

Technical Article

Robust demand for power supplies to continue in 2011

James Peters, Deputy Chairman, XP Power.

It been a healthy time for the power supply industry in the last 12 months and we can see further growth opportunities well into 2011. Looking at market trends based on the S&P500 Equipment Manufacturers (Standard & Poor's) categories of healthcare, technology and industrial markets, all of these sectors have grown recently.

The healthcare market grew about 10% last year and a further 5% during the first half of 2010. We deal with 94% of the S&P500 companies in this sector, not least because we pioneered the concept of power supplies that catered simultaneously for industrial and medical requirements. Customers no longer need to buy expensive specialist power supplies. Most of our standard industrial products, which are manufactured in high volumes, are now medically qualified. This means we've been able to drive down costs and be much more competitive. We see the medical market continuing to grow in the US, Europe and Asia. The technology sector includes semiconductor fabrication equipment. After a sharp downturn in 2009, this market is set to double in 2010, albeit from a low base. There will be another 10% growth next year. The communications market is still growing too, at around 10% per year. We supply 69% of the S&P500 technology companies and



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our business in this sector grew 64% in the first half of this year, so it's an important segment for us.

The industrial market, which includes aerospace and defence, is also showing signs of recovery. XP power supplies are used by about three-quarters of the S&P500 companies but we expect the defence business to get tighter next year, although our business has not been affected yet.

We've also benefited from being able to anticipate extended lead times for components. We doubled our component inventory in late 2009 when typical lead times were 10 weeks. That's allowed us to maintain an 8 to 10 week lead time for most of our products at a time when many of our competitors are quoting 20 weeks or more for delivery.

With respect to technology, the power supply business is an evolutionary, rather than revolutionary one. It has been driven for decades by the need to improve power density and cut costs. Now, efficiency is becoming the dominant concern as customers work to improve their "green" credentials by reducing the energy consumed by their products. In the case of external power supplies, European legislation (ErP) has been introduced to limit the power consumed under no-load conditions for all products where over 200,000 units are sold annually. This applies to a relatively limited number of products today but we expect the scope of the legislation to expand to include lower volume products and even to include internal power supplies in equipment. Vending machines and franking machines are examples of equipment that are in standby mode most of the

time making no-load power consumption critical. We're aiming to achieve at least 90% efficiency in new products. In 2009 only two of the products we launched actually reached that target but in 2010 over half of our 30 new products will be better than 90% efficient, so we're staying ahead of the game.

We're also seeing a growing trend for major customers to undertake environmental audits of our factories as part of their drive to towards greater environmental responsibility.

Once again, we're taking the initiative, rather than waiting for legislation or new customer demands to catch up with us.

With an eye to corporate social responsibility, we've signed up to the Electronic Industry Code of Conduct (EICC). This is a code of best practices adopted and implemented by some of the world's major electronic and telecommunication brands and their suppliers. Its aim is to implement a single supply chain social responsibility code of conduct in the electronics supply chain. The code encompasses labour practices, health and safety, environmental responsibility, management systems, and ethics. Quite rightly, product functionality, size and price are no longer the only criteria upon which OEMs select their suppliers. Power supplies are a key component of every electronic system, so there is a growing focus on them with respect to the issues covered by the code. We expect EICC's importance and influence to grow significantly in 2011.

www.xppower.com

North American HQ

XP Power
990 Benecia Avenue, Sunnyvale, CA 94085
Phone : +1 (408) 732-7777
Fax : +1 (408) 732-2002
Email : nasales@xppower.com

European HQ

XP Power
Horseshoe Park, Pangbourne, Berkshire, RG8 7JW
Phone : +44 (0)118 984 5515
Fax : +44 (0)118 984 3423
Email : eusales@xppower.com

German HQ

XP Power
Auf der Höhe 2, D-28357 Bremen, Germany
Phone : +49 (0)421 63 93 3 0
Fax : +49 (0)421 63 93 3 10
Email : desales@xppower.com

Asian HQ

XP Power
401 Commonwealth Drive, Haw Par Technocentre,
Lobby B #02-02, Singapore 149598
Phone : +65 6411 6900
Fax : +65 6741 8730
Email : apsales@xppower.com
Web : www.xppowerchina.com/
www.xppower.com

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