



Long Life Reliability

does not cost the earth



Building a strong base to exploit current and imminent opportunities for growth

AGM presentation to shareholders, analysts and
investors

26th March 2015



Agenda- Building Strength to pursue Growth



- **Challenges confronted**
 - Relocation from Tudor Works
 - Address subcontract profitability and Clacton leases
 - Address Defined Benefit Pension Scheme
 - Address lack of critical mass in activities

 - **Challenge to be confronted**
 - Replacement of a temporary building at LPA Excil Electronics

 - **Opportunities to be grasped**
 - UK Rail Market
 - Network Rail Control Period 5
 - Rail Refranchising
 - CrossRail
 - Inter City Express Programme
 - High Speed
 - UK Other
 - Exports
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Challenges Confronted



- Relocation from Tudor Works to Light and Power House
 - Ageing Tudor Works premises a turn off for customers
 - Flawed Title took ten years in confidence to resolve
 - Long planning process
 - to convert from employment to residential use
 - to maximise potential site value
 - Extended negotiations to maximise sale price at £2.7m and retain carried interest
 - Search for alternative premises frustrated by flawed Title
 - Former furniture making factory acquired from Administrator in 2012
 - Extensive redesign and refurbishment of buildings up to 50 years old required planning permission
 - Extended contract negotiations over complex refurbishment project, contract let in 2013
 - Work completed 2014
 - Relocation from Tudor Works and final consideration received 2014
 - Transport+ and Sheet Metal-working capabilities transferred from Clacton, completed 2015
 - Integrated Electro-Mechanical manufacturing facility completed 2015
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Summary of Light and Power House



- Approximately 44,000sqft on 1.4 acre site plus 0.5 acre separate car park.
 - Approximately 34,000sqft manufacturing space housing LPA Connection Systems (LPACS), LPA Transport+ (LPAT+) and LPA Haswell Engineers (LPAHE)
 - Approximately 8,000sqft office space housing LPACS, LPAT+, LPAHE and LPA Group
 - Approximately 2,000sqft Training and Conference facility
 - Former furniture manufacturing facility purchased from Administrators
 - Group offices has furniture recycled from previous owners and also art deco furniture acquired with Niphan Limited in 1980's and transferred to LPA in 1998.
 - Asbestos roof replaced with triple skinned insulated roof
 - Double gable roof replaced by single gable
 - HVAC system has heat recovery module
 - Lighting is entirely LED based supplied by LPA Excil Electronics, largely of their own design and manufacture
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Challenges Confronted



- Address Subcontract profitability and Clacton leases
 - LPA Haswell Engineers sheet metal workshop is located in leasehold premises in Clacton
 - Weak UK demand for rail vehicle underframe structures increased reliance on subcontract work
 - ‘Blue Chip’ subcontract customer base frequently required ‘renewal’ as work was ‘off-shored’
 - Process resource hungry to remain competitive, progressively unrewarding
 - LPA Transport+, which supports rail vehicle renewal, was born out of desire for enhanced added value

 - Accommodation created at Light and Power House for LPA Transport+
 - Subsequently space created at LPH for core sheet metal work equipment and processes
 - Closure of LPA Haswell’s Clacton facility, transfers and redundancies announced 2014
 - Selected machine tools and equipment transferred first quarter 2015
 - Capability focussed on Group requirements, LPA Transport+, electro-mechanical and lighting
 - Clacton leases to be surrendered during summer 2015
 - Final dates and dilapidations currently being negotiated.
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Challenges Confronted



- Address Defined Benefit Pension Scheme potential risks
 - Progress has been reported in detail in the Annual Report over several years and includes
 - Closure to new entrants
 - Cessation of liability accrual
 - Full Actuarial Valuation carried out at 31st March 2012 revealed a deficit of £1.3m
 - Group agreed with Trustees to address the deficit by contributing £100,000pa for seven years from 1st April 2012
 - The IAS19 Valuation included in the Group accounts at September 2014 revealed a surplus of £0.74m
 - A Full Actuarial Valuation will be carried out as at 31st March 2015
 - The Group continues to consider, and discuss with Trustees, opportunities to improve investment returns and to reduce the impact of potential increases in the liabilities.
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Challenges Confronted



- Address lack of critical mass in activities
 - The consolidation of LPACS, LPAT+ and LPAHE at LPH creates a very potent electro-mechanical business capable of delivering £10+m annual sales. Current ‘Order Book’, which includes Inter City Express Programme (IEP) and CrossRail extends to 2019.
 - LPA Channel Electric (LPACE) serves, broadly, the same markets as the rest of the group, namely rail, aerospace, defence and industrial, has broadened its supplier and product base and has been selected to supply product on the two major aerospace projects already announced. LPACE’s strength lies in the superlative customer service offering, which appreciated by both its customers and principals. LPACE’s ‘Order Book’ extends to 2019 and beyond.
 - LPA Excil Electronics (LPAEE) has the largest current order book including IEP, Queensland Rail, Riyadh, Vossloh Greater Anglia and SNCF, extending to 2019. LPAEE been expanding its offering to include Oil and Gas Projects, currently suffering from the low oil price, and a range of standard products based on their LumiMatrix technology, which has had some success in infrastructure but has been slow to develop in other markets.
 - The Group’s ‘Order Book’ amounted to approximately £27m at the end of February
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Challenge to be Confronted



