



Hammond Power Solutions Reports First Quarter 2024 Financial Results

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

GUELPH, Ontario, April 29, 2024 -- 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 first quarter 2024.

HIGHLIGHTS

- **Record sales of \$190 million in the quarter, a 11.4% increase versus 2023.**
- **Adjusted EBITDA of \$30,972 in the quarter, or 16% of sales. Adjusted EBITDA is 6% higher than the first quarter of 2023.**
- **Gross margin of 31.7% for the quarter.**
- **Net Earnings of \$7.9 million in the quarter. Earnings per share of \$0.67 for the quarter, significantly impacted by share-based compensation.**

"We begin 2024 at a strong pace as we continued to grow our quarterly sales volumes. Higher bookings versus 2023 maintained the backlog even with higher shipments, and we are now seeing bookings and shipments somewhat evenly matched. The distribution network stood out again as a source of strength as more projects continued to flow through this channel. Canada was also a standout as we shipped several key projects in commercial construction, electric vehicle ("EV") charging, data centres, public infrastructure, oil & gas, mining, and utilities," said Adrian Thomas, CEO of Hammond Power Solutions. "With the strong project demand, we have made further commitments to equipment spending as we forecast demand from emerging market segments to continue. We also implemented a price increase that will take effect in the second quarter of 2024, after having not done so since 2022. The increase was in consideration of persistent inflation and resilient demand. Regarding the Mesta and Power Quality business, a large customer project delay impacted our shipments for the quarter, but we still expect full year shipments to remain close to expectations. We are gaining recognition within the technical community and among our customers, as demonstrated by receiving the Rockwell Automation Technology Partner Innovation award for our Active Harmonic Filter."

Geography	Q1 2024	Q1 2023	\$ Change	% Change
U.S. & Mexico	\$ 130,732	\$ 118,804	\$ 11,928	10.0%
Canada	48,296	36,414	11,882	32.6%
India	11,652	15,916	(4,264)	(26.8%)
Total	\$ 190,680	\$ 171,134	\$ 19,546	11.4%

The United States ("U.S.") market experienced its strongest growth in the distributor channel as the Company continued to grow sales with existing and new distributors. The Original Equipment Manufacturer ("OEM") channel also grew in the quarter, with strong sales to motor control, mining, and data centres. The Canadian market experienced increases in both distribution and direct sales in commercial construction, EV charging, data centre projects, public infrastructure, oil & gas, mining, and utilities.

The Company's Quarter 1, 2024 backlog increased by 11.1% as compared to Quarter 1, 2023. Strong demand in the back half of 2023 contributed to the high backlog increase from prior year. The Company's backlog has decreased 1.1% from the Quarter 4, 2023 value as our quarterly shipments reached record levels.

"We began the year continuing with the strong momentum that we were experiencing at the end of 2023. We were able to maintain margins of 31.7% in the quarter despite lower power quality, Induction Heating Inverter ("IHI"), and India sales, which all had very favourable margins in Quarter 1, 2023. Additionally, we are incurring costs in getting our new factory set up in Mexico, which had a slight negative impact on margins. Offsetting this, margins are being positively affected by a higher proportion of custom projects in the quarter," said Richard Vollerling, CFO of HPS. "Notably, share-based compensation was \$16.8 million in the quarter, which was \$12.2 million higher than in Quarter 1, 2023, reflecting the higher share price in 2024, resulting in the decrease in net earnings and EBITDA. A normalized metric for the quarter is adjusted EBITDA, which was 16% in Quarter 1, 2024. Net cash generation was slightly negative as we invested almost \$7.5 million in capex in the quarter, consistent with our capital expansion plans for 2024, and incurred higher working capital requirements as a result of higher sales and significant seasonal payments in the first quarter for bonuses and rebates."

The Company saw a slight decrease in its gross margin rate for Quarter 1, 2024 which was 31.7% compared to Quarter 1, 2023 margin rate of 31.8%, a decrease of 0.1% of sales. The stability in gross margin is the result of better operating leverage due to high factory throughput, price maintenance in the market, and stabilizing cost inputs. Higher gross margins were achieved in all channels and are supported by high demand for the Company's products. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend.

Total selling and distribution expenses were \$21,067 in Quarter 1, 2024 or 11.0% of sales versus \$17,489 in Quarter 1, 2023 or 10.2% of sales, an increase of \$3,578 or 0.8% 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 \$29,139 or 15.3% of sales for Quarter 1, 2024 compared to Quarter 1, 2023 expenses of \$14,335 or 8.4% of sales, an increase of \$14,804 or 6.9% 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 as well as supporting higher levels of general business activity.

Net earnings for Quarter 1, 2024 finished at \$7,952 compared to net earnings of \$15,726 in Quarter 1, 2023, a decrease of \$7,774. The decrease in the quarterly earnings from operations is primarily a result of higher selling, distribution, general and administrative expenses, offset by an increase in sales and gross margin dollars, and lower income tax expense.

EBITDA for Quarter 1, 2024 was \$14,999 versus \$24,145 in Quarter 1, 2023, a decrease of \$9,146 or 37.9%. Adjusted for foreign exchange loss/gain and share based compensation expenses adjusted EBITDA for Quarter 1, 2024 was \$30,972 versus \$29,121 in Quarter 1, 2023, an increase of \$1,851 or 6.4%.

Basic earnings per share were \$0.67 for Quarter 1, 2024 versus \$1.32 in Quarter 1, 2023.

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 March 28, 2024.

The Board of Directors of HPS also declared a quarterly cash dividend of twenty-seven and half cents (\$0.275) per Class A subordinate voting shares of HPS and a quarterly cash dividend of twenty-seven and half cents (\$0.275) per Class B common shares of HPS payable on June 25, 2024.

THREE MONTHS ENDED:

(dollars in thousands)

	March 30, 2024	April 1, 2023	Change
Sales	\$ 190,680	\$ 171,134	\$ 19,546
Earnings from operations	\$ 10,299	\$ 22,623	\$ (12,324)
Exchange (gain) loss	\$ (698)	\$ 498	\$ (1,196)
Net earnings	\$ 7,952	\$ 15,726	\$ (7,774)
Earnings per share			
Basic	\$ 0.67	\$ 1.32	\$ (0.65)
Diluted	\$ 0.67	\$ 1.32	\$ (0.65)
Cash generated by (used in) operations	\$ 6,285	\$ (10,466)	\$ 16,751
EBITDA	\$ 14,999	\$ 24,145	\$ (9,146)
Adjusted EBITDA*	\$ 30,972	\$ 29,121	\$ 1,851
Capital Spending	\$ 7,487	\$ 2,010	\$ 5,477

* 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 "**Corporation**" 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 Corporation'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 Corporation 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 Corporation'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 Corporation 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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