

Hammond Power Solutions Inc.

QUARTER 2, 2021 FINANCIAL RESULTS

(Dollar amounts are in thousands unless otherwise specified)

HIGHLIGHTS

- Sales increased 17% to \$88.3 million in Qtr. 2, 2021 from \$75.4 million in Qtr. 2,2020
- Bookings increased 33% compared to prior year
- Order backlog increased 14% over prior year
- Net Earnings increased 6.1% in the quarter and 6.4% year-to-date
- Earnings per share increase in the Quarter to \$0.40 and \$0.59 year-to-date

Guelph, Ontario, July 22, 2021 – Hammond Power Solutions Inc. ("HPS") (TSX: HPS.A) a leading manufacturer of dry-type and cast resin transformers and related magnetics, today announced its financial results for the Second Quarter of 2021.

SECOND QUARTER RESULTS

"Over the last five years we have invested heavily in our distributor network, doubling its size, diversifying the product offering and significantly expanding our sectoral reach," said Bill Hammond, Chairman and CEO of Hammond Power Solutions. "Hammond is experiencing a resurgence in business activity across all sectors which is underpinned by the strength in our network. Our leading market position in this economic recovery phase and focus on quality have accelerated our growth as we gain footholds in new markets including, solar, energy storage, and electric vehicle charging. We are also seeing strength in the more cyclical sectors we have traditionally served, including mining and oil and gas markets, driven higher by the recovering global economy and ongoing consumption of resources."

"Our second quarter financial results were highlighted by an increase in our profitability, through a combination of sales growth, cost reductions, higher manufacturing volumes as well as the ability to realize selling price increases," said Richard Vollering, CFO of Hammond. "Looking forward, we will continue to implement price increases to meet inflationary pressure that will impact previously booked back log. We expect to see these increases work their way through our back log in the second half of 2021."

Sales for the quarter-ended June 26, 2021 were \$88,277, an increase of \$12,884 or 17.1% from Quarter 2, 2020 sales of \$75,393. The sales growth was a result of surging economic activity as business conditions improved, deferred projects were released and companies began to open up as the number of individuals vaccinated against the COVID-19 global pandemic increased. Year-to-date 2021 sales increased \$4,585 or 2.8% to \$168,398 compared to \$163,813 in 2020. Sales in the United States ("U.S.") stated in Canadian dollars increased by \$1,161 or 2.2%, finishing at \$53,053 for Quarter 2, 2021 compared to \$51,892 in Quarter 2, 2020. Year-to-date U.S. sales were \$99,558 in 2021 and \$108,223 in 2020, a decline of \$8,675 or 8.0%. U.S. sales, when stated in U.S. dollars were \$43,100 in Quarter 2, 2021, compared to Quarter 2, 2020 of \$37,314, an upsurge of \$5,786 or 15.5%. Year-to-date U.S. sales stated in U.S. dollars were \$79,765 in 2021 compared to \$79,397 in 2020, a

small increase of \$368 or 0.5%. Canadian sales were \$32,667 for the quarter, a significant increase of \$10,745 or 49.0% from Quarter 2, 2020 sales of \$21,922. Year-to-date Canadian sales were \$60,468 in 2021 compared to \$49,266 in 2020, an expansion of \$11,202 or 22.7%. Indian sales for Quarter 2, 2021 finished at \$2,557 versus \$1,579 in Quarter 2, 2020, an increase of \$978 or 61.9%. Year-to-date Indian sales were \$8,372 in 2021 compared to \$6,314 in 2020, an increase of \$2,058 or 32.6%.

Bookings increased 33.1% from Quarter 2, 2020 due to a rise in general overall economic activity fueled by businesses beginning to open up to pre-pandemic volumes and the impact of higher selling prices. Quarter 2, 2021 U.S. bookings increased 25.4% and Canada bookings have increased 31.2% compared to the prior year quarter. Year-to-date the US bookings increased 16.9% and Canada bookings increased 21.6%.

The company was successful at generating an increase in its gross margin rate for Quarter 2, 2021, which was 28.6% compared to a Quarter 2, 2020 gross margin rate of 28.4%, an improvement of 0.2% of sales. The year-to-date gross margin rate was 26.7% in 2021 versus 25.8% in 2020, an increase of 0.9%. The margin rate improvement is attributed to a combination of sales mix, increased selling price realization and the favourable impact of increased manufacturing throughput.

Total selling and distribution expenses were \$10,660 in Quarter 2, 2021 or 12.4% of sales versus \$9,351 in Quarter 2, 2020 or 12.4% of sales, an increase of \$1,309, although flat as a percentage of sales. Year-to-date selling and distribution expenses were \$20,467 or 12.3% of sales in 2021 compared to \$20,491 or 12.5% in 2020, a decrease of \$24 or 0.1% of sales.

