



Hammond Power Solutions Reports Second Quarter 2023 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

GUELPH, Ontario, Aug. 01, 2023 -- Hammond Power Solutions Inc. ("HPS") (TSX: HPS.A) a leading manufacturer of dry-type transformers, power quality products and related magnetics, today announced its financial results for the second quarter 2023.

HIGHLIGHTS

- **Record sales of \$172 million in the quarter, a 25.4% increase versus 2022. Year-to-date sales of \$344 million, a 29.5% increase versus 2022.**
- **Net Income of \$13.3 million in the quarter, a 105.0% increase versus 2022. Year-to-date net income of \$29 million, a 92.8% increase versus 2022.**
- **Earnings per share of \$1.12 for the quarter and \$2.44 year-to-date.**
- **Order backlog increased 44.1% versus Quarter 2, 2022**

"The second quarter was noteworthy as we continued to deliver record financial results and experience strong demand from a wide range of end markets, which led to the largest week of bookings in the history of HPS," said Bill Hammond, Chief Executive Officer of Hammond Power Solutions. "Our \$40 million capital investment program is proceeding as planned and we are already benefiting from new capacity that improves our ability to serve the growing demand from our distributors and customers. During the quarter we hired my successor, Adrian Thomas, as CEO. Adrian has an extensive background in the electrical industry and has successfully led teams launching technologies globally. I look forward to working with him as I continue as Executive Chair, building on the strong foundation that Hammond has built as we drive to reach a billion dollars in sales by the end of the decade."

Sales for the quarter-ended July 1, 2023 were at a record level of \$172,451, an increase of \$34,975 or 25.4% from Quarter 2, 2022 sales of \$137,476. Year-to-date 2023 sales increased \$78,327 or 29.5% to \$343,585 compared to \$265,258 in 2022. Sales in the United States ("U.S.") and Mexico increased by \$23,386 or 24.9%, finishing at \$117,310 for Quarter 2, 2023 compared to \$93,924 in Quarter 2, 2022. Year-to-date U.S. and Mexican sales were \$236,114 in 2023 and \$177,035 in 2022, an increase of \$59,079 or 33.4%. U.S. and Mexican sales, stated in U.S. dollars, were \$87,246 in Quarter 2, 2023 compared to Quarter 2, 2022 of \$73,624, an increase of \$13,622 or 18.5%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were \$175,190 in 2023 and \$139,248 in 2022, an increase of \$35,942 or 25.8%. Canadian sales increased to \$45,542 for the quarter, an increase of \$8,771 or 23.9% from Quarter 2, 2022 sales of \$36,771. Year-to-date Canadian sales were \$81,956 in 2023 and \$74,925 in 2022, an increase of \$7,031 or 9.4%. Indian sales for Quarter 2, 2023 finished at \$9,599 versus \$6,781 in Quarter 2, 2022, an increase of \$2,818 or 41.6%. Year-to-date Indian sales were \$25,515 in 2023 and \$13,298 in 2022, an increase of \$12,217 or 91.9%.

The Company's Quarter 2, 2023 backlog increased by 44.4% as compared to Quarter 2, 2022 and has increased 5.0% from Quarter 1, 2023. The combination of price increases and strong demand later in 2022 and the first half of 2023 contributed to the high backlog increase from prior year.

"As a result of implementing our planned capacity additions, we have been able to ship a record amount of product in the second quarter. The higher sales were driven by the U.S. market, and in particular within the distribution channel. India, Mexico and Mesta saw significant increases as well. The stronger U.S. dollar contributed 5% to the higher sales in the quarter versus Q2 2022. On a year-to-date basis, organic volume increases were approximately 14% overall." said Richard Vollerling, Chief Financial Officer of Hammond Power Solutions. "Gross margins also remained strong in the quarter, as we continue to push up against capacity limits in our factories. SG&A expenses remained elevated in the quarter and on a year-to-date basis, mainly due to the impact of the stronger share price on share-based compensation."

The gross margin rate for Quarter 2, 2023 was 30.9% compared to Quarter 2, 2022 margin rate of 25.7%, an improvement of 5.2% of sales. The year-to-date gross margin rate was 31.4% in 2023 versus 27.1% in 2022, an increase of 4.3%. The gross margin rate is impacted by productivity gains, a result of operating leverage, past price increases, and material procurement initiatives. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. Higher gross margins were achieved in all channels and regions. Gross margins deteriorated slightly from the first quarter, 2022 due to higher inventory provisions and a less favourable customer mix.

Total selling and distribution expenses were \$18,950 in Quarter 2, 2023 or 11.0% of sales versus \$15,288 in Quarter 2, 2022 or 11.1% of sales, an increase of \$3,662 but a decrease of 0.1% of sales. Year-to-date selling and distribution expenses were \$36,439 or 10.6% of sales in 2023 compared to \$29,759 or 11.2% of sales in 2022, an increase of \$6,680 but a decrease of 0.6% of sales. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the large increase in sales.

General and administrative expenses were \$15,422 or 8.9% of sales for Quarter 2, 2023 compared to Quarter 2, 2022 expenses of \$10,051 or 7.3% of sales, an increase of \$5,371 and 1.6% of sales. Year-to-date general and administration

expenses were \$29,757 or 8.7% of sales in 2023 compared to \$19,298 or 7.3% of sales in 2022, an increase of \$10,459 or 1.4% of sales. The increase is mainly due to higher share-based compensation costs, but also due to our ongoing strategic investments in people and resources to support our growth strategies with respect to Mesta, Mexico, and power quality, as well as supporting higher levels of general business activity.