- Replacement of Temporary building and increase in capacity at LPA Excil Electronics (LPAEE)
 - A temporary building which houses goods inwards, stores, engineering, test, purchasing and production control is beyond its design life and deteriorating rapidly.
 - LPAEE's offices and mechanical assembly spaces are no longer adequate.
 - Customers have expressed mild concern over mechanical assembly capacity, which could limit future growth.
 - A planning application has been submitted to extend the existing permanent structure and to build a separate office building and a separate compressor and dust ingress testing house
 - All existing office functions plus engineering, purchasing and production control will be accommodated in the new building. The offices in the existing building will be demolished to create manufacturing space.
 - Manufacturing processes will be reorganised in the remodelled existing building to accommodate goods inwards, stores and kitting, electronic manufacture and assembly, mechanical assembly, supervision and packing and despatch.
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Opportunities to be Grasped



- UK Rail Market is extremely complex, comprising inter alia,
 - Department for Transport (DfT), Transport for London (TfL), London Underground Limited (LUL), Office of the Rail Regulator (ORR), Railway Safety Standards Board (RSSB),
 - Rail Delivery Group (RDG), Network Rail (NR), Association of Train Operating Companies (ATOC) Train Operating Companies (TOC's),
 - Rail Supply Group (RSG), Railway Industry Association (RIA), Rolling Stock Owning Companies (ROSCO's), Rolling Stock Building Companies (RSBC's), Rolling Stock Renewal and Upgrade Companies (RSRUC's), Rolling Stock Maintenance Companies,(RSMC's), Other OEM's, SME's
 - Understanding this complexity and how to exploit it is an opportunity in itself.
 - Despite being a VSME (Very small or medium sized enterprise) LPA, through its active membership of RIA has access and opportunities for representation at the highest level.
 - LPA participates in regular meetings with DfT, TfL, LUL, ORR, RSSB, RDG, NR, ATOC and RSG
 - LPA sells to NR, TfL, LUL, ROSCO's, TOC's, RSBC's, RSRUC's, RSMC's, OEM's, SME's
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Opportunities to be Grasped



- UK Rail Market is currently huge.
 - Network Rail's budget for Control Period 5, which commences now and lasts 5 years is c.£35bn.
 - RDG estimate the current surface fleet of vehicles to be 12,775 and this is expected to rise to 15,000 net of retirements by 2019 as a consequence of IEP, ThamesLink, CrossRail and other acquisitions. It will grow net of retirements by a further 1,000 vehicles by 2024 and 10,000 vehicles by 2044.
 - TfL expect to invest £11bn over the next 7 years and to purchase 250 new tube trains by mid 2020's
 - Rail Refranchising has suffered a hiatus following West Coast debacle and effects are continuing in delayed investment in upgrades, which has badly affected our routine business. However business is not lost merely deferred.
 - Effect can be positive, Greater Anglia award resulted in £1.4m order for LED lighting from Vossloh.
 - CrossRail has resulted in our selection for the inter car jumpers worth £5m. The investment in stations offers opportunities for LED lighting and LUL approved connectors
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Opportunities to be Grasped



- We also have developed a new flame proof connection box which could have applications in CrossRail Tunnels, London Underground and HS2.
 - The CrossRail rolling stock will be based on BT's Aventura platform, which will be offered by BT for other applications.
 - The Hitachi IEP platform on which we have won lighting and power jumpers is similar to the Hitachi AT200 platform which is the basis for the Abellio ScotRail vehicles now being procured.
 - The importance of selection for these vehicle platforms cannot be over emphasised
 - An order from Siemens for their Inspiro platform has resulted in two more orders so far
 - An order from Taiwan for EMU700 has resulted in two more orders so far
 - In contrast in 2000 Alstom selected us for Coradia, Juniper, Arlandabahn and Pendolino. BT selected us for Turbostar, but not for Electrostar. Alstom closed their UK plant following the Government's selection of Siemens Desiro for Southwest Trains. We got only one further order from Alstom for Pendolino's from Italy. BT's Turbostar amounted to 500 units. We got nothing on Electrostar fleet which comprises 2000 units. But what goes around, comes around, we are bidding to upgrade those same Electrostars, which are now 15-17 years old.
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Opportunities to be Grasped



