	**(1.0)**	0.3
Withholding tax	**0.2**	-
Current income tax	**2.4**	6.9
Deferred income tax		
- current year	**1.0**	0.3
- over-provision in prior financial year	**(0.2)**	-
Income tax expense	**3.2**	7.2

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions at the balance sheet date.

The differences between the total income tax expense shown above and the amount calculated by applying the standard rate of Singapore income tax rate to the profit before income tax are as follows:

£ Millions	2019	2018
Profit before income tax	**24.0**	37.6
Tax on profit at standard Singapore tax rate of 17% (2018: 17%)	**4.1**	6.4
Tax incentives	**(0.5)**	(0.5)
Higher rates of overseas corporation tax	**0.5**	1.1
Deduction for employee share options	*	(0.2)
Non-deductible expenditure	**0.3**	0.3
(Over)/under-provision of tax in prior financial years	**(1.4)**	0.1
Withholding tax	**0.2**	-
Income tax expense	**3.2**	7.2

4. Dividends

Amounts recognised as distributions to equity holders in the period:

	2019		2018	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year third quarter dividend paid	**19.0***	**3.6**	18.0	3.4
Prior year final dividend paid	**33.0***	**6.3**	29.0	5.5
First quarter dividend paid	**17.0^**	**3.3**	16.0*	3.1
Second quarter dividend paid	**18.0^**	**3.5**	17.0*	3.3
Total	**87.0**	**16.7**	80.0	15.3

* Dividends in respect of 2018 (85.0p).
^ Dividends in respect of 2019 (91.0p).
The third quarter dividend of 20.0 pence per share was paid on 13 January 2020. The proposed final dividend of 36.0 pence per share for the year ended 31 December 2019 is subject to approval by

Shareholders at the Annual General Meeting scheduled for 21 April 2020 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 28 April 2020 to members on the register as at 27 March 2020.

5. Earnings per share

The calculations of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company are based on the following data:

	2019	2018
£ Millions		
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**20.5**	30.2
Earnings for earnings per share	**20.5**	30.2
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,154**	19,134
Effect of potentially dilutive share options (thousands)	**368**	366
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,522**	19,500
Earnings per share from operations		
Basic	**107.0p**	157.8p
Basic adjusted*	**148.3p**	176.1p
Diluted	**105.0p**	154.9p
Diluted adjusted*	**145.5p**	172.8p

***Reconciliation to compute the adjusted earnings from operations is as per below:

£ Millions		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**20.5**	30.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Acquisition costs	**0.9**	0.6
Non-recurring tax benefits	**(1.3)**	(0.1)
Costs related to ERP implementation	**2.2**	0.2
Legal costs	**1.9**	-
Restructuring costs	**1.0**	-
Adjusted earnings	**28.4**	33.7

6. Borrowings

The Group's principal source of long-term financing is its four-year Revolving Credit Facility. Effective November 2019, the Group increased the facility from US$105 million to US$120 million with a US$60 million accordion option. The facility has no fixed repayment terms until maturity. The revolving loan is priced at US LIBOR plus a margin of 1.2% for the utilisation facility and a margin of 0.4% to 0.5% for the unutilised facility.

The borrowings are repayable as follows:

£ Millions	**2019**	2018
On demand or within one year	**-**	-
In the second year	**-**	-
In the third year	**-**	63.5
In the fourth year	**52.5**	-
Total	**52.5**	63.5

Management assessed all loan covenants have been complied with as at 31 December 2019.

7. Principal risks and uncertainties

Board Responsibility
Like many other international businesses, the Group is exposed to a number of risks which may have a material effect on its financial performance. The Board has overall responsibility for the management of risk and sets aside time at its meetings to identify and address risks.

Exposure to exchange rate fluctuations
The Group deals in many currencies for both its purchases and sales including US Dollars, Euro and its reporting currency Pounds Sterling. In particular, North America represents an important geographic market for the Group where virtually all the revenues are denominated in US Dollars. The Group also sources components in US Dollars and the Chinese Yuan. The Group therefore has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings.

