



Hammond Power Solutions Reports Third Quarter 2023 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

GUELPH, Ontario, Oct. 26, 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 third quarter 2023.

HIGHLIGHTS

- **Record sales of \$179 million in the quarter, a 20.5% increase versus 2022. Year-to-date sales of \$523 million, a 26.3% increase versus 2022.**
- **Net Income of \$14.4 million in the quarter, a 25.2% increase versus 2022. Year-to-date net income of \$43.5 million, a 63.5% increase versus 2022.**
- **Earnings per share of \$1.21 for the quarter and \$3.65 year-to-date.**
- **Order backlog increased 11% versus Quarter 2, 2023.**

"The third quarter saw continued strong demand across our portfolio of products and services resulting a record quarterly revenue for the Company. Demand was driven by our custom power units that serve renewable and data center applications," said Adrian Thomas, CEO of Hammond Power Solutions. "We are progressing with our previously announced capital plan and we have recently approved an additional capital expenditure to address expected long-term demand in our core industrial markets. In parallel, continuous improvement programs and greater hiring have progressively ramped up plant productivity and incrementally increased our production rates."

Sales for the quarter-ended September 30, 2023 were at a record level of \$179,521 an increase of \$30,568 or 20.5% from Quarter 3, 2022 sales of \$148,953. Year-to-date 2023 sales increased \$108,895 or 26.3% to \$523,106 compared to \$414,211 in 2022. Sales in the United States ("U.S.") and Mexico increased by \$25,782 or 24.8%, finishing at \$129,762 for Quarter 3, 2023 compared to \$103,980 in Quarter 3, 2022. Year-to-date U.S. and Mexican sales were \$365,876 in 2023 and \$281,015 in 2022, an increase of \$84,861 or 30.2%. U.S. and Mexican sales, stated in U.S. dollars, were \$96,818 in Quarter 3, 2023 compared to Quarter 3, 2022 of \$79,709, an increase of \$17,109 or 21.5%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were \$272,008 in 2023 and \$218,957 in 2022, an increase of \$53,052 or 24.2%. Canadian sales increased to \$41,969 for the quarter, an increase of \$2,705 or 6.9% from Quarter 3, 2022 sales of \$39,264. Year-to-date Canadian sales were \$123,925 in 2023 and \$114,189 in 2022, an increase of \$9,736 or 8.5%. Indian sales for Quarter 3, 2023 finished at \$7,790 versus \$5,709 in Quarter 2, 2022, an increase of \$2,081 or 36.5%. Year-to-date Indian sales were \$33,305 in 2023 and \$19,007 in 2022, an increase of \$14,298 or 75.2%.

The Company's Quarter 3, 2023 backlog increased by 40.3% as compared to Quarter 3, 2022 and has increased 11.3% from Quarter 2, 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.

"Once again, the U.S. distributor channel led growth in the quarter, while our other channels and markets remained strong. With some of our planned equipment additions complete, we have pushed consolidated revenue to almost \$180 million in the third quarter," said Richard Vollering, CFO of Hammond Power Solutions. "Gross margins have remained resilient in the quarter at over 31%, roughly in line with the second quarter, and SG&A expenses were higher in the quarter, mainly due to higher compensation costs and higher business activity costs. Our cash position has strengthened in the quarter due to strong profitability along with working capital improvements."

The gross margin rate for Quarter 3, 2023 was 31.7% compared to Quarter 3, 2022 margin rate of 29.2%, an improvement of 2.4% of sales. The year-to-date gross margin rate was 31.5% in 2023 versus 27.9% in 2022, an increase of 3.6%. The improvement in gross margin rate is the result of better operating leverage due to high factory throughput, past price increases, a higher proportion of Mesta and power quality sales, and margin improvements in India. Higher gross margins were achieved in all channels and regions, and are supported by high demand for the Company's products.

Total selling and distribution expenses were \$19,856 in Quarter 3, 2023 or 11.1% of sales versus \$16,433 in Quarter 3, 2022 or 11.0% of sales, an increase of \$3,423 and 0.1% of sales. Year-to-date selling and distribution expenses were \$56,295 or 10.8% of sales in 2023 compared to \$46,192 or 11.2% of sales in 2022, an increase of \$10,103 but a decrease of 0.4% 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 \$16,504 or 9.2% of sales for Quarter 3, 2023 compared to Quarter 2, 2022 expenses of \$10,976 or 7.4% of sales, an increase of \$5,528 and 1.8% of sales. Year-to-date general and administration expenses were \$46,261 or 8.8% of sales in 2023 compared to \$30,274 or 7.3% of sales in 2022, an increase of \$15,987 or 1.5% 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 3, 2023 earnings from operations were \$20,480 compared to \$16,368 for the same quarter last year, an increase of \$4,112. Year-to-date the earnings from operations were \$62,060 in 2023 compared to \$39,072 in 2022, an increase of \$22,988 or 58.8%. 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 3, 2023 was \$265 a decrease of \$183 compared to the Quarter 3, 2022 expense of \$448. Year-to-date interest expense was \$960 in 2023 and \$1,060 in 2022, a decrease of \$100. The foreign exchange gain in Quarter 3, 2023 was \$725 compared to a foreign exchange gain of \$2 in Quarter 3, 2022 – a change of \$723. Year-to-date the foreign exchange gain was \$313 in 2023 compared to foreign exchange loss of \$751 in 2022, a change of \$1,064.