Quarter 2, 2023 earnings from operations were \$18,957 compared to \$10,046 for the same quarter last year, an increase of \$8,911. Year-to-date the earnings from operations were \$41,580 in 2023 compared to \$22,704 in 2022, an increase of \$18,876 or 83.1%. The increase in earnings from operations in the quarter and year-to-date are primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses, as well as higher income tax expense.

Interest expense for Quarter 2, 2023 was \$495, an increase of \$146 compared to the Quarter 2, 2022 expense of \$349. Year-to-date interest expense was \$695 in 2023 and \$612 in 2022, an increase of \$83. The foreign exchange gain in Quarter 2, 2023 was \$86 compared to a foreign exchange loss of \$629 in Quarter 2, 2022 – a change of \$715. Year-to-date the foreign exchange loss was \$412 in 2023 compared to \$753 in 2022, a decrease of \$341.

Net earnings for Quarter 2, 2023 finished at \$13,333 compared to net earnings of \$6,505 in Quarter 2, 2022, an increase of \$6,828, or 105.0%. The increase in the quarterly earnings from operations is primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses, as well as higher income tax expense.

EBITDA for Quarter 2, 2023 was \$21,444 versus \$12,225 in Quarter 2, 2022, an increase of \$9,219 or 75.4%. Year-to-date EBITDA was \$45,589 in 2023 compared to \$26,683 in 2022, an increase of \$18,906 or 70.9%.

Basic earnings per share were \$1.12 for Quarter 2, 2023 versus \$0.55 in Quarter 2, 2022, an increase of \$0.57. Year-to-date the basic earnings per share were \$2.44 in 2023 compared to \$1.27 in 2022, an increase of \$1.17.

Cash generated by operating activities for Quarter 2, 2023 was \$12,295 versus \$14,623 in Quarter 2, 2022, a decrease in cash generated of \$2,328. Year-to-date the net cash generated by operating activities was \$1,829 in 2023 compared to \$15,160 in 2022, a decrease of \$13,331. Total cash generated by financing activities was \$2,482 in the second quarter of 2023, compared to cash used of \$2,719 in the same period in 2022. Year-to-date the cash generated by financing activities was \$6,543 in 2023 and cash used of \$3,085 in 2022. Cash used in investing activities increased year-over-year with cash used of \$4,309 in Quarter 2, 2023 from \$1,596 in Quarter 2, 2022, an increase of \$2,713. Year-to-date cash used in investing activities was \$6,323 in 2023 and \$3,123 in 2022, an increase of \$3,200.

The sharp increase in sales volume since the end of 2022 has increased working capital requirements in 2023. As we begin the implementation of our capacity expansion plans, we are beginning to see higher capital expenditures in the second quarter. We expect capital expenditures to continue to increase in the back half of 2023.

The Board of Directors of HPS declared a quarterly cash dividend of twelve and a half cents (\$0.125) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of twelve and a half cents (\$0.125) per Class B Common Share of HPS. The Company has paid a cash dividend of twenty-five cents (\$0.25) per Class A Subordinate Voting Share and twenty-five cents (\$0.25) per Class B Common Shares year-to-date.

THREE MONTHS ENDED:

(dollars in thousands)

	July 1, 2023	July 2, 2022	Change
Sales	\$ 172,451	\$ 137,476	\$ 34,975
Earnings from operations	\$ 18,957	\$ 10,046	\$ 8,911
Exchange (gain) loss	\$ (86)	\$ 629	\$ (715)
Net earnings	\$ 13,333	\$ 6,505	\$ 6,828
Earnings per share			
Basic	\$ 1.12	\$ 0.55	\$ 0.57
Diluted	\$ 1.12	\$ 0.55	\$ 0.57
Cash (used by) generated by operations	\$ 12,295	\$ 14,623	\$ (2,328)
EBITDA	\$ 21,444	\$ 12,225	\$ 9,219
Capital Spending	\$ 4,309	\$ 1,304	\$ 3,005

SIX MONTHS ENDED:

(dollars in thousands)

	July 1, 2023	July 2, 2022	Change
Sales	\$ 343,585	\$ 265,258	\$ 78,327
Earnings from operations	\$ 41,580	\$ 22,704	\$ 18,876
Exchange loss	\$ 412	\$ 753	\$ (341)
Net earnings	\$ 29,059	\$ 15,074	\$ 13,985

Earnings per share										
Basic	\$	2.44	\$	1.27	\$	1.17				
Diluted	\$	2.44	\$	1.27	\$	1.17				
Cash generated by (used in) operations					\$	1,829	\$	15,160	\$	(13,331)
EBITDA					\$	45,589	\$	26,683	\$	18,906
Capital Spending					\$	6,319	\$	2,877	\$	3,442

Caution Regarding Forward-Looking Information

This press release contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HPS' strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "likely", "expect", "intend", "estimate", "anticipate", "believe", "plan", "objective" and "continue" and words and expressions of similar import. Although HPS believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to currency rates); changes in laws and regulations; legal and regulatory proceedings; and the ability to execute strategic plans. HPS does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law.

ABOUT HAMMOND POWER SOLUTIONS INC.

Hammond Power Solutions Inc. ("HPS" or the "Company") enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States, Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

Hammond Power Solutions – passionate people energizing a better world

For further information, please contact:

David Feick
Investor Relations
519-822-2441 x453
ir@hammondpowersolutions.com