



## Hammond Power Solutions Inc.

### QUARTER 3, 2021 FINANCIAL RESULTS

(Dollar amounts are in thousands unless otherwise specified)

#### HIGHLIGHTS

- **Sales increased 22% to \$95.5 million in Qtr. 3, 2021 from \$78.1 million in Qtr. 3,2020**
- **Order backlog increased 29% over prior year**
- **Net Earnings increased 14% in the quarter and 9% year-to-date**
- **Earnings per share increased to \$0.34 in the quarter and to \$0.93 year-to-date**

Guelph, Ontario, October 21, 2021 – Hammond Power Solutions Inc. ("HPS") (TSX: HPS.A) a leading manufacturer of dry-type and cast resin transformers and power quality products, today announced its financial results for the Third Quarter of 2021.

#### THIRD QUARTER RESULTS

"We generated meaningful improvements in our financial performance during the third quarter and I am very proud of how Hammond Power Solutions is performing during a challenging time," said Bill Hammond, Chairman and CEO of Hammond Power Solutions. "As the year has progressed, our top line is starting to reflect the price increases that we have implemented due to the most significant rise in material costs for core steel, copper and aluminum in decades. Sales through our expanded U.S. distributor network have been growing at the highest rate we've seen as the U.S. economy recovers from the pandemic. In addition, we are seeing significant growth and future opportunities in sectors such as oil and gas, mining, and data centers. Additionally, as the global economy starts to recover, there is renewed export activity from our U.S.-based OEMs who ship their products abroad. We are confident that this positive momentum will continue into the year ahead as demand and activity continues to rebound from the pandemic lows of 2020."

"We drove improved year-over year profitability in the third quarter by implementing price increases to keep in front of inflating commodity prices. The price increases that we have implemented thus far have driven sales dollars in the quarter, but underlying this are stronger sales volumes, supported by the strength of our U.S. distribution network and a recovering economy," said Richard Vollering, CFO of Hammond. "Although the timing of rapidly rising commodity and logistics costs have created some challenges with maintaining margins in the quarter, we have taken the right steps to ensure that we are pricing our products appropriately to protect our margins in the upcoming quarters."

Sales for the quarter-ended September 25, 2021 were \$95,526, an increase of \$17,411 or 22.3% from Quarter 3, 2020 sales of \$78,115. The increase in sales was driven by a combination of greater sales volume and higher selling price realization, partially offset by a weaker U.S. dollar relative to 2020. Year-to-date 2021 sales increased \$21,996, or 9.1%, to \$263,924 compared with \$241,928 in 2020. Sales in the United States ("U.S.") stated in Canadian dollars increased by \$15,730 or 34.5%, finishing at \$61,338 for Quarter 3, 2021 compared with \$45,608 in Quarter 3, 2020. Year-to-date U.S.

sales were \$160,896 in 2021 and \$153,841 in 2020, an increase of \$7,055 or 4.6%. U.S. sales, when stated in U.S. dollars were \$48,815 in Quarter 3, 2021, compared to Quarter 3, 2020 of \$34,174, an increase of \$14,641 or 42.8%. Year-to-date U.S. sales stated in U.S. dollars were \$128,580 in 2021 compared with \$113,571 in 2020, an increase of \$15,009 or 13.2%. Canadian sales were \$29,473 for the quarter, up slightly from Quarter 3, 2020 sales of \$28,833, an increase of \$640 or 2.2%. Year-to-date Canadian sales were \$89,941 in 2021 compared with \$78,099 in 2020, growth of \$11,842 or 15.2%. Indian sales for Quarter 3, 2021 finished at \$4,715 versus \$3,674 in Quarter 3, 2020, an increase of \$1,041 or 28.3%. Year-to-date Indian sales were \$13,087 in 2021 compared to \$9,988 in 2020, an increase of \$3,099 or 31.0%.

The Quarter 3, 2021 gross margin was 26.8% compared to a Quarter 3, 2020 gross margin rate of 27.5%, a decline of 0.7% of sales. The year-to-date gross margin rate was 26.7% in 2021 versus 26.4% in 2020, an increase of 0.3%. The margin rate decline for the quarter is attributed to a combination of challenges with selling price realization, decrease in the Canadian Emergency Wage Subsidy ("CEWS") benefit and volatile rises in costs causing price increase timing to be difficult to predict.

Selling and distribution expenses were \$11,433 in Quarter 3, 2021, or 12.0% of sales, versus \$9,524 in Quarter 3, 2020 or 12.2% of sales, an increase of \$1,909 but a decrease of 0.2% of sales. Year-to-date selling and distribution expenses were \$31,900, or 12.1% of sales, in 2021 compared with \$30,015, or 12.4%, in 2020, an increase of \$1,885 but a decrease of 0.3% of sales.

