



Hammond Power Solutions Inc.

QUARTER 4, 2020 FINANCIAL RESULTS

(Dollar amounts are in thousands unless otherwise specified)

Reports Net Earnings Growth for Year

HIGHLIGHTS

- Continued earnings increase despite sales decline due to COVID-19
- Increased margin rates
- Earnings per share for the Quarter up 26% and year-to-date up 21%
- Strong cash flow
- Dividend of \$0.34 paid in 2020, attractive yield
- Low Operating debt balance

Guelph, Ontario, March 4, 2021 – Hammond Power Solutions Inc. ("HPS") (TSX: HPS.A) a leading manufacturer of dry-type, cast resin, liquid-filled transformers and related magnetics, today announced its financial results for the Fourth Quarter of 2020.

FOURTH QUARTER RESULTS

"In a year dominated by challenges and uncertainty presented by the COVID-19 pandemic, our primary focus shifted to the health and well being of our employees and customers. Beyond our priority on people in 2020, we were able to fortify the underlying business by growing our North American market share, increasing our gross margins, and gaining sales from new products," said Bill Hammond, Chairman and CEO of Hammond Power Solutions.

Sales for the quarter ended December 31, 2020 were \$80,169, a decrease of \$10,484 or 11.6% from the comparative quarter last year, which is reflective of decreased market activity related to COVID-19. Year-to-date sales from continuing operations in 2020 were \$322,097 as compared to sales of \$358,782 in 2019, a decrease of \$36,685 or 10.2%. U.S. sales (stated in Canadian dollars) for Quarter 4, 2019 decreased \$9,938 from \$43,928 in 2019 to \$33,090 in 2020. Year-to-date U.S. market sales (stated in Canadian dollars) were \$198,324, a decrease of \$27,385, or 12.1%, compared to 2019 sales of \$225,709. Canadian sales were \$30,981 for the quarter, a decrease of \$1,000 or 3.3% from Quarter 4, 2018 sales of \$29,981. Canadian sales were \$109,080, a decrease of \$7,916 or 6.8% as compared to sales of \$116,996 in 2019.

Overall, 2020 bookings decreased by 14.1% over the prior year and increased 6.0% from Quarter 3, 2020. In 2020 direct sales bookings decreased by 22.3% and bookings in the distributor channel decreased by 8.4%.

"We are pleased to report another strong quarter as we continue to deliver market share and margin growth," Bill Hammond commented.

The consolidated gross margin rate from continuing operations in 2020 increased to 27.0% versus 24.5% in 2019, an increase of 2.5% of sales. The improvement in margin rates is attributed to sales mix, achieved price increases, receipt of the Canadian Emergency Wage Subsidy ("CEWS") benefit and cost reductions. Quarter 4, 2020 gross margin dollars decreased slightly by \$102 compared to Quarter 4, 2019. The gross margin rate increased to 28.9% in Quarter 4, 2020 versus 25.7% in Quarter 4, 2019.

Selling and distribution expenses amounted to \$10,202 in Quarter 4, 2020 versus \$9,924 in Quarter 4, 2019, an increase of \$278 or 2.8%. Selling and distribution expenses as a percentage-of-continuing sales have increased to 12.7% in 2020 compared to 10.9% in 2019. Year-to-date selling and distribution expenses from continuing operations were \$40,217 for 2020 versus \$41,476 in 2019, a decrease of \$1,259 or 3.0%. On a percentage-of-continuing-sales basis, total selling and distribution expense increased to 12.5% of sales for 2020 from 11.6% in 2019.

General and administrative expenses for Quarter 4, 2020 totaled \$5,950 – a decrease of \$1,565 when compared to Quarter 4, 2019 costs of \$7,515. As a percentage-of-continuing sales, expenses have decreased to 7.4% in 2020 compared to 8.3% in 2019. Year-to-date General and administrative expenses from continuing operations in 2020 were \$24,736 compared to \$25,940 for 2019, a decrease of \$1,204 or 4.6%. On a percentage-of-continuing-sales basis these costs have increased from 7.2% in 2019 to 7.7% in 2020.

Earnings from continuing operations surged, finishing at \$22,041 in 2020, as compared to earnings of \$20,543 in 2019, an increase of \$1,498 or 7.3%. The increase in earnings from operations is due to CEWS wage subsidy support off-setting lower gross margin dollars and increased operating expenses related to the pandemic. Quarter 4, 2020 earnings from continuing operations were \$7,047 as compared to Quarter 4, 2019 earnings of \$5,862 an increase of \$1,185 or 20.2%.