Risk mitigation – The Group reviews balance sheet and cash flow currency exposures and where considered appropriate, uses forward exchange contracts to hedge these exposures. Any forward contract requires the approval of both the Chief Executive Officer and Chief Financial Officer.

The Group does not hedge any translation of its subsidiaries' results to Sterling for reporting purposes.

Competition from new market entrants and new technologies
The power supply market is diverse and competitive. The Directors believe that the development of new technologies could give rise to significant new competition to the Group, which may have a material effect on its business. At the lower end of the Group's target market, in terms of both power range and programme size, the barriers to entry are lower and there is, therefore, a risk that competition could quickly increase, particularly from emerging low-cost manufacturers in Asia.

Risk mitigation – The Group reviews activities of its competition, in particular product releases, and stays up to date with new technological advances in our industry, especially those relating to new components and materials. The Group also tries to keep its cost base competitive by operating in low cost geographies where appropriate.

The general direction of our product roadmap is to move away from lower complexity products and to increase our engineering solutions capabilities so reducing the inherent market competitiveness.

An event that causes a disruption to one of our manufacturing facilities
An event that results in the temporary or permanent loss of a manufacturing facility would be a serious issue. As the Group manufactures 80% of revenues, this would undoubtedly cause at least a short-term loss of revenues and profits and disruption to our customers and therefore damage to reputation.

Risk mitigation – We now have two facilities (China and Vietnam) where we are able to produce power supplies. However, not all power converter series can be produced in both facilities.

We have disaster recovery plans in place for both facilities.

We have undertaken a risk review with the manufacturing management to identify and assess risks which could cause a serious disruption to manufacturing, and then identified and implemented actions to reduce or mitigate these risks where possible.

Loss of key personnel or failure to attract new personnel
The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management and other key personnel. The loss of the services of key employees could have a material adverse effect on own business.

Risk mitigation – The Group undertakes performance evaluations and reviews to help it stay close to its key personnel as well as annual employee engagement surveys. Where considered appropriate, the Group also makes use of financial retention tools such as equity awards.

Dependence on key customers
The Group is dependent on retaining its key customers. Should the Group lose a number of its key customers or key suppliers, this could have a material impact on the Group's financial condition and results of operations. However, for the year ended 31 December 2019, no single customer accounted for more than 10% of revenue.

Risk mitigation – The Group mitigates this risk by providing excellent service. Customer complaints and non-conformances are reviewed monthly by members of the Executive Leadership team.

Product recall
A product recall due to a quality or safety issue would have serious repercussions to the business in terms of potential cost and reputational damage as a supplier to critical systems.

Risk mitigation – We perform 100% functional testing on all own-manufactured products and 100% hi-pot testing, which determines the adequacy of electrical insulation, on own-manufactured products. This ensures the integrity of the isolation barrier between the mains supply and the end user of the equipment. We also test all the medical products we manufacture to ensure the leakage current is within the medical specifications.

Where we have contracts with customers, we always limit our contractual liability regarding recall costs.

Fluctuations of revenues, expenses and operating results due an economic downturn or external shock
The revenues, expenses and operating results of the Group could vary significantly from period to period as a result of a variety of factors, some of which are outside its control. These factors include general economic conditions; adverse movements in interest rates; conditions specific to the market; seasonal trends in revenues, capital expenditure and other costs; and the introduction of new products or services by the Group, or by their competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service, marketing decisions or acquisitions that could have a short-term material adverse effect on the Group's revenues, results of operations and financial condition.

Risk mitigation – Although not immune from an economic shock or the cyclicality of the capital equipment markets, the Group's diverse customer base, geographic spread and revenue annuities reduces exposure to this risk.

The Group's business model is not capital intensive and the strong profit margins lead to healthy cash generation which also helps mitigate risks from these external factors.

