

Hammond Power Solutions Reports Third Quarter 2022 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

GUELPH, Ontario, Oct. 27, 2022 -- In a release issued under the same headline earlier today by Hammond Power Solutions Inc. (TSX: HPS.A), please note the second column header in the "THREE MONTHS ENDED" and "NINE MONTHS ENDED" tables should read "September 25, **2021**," not "September 25, 2022". The corrected release follows:

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 third quarter 2022.

HIGHLIGHTS

- Sales increased 56% to a record \$149 million
- Net Earnings of \$11,531, exceeding the third quarter of 2021 by \$7,583
- Earnings per share increased to \$0.97, compared with \$0.34 in Q3 2021
- Order backlog increased 141%
- Cash generated from operations of \$16,501 and ending net operating cash balance of \$21,843

"Hammond continues to experience a very favourable environment where sales from all of our business regions continue to grow at the highest rate in our company's history. The U.S. economy is the strongest and most stable of any in the world right now, and Hammond is benefiting from a diverse and extensive distributor network that is providing significant growth into many sectors of the economy and adding to our backlog," said Bill Hammond, CEO and Chairman of Hammond Power Solutions. "Given our momentum and the number of opportunities we see around us, we are prudently moving ahead with selective and increased capital spending plans to expand our manufacturing capacity and service capabilities. These investments will solidify our market-leading position through improved lead times and inventory levels, and more efficient manufacturing capabilities."

Sales for the quarter-ended October 1, 2022 were \$148,953, an increase of \$53,427 or 55.9% from Quarter 3, 2021 sales of \$95,526. Year-to-date 2022 sales increased \$150,287 or 56.9% to \$414,211 compared to \$263,924 in 2021. Sales in the United States ("U.S") and Mexico stated in Canadian dollars increased by \$32,253 or 52.6%, finishing at \$93,591 for Quarter 3, 2022 compared to \$61,338 in Quarter 3, 2021. Year-to-date U.S. and Mexican sales were \$260,561 in 2022 and \$160,896 in 2021, an increase of \$99,665 or 61.9%. U.S. and Mexican sales, when stated in U.S. dollars were \$71,745 in Quarter 3, 2022, compared to Quarter 3, 2021 of \$48,815 an increase of \$22,929 or 47.0%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were \$203,103 in 2022 compared to \$128,581 in 2021, an increase of \$74,522 or 58.0%. Canadian sales were \$49,653 for the quarter, an increase of \$20,180 or 68.5% from Quarter 3, 2021 sales of \$29,473. Year-to-date Canadian sales were \$134,653 in 2022 compared to \$89,941 in 2021, growth of \$44,712 or 49.7%. Indian sales for Quarter 3, 2022 finished at \$5,709 versus \$4,715 in Quarter 3, 2021, an increase of \$994 or 21.1%. Year-to-date Indian sales were \$18,997 in 2022 compared to \$13,087 in 2021, an increase of \$5,910 or 45.2%.

The Company saw a significant order backlog increase of 141.3% over Quarter 3, 2021 and has seen a continued increase of 14.6% from Quarter 2, 2022. The combination of price increases, a stronger U.S. dollar, market demand and some delayed shipments due to material availability continue to contribute to the record-high backlog.

"As costs stabilized, margins recovered from the second quarter. Furthermore, historically high production volumes are having a positive impact on margins," said Richard Vollerling, Chief Financial Officer of Hammond Power Solutions. "Industry demand has continued to show strength, as shown by the backlog growth, but the pace of growth is slowing, with the backlog increase from the second quarter at 14.6%, down from the 26.6% increase experienced between the first and the second quarter. Nevertheless, our backlog is now extending well into 2023. Once again growth is across all channels in the quarter, but most notably in the U.S. distributor and O.E.M channels. Our cash position and balance sheet have continued to strengthen over the first nine months of 2022, providing a solid foundation to grow organically and through acquisition into 2023 and beyond."

The company experienced an increase in its gross margin rate for Quarter 3, 2022, which was 29.2% compared to a Quarter 3, 2021 gross margin rate of 26.8%, an increase of 2.4% of sales. The year-to-date gross margin rate was 27.9% in 2022 versus 26.7% in 2021, an increase of 1.2%. Two additional price increases were implemented in 2022, some of which affected Quarter 3, 2022 sales and will continue to be reflected in future quarter sales. In the third quarter, some material input costs have stabilized, while others continue to increase due to underlying inflation. While there remains higher than normal volatility in costs, we have seen a positive impact on margins in the quarter.