Net finance and other costs have decreased \$280 from \$1,355 in 2019 to \$1,075 in 2020. The decrease from prior year is a result of lower interest expense offset by a decrease in the foreign exchange gain and lower income from the joint venture.

Net earnings from continuing operations for Quarter 4, 2020 finished at \$4,032 compared to net earnings from continuing operations of \$3,851 in Quarter 4, 2019, an increase of \$181. Year-to-date net earnings from continuing operations for 2020 finished at \$14,062 compared to net earnings of \$13,306 in 2019, an increase of \$756 or 5.7%. The increase in the net earnings from continuing operations is a result of gross margin rate improvement, decreases in selling, distribution, general and administration expenses as a result of lower variable selling costs, focused expense management and government wage subsidy support in the current year offset by decreased gross margin dollar contributions.

The Quarter 4, basic earnings per share from continuing operations was \$0.34 in 2020 and \$0.32 in 2019. The basic EPS from continuing operations was \$1.20 in 2020 and \$1.13 in 2019.

Cash provided by operations for Quarter 4, 2020 was \$8,073 versus \$16,447 in Quarter 4, 2019, a decrease of \$8,374. Cash provided from operating activities during 2020 was \$19,683 versus \$17,810 in 2019, an increase in cash generated of \$1,873. This increase in cash generated from operating activities was due to higher net income.

Overall operating debt balance, net of cash, was \$1,278 as at December 31 2020, an improvement of \$8,048 as compared to a net debt balance of \$9,326 as at December 31, 2019, primarily reflecting improved profitability and cash generated from operations.

The Company continued with its regular quarterly dividend program in the fourth 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 December 9, 2020, totaling thirty-four cents (\$0.34) per Class A Subordinate Voting Share of HPS and thirty-four cents (\$0.34) per Class B Common Share of HPS for the 2020 year.

Mr. Hammond concluded, "I am very proud of the overall performance of our Company during the most challenging global environment. As a result of the hard work and support of our

employees; our diversity of geography, channels, markets, and products; the benefits of our many competitive advantages built around customer service; we were able to deliver respectable financial performance and position ourselves even more positively for the decade to come."

FINANCIAL RESULTS

THREE MONTHS ENDED:

(dollars in thousands)

	December 31, 2020	December 31, 2019	Change
Sales	\$ 80,169	\$ 90,653	\$ (10,484)
Earnings from Continuing Operations	\$ 7,047	\$ 5,862	\$ 1,185
Exchange Loss (Gain)	\$ 401	\$ (154)	\$ 555
Net Earnings from Continuing Operations	\$ 4,032	\$ 3,851	\$ 181
Loss from Discontinued Operations	\$ -	\$ (640)	\$ 640
Net Earnings	\$ 4,032	\$ 3,211	\$ 821
Earnings per Share			
Basic	\$ 0.34	\$ 0.27	\$ 0.07
Diluted	\$ 0.34	\$ 0.27	\$ 0.07
Basic from continuing operations	\$ 0.34	\$ 0.32	\$ 0.02
Diluted from continuing operations	\$ 0.34	\$ 0.32	\$ 0.02
Cash generated by operations	\$ 8,073	\$ 16,447	\$ (8,374)

TWELVE MONTHS ENDED:

(dollars in thousands)

	December 31, 2020	December 31, 2019	Change
Sales	\$ 322,097	\$ 358,782	\$ (36,685)
Earnings from Continuing Operations	\$ 22,041	\$ 20,543	\$ 1,498
Exchange Gain	\$ (123)	\$ (234)	\$ 111
Net Earnings from Continuing Operations	\$ 14,062	\$ 13,306	\$ 756
Loss from Discontinued Operations	\$ -	\$ (1,699)	\$ 1,699
Net Earnings	\$ 14,062	\$ 11,607	\$ 2,455
(Loss)/Earnings per Share			
Basic	\$ 1.20	\$ 0.99	\$ 0.21
Diluted	\$ 1.20	\$ 0.99	\$ 0.21
Basic from continuing operations	\$ 1.20	\$ 1.13	\$ 0.07
Diluted from continuing operations	\$ 1.20	\$ 1.13	\$ 0.07
Cash generated by operations	\$ 19,683	\$ 17,810	\$ 1,873

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 North American 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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