



Hammond Power Solutions Reports Third Quarter 2024 Financial Results

(Dollar amounts are in thousands, in Canadian currency unless otherwise specified)

GUELPH, Ontario, Oct. 29, 2024 -- Hammond Power Solutions Inc. ("HPS" or the "Company") (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 2024.

HIGHLIGHTS

- Sales of \$192 million in the quarter, a 6.9% increase versus 2023.
- Adjusted EBITDA of \$34,377 in the quarter, or 17.9% of sales.
- Gross margin of 33.8% for the quarter.
- Net earnings of \$16.3 million in the quarter. Earnings per share of \$1.37 for the quarter, significantly impacted by share-based compensation.
- Backlog increased by 4% over the second quarter of 2024.

"We have continued to make significant strides in progressing our strategic goals and developing capacity for the future. In the quarter, we saw the product mix continue to shift towards custom products, a trend we have been experiencing for several quarters now, mainly driven by increasing activity in emerging sectors such as data centres. A more acute driver for this shift in the third quarter was the result of a slower overall market for standard products in the US, mainly driven by broad weakness in commercial construction and industrial markets over the summer. This trend was prevalent throughout the quarter, resulting in slightly lower shipments as compared to the second quarter. Canada saw similar market dynamics in commercial construction, but activity in healthcare, infrastructure and data centres continued to remain robust. Booking momentum continued through the third quarter with an increase in backlog driven primarily by custom products related to project activity," said Adrian Thomas, CEO of HPS. "Our continued confidence in long-term demand for our products, combined with sustained high project quotation activity, led us to announce an additional \$20 million investment in our capital program late this summer. This investment will focus on further building out our large custom power transformer capacity. We also announced the agreement to purchase the assets of Micron Industries, which has since closed. The addition of Micron will improve our ability to serve US and North American customers from the facility in Sterling, IL, as well as provide us with access to a broader set of OEM customers where we can look to expand our sales of power quality products and other products in our portfolio. Finally, we were honored to be recognized in September by the Toronto Stock Exchange by being named to the top spot of the TSX30, which recognized our significant and consistent 3-year total shareholder return of 928%."

Geography	Quarter 3, 2024	Quarter 3, 2023	\$ Change	% Change	YTD 2024	YTD 2023	\$ Change	% Change
US & Mexico*	\$ 130,086	\$ 129,762	324	0.2%	\$ 393,994	\$ 365,876	28,118	7.7%
Canada	52,916	41,969	10,947	26.1%	157,070	123,925	33,145	26.7%
India	8,970	7,790	1,180	15.1%	28,800	33,305	(4,505)	(13.5%)
Total	\$ 191,972	\$ 179,521	12,451	6.9%	\$ 579,864	\$ 523,106	56,758	10.9%

The U.S. distribution channel was up year-over-year, but down from the second quarter of 2024. The decline was due to weaker commercial construction and industrial markets over the summer, and primarily affected standard products while shipments of custom products remained resilient. Sales in the OEM and private label channels were slightly lower in the quarter compared to the prior year. The Canadian market was also lower versus the second quarter of 2024, but still achieved significant growth versus the prior year quarter through the distribution channel in both stock and flow product and large projects in commercial construction, electric vehicle charging, data centres, public infrastructure, mining, and utilities. As anticipated, Mesta sales increased in the quarter versus the second quarter of 2024 as a large order for induction heating products began to ship. India sales increased year-over-year in the quarter and were up by 10% versus the second quarter of 2024.

The Company's Quarter 3, 2024 backlog increased by 0.7% as compared to Quarter 3, 2023. Sequentially, the Company's backlog increased by 4.2% from Quarter 2, 2024 value even as our quarterly shipments continued at strong levels.

"We believe that slowing sales in standard, stocked product is a result of weaker economic conditions over the summer that affected electrical components markets broadly. We are pleased that margins continued to expand in the quarter, mainly due to a favourable product mix in both low voltage distribution and induction heating products. As a result, adjusted EBITDA reached a record 17.9% of sales in the quarter and 16.8% on a year-to-date basis," said Richard Vollering, Chief Financial

Officer of HPS. “Our cash position remained strong in the quarter, even with capital expenditures exceeding \$13 million to support our capacity expansion programs. Inventory levels increased in the quarter partially as a result of slower standard product shipments, and partially due to higher carrying levels as we transition to a new consolidated warehousing strategy. We were pleased to announce that the acquisition of Micron assets was completed as of the second week of October, and are expected to contribute to the fourth quarter results.”

The Company saw an increase in its gross margin rate for the three months of Quarter 3, 2024 which was 33.8% compared to Quarter 3, 2023 margin rate of 31.7%, an increase of 220 basis points. The year-to-date gross margin rate has increased from 31.5% in 2023 to 32.8% in 2024, an increase of 130 basis points. Gross margins improved in the quarter due to a more favourable product mix.