Total selling and distribution expenses were \$16,433 in Quarter 3, 2022 or 11.0% of sales versus \$11,433 in Quarter 3, 2021 or 12.0% of sales, an increase of \$5,000 and a decrease of 1.0% of sales. Year-to-date selling and distribution expenses were \$46,192 or 11.2% of sales in 2022 compared to \$31,900 or 12.1% in 2021, an increase of \$14,292 or a decrease of 0.9% 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 for Quarter 3, 2022 were \$10,976 or 7.4% of sales, compared to Quarter 3, 2021 expenses of \$8,222 or 8.6% of sales, an increase of \$2,754 and a decrease of 1.2% of sales. Year-to-date general and administrative expenses were \$30,274 or 7.3% of sales in 2022, compared to \$21,766 or 8.2% of sales in 2021, an increase of \$8,508 and a decrease of 0.9% of sales. The increase is due to our strategic investments in people, resources and incentive plans, Mesta and Mexico general and administrative expenses, higher information technology expenses to support growth, increased bad debt expense and outside consulting and service costs.

Quarter 3, 2022 earnings from operations increased to \$16,118, an increase of \$10,209 or 172.8% from \$5,909 for the same quarter last year. The year-to-date earnings from operations were \$39,072 in 2022 compared to \$16,931 in 2021, an increase of \$22,141 or 130.8%.

Interest expense for Quarter 3, 2022 was \$448, an increase of \$139 or 45.0% compared to the Quarter 3, 2021 expense of \$309. Year-to-date interest cost was \$1,060, an increase of \$127 or 13.6% when compared to the 2021 year-to-date expense of \$933.

Net earnings for Quarter 3, 2022 finished at \$11,531 compared to net earnings of \$3,948 in Quarter 3, 2021, an improvement of \$7,583 or 192.1%. Year-to-date net earnings were \$26,605 in 2022 compared to \$10,935 in 2021, an increase of \$15,670 or 143.3%. The improvement in the year-to-date earnings is a result of the increased sales and higher gross margin dollar contribution partially offset by greater selling, distribution, general and administrative expenses and additional foreign exchange losses.

EBITDA for Quarter 3, 2022 was \$18,970 versus \$7,378 in Quarter 3, 2021, an increase of \$11,592 or 157.1%. Year-to-date EBITDA was \$45,653 in 2022 and \$21,421 in 2021, an increase of \$24,232 or 113.1%.

Cash generated by operating activities for Quarter 3, 2022 was \$16,501 versus \$7,430 in Quarter 3, 2021, an improvement of \$9,071. This change is due to an increase in cash generated from working capital offset by higher income tax payments during the Quarter. Year-to-date net cash generated by operating activities was \$31,661 compared to cash generated of \$547 in 2021, an increase of \$31,114. Cash used in investing activities decreased by \$3,602 to \$3,127 in Quarter 3, 2022 from \$6,729 in the same period of 2021. Year-to-date cash used in investing activities was \$6,250 in 2022 and \$8,745 in 2021, a decrease of \$2,495. Capital expenditures were \$3,129 in Quarter 3, 2022 compared to \$1,741 for Quarter 3, 2021, an increase of \$1,388. The Company's overall net operating cash balance was \$21,843 in Quarter 3, 2022 compared to net operating debt balance of \$15,399 in Quarter 3, 2021, a decrease in debt position of \$37,242 primarily reflective of increased profitability.

The Company continued with its regular quarterly dividend program in the second quarter, paying ten cents (\$0.10) per Class A Subordinate Voting Share of HPS and ten cents (\$0.10) per Class B Common Share of HPS on September 23, 2022.

THREE MONTHS ENDED:

(dollars in thousands)

	October 1, 2022	September 25, 2021	Change
Sales	\$ 148,953	\$ 95,526	\$ 53,427
Earnings from operations	\$ 16,118	\$ 5,909	\$ 10,209
Exchange (gain) loss	\$ (252)	\$ 75	\$ (327)
Net earnings	\$ 11,531	\$ 3,948	\$ 7,583
Earnings per share			
Basic	\$ 0.97	\$ 0.34	\$ 0.63
Diluted	\$ 0.97	\$ 0.34	\$ 0.63
Cash generated by operations	\$ 16,501	\$ 7,430	\$ 9,071

NINE MONTHS ENDED:

(dollars in thousands)

	October 1, 2022	September 25, 2021	Change
Sales	\$ 414,211	\$ 263,924	\$ 150,287

Earnings from operations	\$	39,072	\$	16,931	\$	22,141
Exchange loss	\$	751	\$	432	\$	319
Net earnings	\$	26,605	\$	10,935	\$	15,670
Earnings per share						
Basic	\$	2.25	\$	0.93	\$	1.32
Diluted	\$	2.25	\$	0.93	\$	1.32
Cash generated by operations	\$	31,661	\$	547	\$	31,114

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 (U.S.), 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