- Our success in supplying inter-car jumpers arises from our new Ethernet backbone technology. LPACS designed and manufactured and LPAT+ installed an Ethernet backbone and CCTV system on a train fleet used for the London Olympics in 16 weeks from order to completion. The Ethernet Backbone has been developed to a capacity of 10Gigabit. This will be demonstrated to you later.
 - Taiwan, Japan, Hitachi and BT are converts to this new technology.
 - The Ethernet backbone is fundamental to the installation of passenger Wi-Fi on trains, a facility HMG has committed £50m to support. We are pursuing this opportunity!
 - The Digital Railway is coming through the advent of European Rail Transport Management System (ERTMS) and the train born part European Train Control System (ETCS). A large capacity Ethernet backbone will facilitate the retrofitting of the ETCS equipment on existing train fleets. We are ready!
 - Mark Carne, the head of Network Rail, would like to accelerate the implementation of ERTMS, to increase capacity on existing railway lines. ERTMS would allow more frequent trains running with smaller headways to use the same track for shorter periods, thus increasing capacity. The current plan is to do it piecemeal as conventional signalling is replaced. His vision is to do it line by line in areas of congestion, for example lines into Waterloo.
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Opportunities to be Grasped



- Adoption of the Digital Railway concept in this manner would not be universally popular. Increasing capacity on existing track would undermine the case for new lines particularly such as HS2, which argues that capacity on West Coast Mainline is so short that a new line is required. Their Lordships expressed doubts about HS2 this week. Watch this space!

Opportunities to be Grasped



- UK Other products
 - We have also developed a drop-in LumiMatrix module to fit in TfL's existing light fittings in passenger underground walkways. This is a universal module which has also been adopted by local authorities
 - Aerospace and Airports are also important markets for LPA in the UK. LPACE has won two significant contracts to supply components for two civilian aircraft built at least in part in the UK.
 - We have recently won orders from Gatwick for our harness handling 'crocodiles' which carry power to the aircraft, when it is on the ground with engines switched off, to keep the aircraft systems, computers and air conditioning operating. LPA has been a supplier to Heathrow for many years, Gatwick is a new major customer. Crocodiles have been exported to Mauritius and New Zealand. LPA also manufactures the plugs and assembles the harnesses. These products are exported to around forty countries.
 - LPA's industrial connectors have good fire performance and are approved by LUL. They are also used in Marine applications and are exported.
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Opportunities to be Grasped



- Exports
 - When Alstom closed their UK plant in 2002 LPA lost about 40% of sales. We had just expanded capacity in the expectation of consistent orders, when HMG suddenly changed policy and sourced trains from Germany. The impact on the supplier base in the West Midlands was dramatic, with many failing. We were fortunate to have continuing orders from a train project in Australia known as Millennium manufactured by Downer EDI Rail and from Japan for the East/West Rail project in Hong Kong.
 - These projects supported sales and marketing activities in Asia and Australia. Routinely in economy or premium economy, on long haul, a small team covering the group's product range visited Hong Kong (MTR, KCR), Osaka (Kinki Sharyo, Kawasaki), Hiroshima (Hitachi), Yokohama (Tokyu Car), Sydney (Downer, UGL), Brisbane (Bombardier, Queensland Rail) and Singapore (SBS, MTRC, LTA).
 - We found an extremely effective agent in Taiwan, who helped us review the Chinese market in some detail. China proved a tough nut to crack but we established ourselves as a supplier to the Taiwan Railway Authority (TRA) and Taiwan Rolling Stock Company (TRSC). Indirectly we became a supplier to Nippon Sharyo, a partner of TRSC. We are now bidding our fourth project in Taiwan.
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Opportunities to be Grasped



- We maintained the effort in these markets and periodically visited New Zealand as well. When Hyundai Rotem won a contract to supply trains to new Zealand, they found that the local engineer had specified LPA Connectors!
 - This continuing effort culminated in LPA winning its largest ever contract for jumpers and lighting for the Waratah project in Sydney with a combined worth of about £6m. Our efforts in China were not wasted. We were able to use our contacts in China to supply parts to the Waratah project in China, which were then exported to Australia.
 - Hitachi used our conventional lighting on the Javelin trains in service on HS1 and our LED lighting on Singapore-Sentosa and Dubai Monorails. Kinki Sharyo used our LED lighting on the Dubai Metro.
 - When Hitachi won IEP and decided to build a plant in UK to assemble trains, we were able to leverage the work we had done on Javelin to be able to bid successfully for the LED lighting and jumpers on IEP. Now our largest ever contract.
 - We are now investing time and effort in Dubai, the UAE and GCC. Leveraging on our success with the Metro and Monorail where our products have an enviable reliability record. We have appointed an agent for UAE and Saudi and we have a draft agreement with an agent in Qatar.
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Opportunities to be Grasped



- While the fall in the oil price has reduced activity generally in the region, Qatar is committed to the forthcoming Football World Cup. We are building relationships in the country and the region, which we hope will be fruitful in the near term.
 - When Alstom closed their plant in the UK LPA targeted becoming a supplier to all train builders supplying the UK market. We are suppliers to Bombardier for the UK. We are suppliers to Alstom for France, Italy and UK. We are suppliers to Siemens for UK, Germany, Poland, Saudi. We are suppliers to Hitachi for UK, Dubai and Singapore.
 - We expect to maintain this export effort and to vector success in one market to deliver success in another.
 - Despite the current short term glitch, we hope our record order book of £27m, the challenges we have overcome, the challenge we are undertaking, the opportunities we have identified at home and abroad and the efforts we are making to exploit them will convince you that we are creating a strong company poised for growth.
 - Thank you.
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