Total selling and distribution expenses were \$20,252 in Quarter 3, 2024 or 10.5% of sales versus \$19,856 in Quarter 3, 2023 or 11.1% of sales, an increase of \$396 or a decrease of 60 basis points. The quarter and year-to-date increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the increase in sales.

General and administrative expenses were \$21,024 or 11.0% of sales for Quarter 3, 2024 compared to Quarter 3, 2023 expenses of \$16,504 or 9.2% of sales, an increase of \$4,520 or 180 basis points. 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 as well as supporting higher levels of general business activity.

Net earnings for Quarter 3, 2024 finished at \$16,311 compared to net earnings of \$14,437 in Quarter 3, 2023, an increase of \$1,874. The increase in the quarterly and year-to-date earnings is a result of higher sales and gross margin dollars, offset by an increase in share-based compensation expenses, general and administrative expenses, selling and distribution expenses and income tax expense.

EBITDA for Quarter 3, 2024 was \$27,229 versus \$23,657 in Quarter 3, 2023, an increase of \$3,572 or 15.1%. Adjusted for foreign exchange loss/gain and share-based compensation expenses Adjusted EBITDA for Quarter 3, 2024 was \$34,377, or 17.9% of sales, versus \$25,688, or 14.3% of sales in Quarter 3, 2023, an increase of \$8,689 or 33.8%.

Basic earnings per share was \$1.37 for Quarter 3, 2024 versus \$1.21 in Quarter 3, 2023, an increase of \$0.16.

The Board of Directors of HPS declared a quarterly cash dividend of twenty-seven and a half cents (\$0.275) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of twenty-seven and a half cents (\$0.275) per Class B Common Share of HPS paid on September 27, 2024 to shareholders of record at the close of business on September 20, 2024.

THREE MONTHS ENDED:

(dollars in thousands)

	September 28, 2024	September 30, 2023	Change
Sales	\$ 191,972	\$ 179,521	\$ 12,451
Earnings from operations	\$ 23,665	\$ 20,480	\$ 3,185
Exchange loss (gain)	\$ 237	\$ (725)	\$ 962
Net earnings	\$ 16,311	\$ 14,437	\$ 1,874
Earnings per share			
Basic	\$ 1.37	\$ 1.21	\$ 0.16
Diluted	\$ 1.37	\$ 1.21	\$ 0.16
Cash generated by operations	\$ 17,397	\$ 22,159	\$ (4,762)
EBITDA	\$ 27,229	\$ 23,657	\$ 3,572
Adjusted EBITDA*	\$ 34,377	\$ 25,688	\$ 8,689
Capital Spending	\$ 13,531	\$ 9,231	\$ 4,300

NINE MONTHS ENDED:

(dollars in thousands)

	September 28, 2024	September 30, 2023	Change
Sales	\$ 579,864	\$ 523,106	\$ 56,758
Earnings from operations	\$ 69,054	\$ 62,060	\$ 6,994
Exchange (gain) loss	\$ 1,442	\$ (313)	\$ 1,755
Net earnings	\$ 47,853	\$ 43,496	\$ 4,357
Earnings per share			
Basic	\$ 4.02	\$ 3.65	\$ 0.37
Diluted	\$ 4.02	\$ 3.65	\$ 0.37
Cash generated by (used in) operations	\$ 42,338	\$ 23,988	\$ 18,350
EBITDA	\$ 78,939	\$ 69,246	\$ 9,693

Adjusted EBITDA*	\$ 97,936	\$ 80,147	\$ 17,789
Capital Spending	\$ 30,886	\$ 15,550	\$ 15,336

* EBITDA adjusted for foreign exchange gain or loss and share based compensation

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, Hammond Power Solutions Inc.'s (the "Company" or "HPS") strategies, intentions, plans, beliefs, expectations and estimates, in connection with general economic and business outlook, prospects and trends of the industry, expected demand for products and services, product development and the Company's competitive position. Forward-looking statements can generally be identified, but not limited to, 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 the Company 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 risks related to foreign currency fluctuations and changing interest rates); risks associated with the Company's business environment (such as risks associated with the financial condition of the oil and gas, mining and infrastructure project business); geopolitical risks; climate related risks; changes in laws and regulations; operational risks (such as risks related to existing and developing new products and services); doing business with partners and suppliers; product sales and performance; legal and regulatory proceedings; dependence on certain customers and suppliers; costs associated with raw materials, products and services; human resources; and the ability to execute strategic plans. The Company 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.

This forward-looking information represents our views as of the date of this press release and such information should not be relied upon as representing our views as of any date subsequent to the date of this press release. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated, expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

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 – Energizing Our World

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