General and administrative expenses for Quarter 3, 2021 were \$8,222 or 8.6% of sales, compared with Quarter 3, 2020 expenses of \$6,525 or 8.4% of sales, an increase of \$1,697 or 0.2% of sales. Year-to-date general and administrative expenses were \$21,766, or 8.2% of sales in 2021, compared with \$18,786, or 7.8% of sales, in 2020, an increase of \$2,980 or 0.4% of sales.

Quarter 3, 2021 earnings from operations were \$5,909, an increase of \$462 or 8.5% from \$5,447 for the same quarter last year. The year-to-date earnings from operations were \$16,931 in 2021 compared with \$14,994 in 2020, an increase of \$1,937 or 12.9%. The improvement in the quarterly earnings from operations is the result of increased sales, increased gross margin dollars, despite the decreased gross margin rate, and higher manufacturing output. This was partially offset by increased general and administrative expenses.

Interest expense for Quarter 3, 2021 was \$309, an increase of \$69 or 28.8% compared with the Quarter 3, 2020 expense of \$240. Year-to-date interest cost was \$933, a decrease of \$18 or 1.9% when compared to the 2020 year-to-date expense of \$951.

The foreign exchange loss in Quarter 3, 2021 was \$75, an increase of \$120 compared to the gain of \$45 in Quarter 3, 2020. The year-to-date foreign exchange loss for 2021 was \$432, compared to a gain of \$524 for the same period last year.

Net earnings for Quarter 3, 2021 finished at \$3,948 compared to net earnings of \$3,462 in Quarter 3, 2020, an improvement of \$486 or 14.0%. Year-to-date net earnings were \$10,935 in 2021 compared with \$10,030 in 2020, an increase of \$905 or 9.0%. The improvement in the quarter and 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.

The basic earnings per share were \$0.34 for Quarter 3, 2021, versus \$0.30 in Quarter 3, 2020, an improvement of \$0.04 or 13.3%. The year-to-date basic earnings per share was \$0.93 in 2021 and \$0.86 in 2020, an increase of \$0.07 or 8.1%.

Net cash generated by operating activities for Quarter 3, 2021 was \$7,430 versus \$10,419 in Quarter 3, 2020, a decline of \$2,989. In the quarter, cash from operations before changes in working capital and tax payments increased versus prior year. This was offset by an increase in cash used for working capital, primarily relating to our increased business activity during the Quarter. Year-to-date net cash generated by operating activities was \$547 compared to cash generated of \$11,610 in 2020, a decrease of \$11,063. The year-to-date decrease is a result of higher cash utilized for working capital.

The Company's overall operating debt balance net of cash was \$15,399 in Quarter 3, 2021 compared to \$4,790 in Quarter 3, 2020, an increase in debt position of \$10,609.

The Company continued with its regular quarterly dividend program in the third 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 September 24, 2021. The Company has paid a year-to-date cash dividend of twenty-five and a half cents (\$0.255) per Class A Subordinate Voting Share and twenty-five and a half cents (\$0.255) per Class B Common Share.

**THREE MONTHS ENDED:**

(dollars in thousands)

	<b>September 25, 2021</b>	<b>September 26, 2020</b>	<b>Change</b>
Sales	\$ 95,526	\$ 78,115	\$ 17,411
Earnings from operations	\$ 5,909	\$ 5,447	\$ 462
Exchange loss (gain)	\$ 75	\$ (45)	\$ (120)
Share of (income) loss of investment in joint venture	\$ (2)	\$ 107	\$ 109
Net earnings	\$ 3,948	\$ 3,462	\$ 486
Earnings per share			
Basic	\$ 0.34	\$ 0.30	\$ 0.04
Diluted	\$ 0.34	\$ 0.30	\$ 0.04
Cash generated by operations	\$ 7,430	\$ 10,419	\$ (2,989)

**NINE MONTHS ENDED:**

(dollars in thousands)

	<b>September 25, 2021</b>	<b>September 26, 2020</b>	<b>Change</b>
Sales	\$ 263,924	\$ 241,928	\$ 21,996
Earnings from operations	\$ 16,931	\$ 14,994	\$ 1,937
Exchange loss (gain)	\$ 432	\$ (524)	\$ (956)
Share of income of investment in joint venture	\$ (47)	\$ (33)	\$ (14)
Net earnings	\$ 10,935	\$ 10,030	\$ 905
Earnings per share			
Basic	\$ 0.93	\$ 0.86	\$ 0.07
Diluted	\$ 0.93	\$ 0.86	\$ 0.07
Cash generated by operations	\$ 547	\$ 11,610	\$ (11,063)

## **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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