General and administrative expenses for Quarter 2, 2021 were \$6,925 or 8.0% of sales, compared to Quarter 2, 2020 expenses of \$5,560 or 7.4% of sales, an increase of \$1,365 or 0.6% of sales. Year-to-date general and administrative expenses were \$13,544 or 8.1% of sales in 2021, compared to \$12,261 or 7.5% of sales in 2020, an increase of \$1,283 or 0.6% of sales.

Quarter 2, 2021 earnings from operations escalated to \$7,620, an increase of \$1,106 or 17.0% from \$6,514 for the same quarter last year. The year-to-date earnings from operations were \$11,022 in 2021 compared to \$9,547 in 2020, an increase of \$1,475 or 15.4%. The expansion in the quarter and year-to-date earnings from operations is mainly a result of increased sales, increased gross margin dollars, gross margin rate and higher manufacturing output. This was partially offset by higher foreign exchange expense due to rate fluctuations and increased general and administrative expenses.

Interest expense for Quarter 2, 2021 was \$519, an increase of \$204 or 64.8% compared to the Quarter 2, 2020 expense of \$315. Year-to-date interest cost was \$624, a decrease of \$87 or 12.2% when compared to the 2020 year-to-date expense of \$711.

The foreign exchange loss in Quarter 2, 2021 was \$241, an increase of \$344 compared to the gain of \$103 in Quarter 2, 2020. The year-to-date foreign exchange loss for 2021 was \$357, compared to a gain of \$479 for the same period last year.

Net earnings for Quarter 2, 2021 finished at \$4,689 compared to net earnings of \$4,420 in Quarter 2, 2020, an improvement of \$269 or 6.1%. Year-to-date net earnings were \$6,987 in 2021 compared to

\$6,568 in 2020, an increase of \$419 or 6.4%. 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 general and administrative expenses and additional foreign exchange losses.

The basic earnings per share were \$0.40 for Quarter 2, 2021, versus \$0.38 in Quarter 2, 2020, an improvement of \$0.02 or 5.3%. The year-to-date basic earnings per share was \$0.59 in 2021 and \$0.56 in 2020, an increase of \$0.03 or 5.4%.

Net cash used by operating activities for Quarter 2, 2021 was \$29 versus cash generated of \$7,229 in Quarter 2, 2020, a decline of \$7,258. This change has been generated by an increase in cash used for working capital, primarily accounts receivable increases, relating to our increased business activity and higher income tax payments during the Quarter. Year-to-date net cash used by operating activities was \$6,883 compared to cash generated of \$1,191 in 2020, a decrease of \$8,074. The year-to-date decrease is a result of higher cash utilized for working capital and unrealized losses on derivatives particularly in Quarter 1 2021.

The Company's overall operating debt balance net of cash was \$14,392 in Quarter 2, 2021 compared to \$12,906 in Quarter 2, 2020, an increase in debt position of \$1,486, primarily reflective of increased working capital investment.

The Company continued with its regular quarterly dividend program in the second quarter, paying eight and a half cents (\$0.085) per Class A Subordinate Voting Share of HPS and eight and a half cents (\$0.085) per Class B Common Share of HPS on June 26, 2021. The Company has paid a year-to-date cash dividend of seventeen cents (\$0.17) per Class A Subordinate Voting Share and seventeen cents (\$0.17) per Class B Common Share.

THREE MONTHS ENDED:

(dollars in thousands)

	June 26, 2021	June 27, 2020	Change
Sales	\$ 88,277	\$ 75,393	\$ 12,884
Earnings from operations	\$ 7,620	\$ 6,514	\$ 1,106
Exchange loss (gain)	\$ 241	\$ (103)	\$ (344)
Share of (income) loss of investment in joint venture	\$ (7)	\$ 11	\$ 18
Net earnings	\$ 4,689	\$ 4,420	\$ 269
Earnings per share			
Basic	\$ 0.40	\$ 0.38	\$ 0.02
Diluted	\$ 0.40	\$ 0.38	\$ 0.02
Cash (used) generated by operations	\$ (29)	\$ 7,229	\$ (7,258)

SIX MONTHS ENDED:

(dollars in thousands)

	June 26, 2021	June 27, 2020	Change
Sales	\$ 168,398	\$ 163,813	\$ 4,585
Earnings from operations	\$ 11,022	\$ 9,547	\$ 1,475
Exchange loss (gain)	\$ 357	\$ (479)	\$ 836
Share of income of investment in joint venture	\$ (45)	\$ (140)	\$ (95)
Net earnings	\$ 6,987	\$ 6,568	\$ 419
Earnings per share			
Basic	\$ 0.59	\$ 0.56	\$ 0.03
Diluted	\$ 0.59	\$ 0.56	\$ 0.03
Cash (used) generated by operations	\$ (6,883)	\$ 1,191	\$ (8,074)

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. (TSX: HPS.A) is a leader for the design and manufacture of dry-type custom electrical engineered magnetics, electrical dry-type and cast resin transformers. Leading edge engineering capabilities, high quality products, and responsive service to customers' needs have all served to establish HPS as a technical and innovative leader in the electrical and electronic industries.

HPS has operations in Canada, the United States, Mexico and India.

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