Net earnings for Quarter 3, 2023 finished at \$14,437 compared to net earnings of \$11,531 in Quarter 3, 2022, an increase of \$2,906 or 25.2%. 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 3, 2023 was \$23,657 versus \$18,970 in Quarter 3, 2022, an increase of \$4,687 or 24.7%. Year-to-date EBITDA was \$69,246 in 2023 compared to \$45,653 in 2022, an increase of \$23,593 or 51.7%.

Basic earnings per share were \$1.21 for Quarter 3, 2023 versus \$0.97 in Quarter 3, 2022, an increase of \$0.24. Year-to-date the basic earnings per share were \$3.65 in 2023 compared to \$2.25 in 2022, an increase of \$1.40.

Cash generated by operating activities for Quarter 3, 2023 was \$22,159 versus \$16,501 in Quarter 3, 2022, an increase in cash generated of \$5,658. Year-to-date the net cash generated by operating activities was \$23,988 in 2023 compared to \$31,661 in 2022, a decrease of \$7,673. Total cash generated by financing activities was \$1,150 in the third quarter of 2023, compared to \$4,083 in the same period in 2022. Year-to-date the cash generated by financing activities was \$7,693 in 2023 and cash generated of \$998 in 2022. Cash used in investing activities increased year-over-year with cash used of \$9,225 in Quarter 3, 2023 from \$3,127 in Quarter 3, 2022, an increase of \$6,098. Year-to-date cash used in investing activities was \$15,548 in 2023 and \$6,250 in 2022, an increase of \$9,298.

The sharp increase in sales volume since the end of 2022 has increased working capital requirements in 2023. As the company begins the implementation of its capacity expansion plans, it is beginning to incur higher capital expenditures in the second and third quarter. The Company expects capital expenditures to continue to increase for the remainder of 2023 and into 2024.

The Board of Directors of HPS declared a quarterly cash dividend of fifteen cents (\$0.15) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of fifteen cents (\$0.15) per Class B Common Share of HPS paid on September 22, 2023 to shareholders of record at the close of business on September 15, 2023. The ex-dividend date was September 14, 2023. The Company has paid a cash dividend of forty cents (\$0.40) per Class A Subordinate Voting Share and forty cents (\$0.40) per Class B Common Shares year-to-date.

THREE MONTHS ENDED:

(dollars in thousands)

	September 30, 2023	October 1, 2022	Change
Sales	\$ 179,521	\$ 148,953	\$ 30,568
Earnings from operations	\$ 20,480	\$ 16,368	\$ 4,112
Exchange gain	\$ (725)	\$ (2)	\$ (723)
Net earnings	\$ 14,437	\$ 11,531	\$ 2,906
Earnings per share			
Basic	\$ 1.21	\$ 0.97	\$ 0.24
Diluted	\$ 1.21	\$ 0.97	\$ 0.24
Cash generated by operations	\$ 22,159	\$ 16,501	\$ 5,658
EBITDA	\$ 23,657	\$ 18,970	\$ 4,687
Capital Spending	\$ 9,231	\$ 3,129	\$ 6,102

NINE MONTHS ENDED:

(dollars in thousands)

	September 30, 2023	October 1, 2022	Change
Sales	\$ 523,106	\$ 414,211	\$ 108,895

Earnings from operations	\$ 62,060	\$ 39,072	\$ 22,988
Exchange (gain) loss	\$ (313)	\$ 751	\$ (1,064)
Net earnings	\$ 43,496	\$ 26,605	\$ 16,891
Earnings per share			
Basic	\$ 3.65	\$ 2.25	\$ 1.40
Diluted	\$ 3.65	\$ 2.25	\$ 1.40
Cash generated by operations	\$ 23,988	\$ 31,661	\$ (7,673)
EBITDA	\$ 69,246	\$ 45,653	\$ 23,593
Capital Spending	\$ 15,550	\$ 6,006	\$ 9,544

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

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