The Group benefits from good order exposure 12 months out allowing it to recognise market changes and mitigate the impact.

Cyber-security/Information systems failure
The Group is reliant on information technology in multiple aspects of the business from communications to data storage. Assets accessible online are potentially vulnerable to theft and customer channels are vulnerable to disruption. Any failure or downtime of these systems or any data theft could have a significant adverse impact on the Group's reputation or on the results of operations.

Risk mitigation – The Group has a defined Business Impact Assessment which identifies the key information assets; replication of data on different systems or in the Cloud; an established backup process in place as well as a robust anti-malware solution on our networks.

Internally produced training materials are used to educate users regarding good IT security practice and to promote the Group's IT policy.

A cyber assessment carried out by the outsourced internal auditor resulted in recommendations that are being implemented to further mitigate cyber risk and safeguard the Group's assets.

Risks relating to regulation, compliance and taxation
The Group operates in multiple jurisdictions with applicable trade and tax regulations that vary. Failing to comply with local regulations or a change in legislation could impact the profits of the Group. In addition, the effective tax rate of the Group is affected by where its profits fall geographically. The Group's effective tax rate could therefore fluctuate over time and have an impact on earnings and potentially its share price.

Risk mitigation – An outsourced internal audit function has been introduced to provide risk assurance in targeted areas of the business and recommendations for improvement. The scope of these reviews includes behaviour, culture and ethics.

The Group hires employees with relevant skills and uses external advisers to keep up to date with changes in regulations and to remain compliant.

Risk associated with Supply Chain
The Group is dependent on retaining its key suppliers and on their ability to meet their obligations to the Group. Supply Chain may also be affected by external events, such as the impact on our Chinese supply chain of the outbreak of the COVID-19 virus.

As the proportion of our own-manufactured products has increased, the reliance on suppliers for third party product has been mitigated proportionally. There has been a shift from a finished goods risk to a raw materials risk.

Risk Mitigation - We conduct regular audits of our key suppliers and in addition keep large amounts of safety inventory of key components, which we also regularly review. We also dual source our components where possible to minimise dependency on any single supplier.

Strategic risk associated with valuing or integrating new acquisitions
The Group may elect from time to time to make strategic acquisitions. A degree of uncertainty exists in valuation and in particular in evaluating potential synergies. Post-acquisition risks arise in the form of change of control and integration challenges. Any of these could influence the Group's revenues, results of operations and financial condition.

Risk mitigation – Preparation of robust business plans and cash projections with sensitivity analysis and the help of professional advisers if appropriate.

Post-acquisition reviews are performed to extract “lessons learned”.

8. Responsibility Statement

The Directors confirm to the best of their knowledge and believe that this condensed set of financial statements:

- Gives a fair view of the assets, liabilities, financial position and profit of the Group; and
- Includes a fair review of the information required by the Disclosure and Transparency Rules.

9. Other information

XP Power Limited (the “Company”) is listed on the London Stock Exchange and incorporated and domiciled in Singapore. The address of its registered office is 401 Commonwealth Drive, Lobby B, #02-02, Haw Par Technocentre, Singapore 149598.

The financial information set out in this announcement does not constitute the Company’s statutory accounts for the years ended 31 December 2018 or 2019. The financial information for the year ended 31 December 2018 is derived from the XP Power Limited statutory accounts for the year ended 31 December 2018, which have been delivered to the Accounting and Corporate Regulatory Authority in Singapore. The auditors reported on those accounts; their report was unqualified. The statutory accounts for the year ended 31 December 2019 will be finalised based on the financial information presented by the Directors in this earnings announcement and will be delivered to the Accounting and Corporate Regulatory Authority in Singapore following the Company’s Annual General Meeting.

Whilst the financial information included in this earnings announcement has been computed in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS as adopted by the European Union. The Company expects to publish full financial statements that comply with IFRS as adopted by the European Union later this month.

This announcement was approved by the Directors on 3 March 2020.