

Hammond Power Solutions Inc.

QUARTER 1, 2020 FINANCIAL RESULTS

(Dollar amounts are in thousands unless otherwise specified)

Reports solid Quarter 1, 2020 Financial Results

HIGHLIGHTS

- **Sales growth**
- **Solid gross margin rates**
- **Strong earnings**
- **EPS from operations of \$0.18**
- **21% dividend increase**

Guelph, Ontario, April 23, 2020 – 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 First Quarter of 2020.

FIRST QUARTER RESULTS

Sales from continuing operations for the quarter-ended March 28, 2020 were \$88,420, an increase of \$3,730 or 4.4% from Quarter 1, 2019 sales from continuing operations of \$84,690. Sales in the United States (“U.S.”) increased by \$2,147 or 4.0%, finishing at \$56,341 for Quarter 1, 2020 compared to \$54,194 in Quarter 1, 2019. U.S. sales, when stated in USD were \$42,083 in Quarter 1, 2020 compared to Quarter 1, 2019 of \$40,747, an increase of \$1,336 or 3.3%. Canadian sales increased to \$27,344 for the quarter, an increase of \$1,103 or 4.2% from Quarter 1, 2019 sales of \$26,241. Indian sales for Quarter 1, 2020 finished at \$4,735 versus \$4,255 in Quarter 1, 2019, an increase of \$480 or 11.3%.

“Contrary to the seriousness of the threat posed by COVID-19, HPS is pleased to report that we started the year with positive momentum, delivering solid financial results in Quarter 1, 2020, even in comparison to our record breaking results of 2019. Under the current circumstances, we are very proud of these results.” Bill Hammond commented.

Bookings decreased 8.8% from Quarter 1, 2019 due to a decrease in bookings in the North American direct, Canadian distributor channels and lower bookings in the Indian market, predicated by the onset of the COVID-19 pandemic late Quarter 1 of this year.

The Company's gross margin rate for Quarter 1, 2020 was 23.6% compared to Quarter 1, 2019 margin rate of 23.9%, a slight decrease of 0.3% of sales. This margin rate decline is primarily attributed to sales mix which was partially offset by solid manufacturing throughput.

Total selling and distribution expenses from continuing operations were \$11,140 in Quarter 1, 2020 or 12.6% of sales versus \$9,998 in Quarter 1, 2019 or 11.8% of sales, an increase of \$1,142 which was primarily a result of higher variable freight and commission expenses attributed to the increase in

sales and expenses related to a new distribution center in Reno, Nevada.

General and administrative expenses from continuing operations were \$6,701 or 7.6% of sales for Quarter 1, 2020 compared to Quarter 1, 2019 expenses of \$5,777 or 6.8% of sales, an increase of \$924 or 16%, primarily due to continuing costs relating to our European business and property holdings in Italy.

Quarter 1, 2020 earnings from continuing operations were \$3,033 compared to \$4,479 for the same quarter last year, a decrease of \$1,446 or 32.3%. The decrease in the quarter earnings from operations is primarily a result of increased selling, distribution, general and administrative expenses.

Interest expense for Quarter 1, 2020 was \$396, an increase of \$164 or 70.7% compared to the Quarter 1, 2019 expense of \$232. The foreign exchange gain in Quarter 1, 2020 was \$376 compared to a loss of \$25 in Quarter 1, 2019, an increase of \$401. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada.

Corefficient realized some profitability improvement during Quarter 1, 2020 with earnings from the joint venture of \$151 compared to a loss of \$281 in Quarter 1, 2019. The improvement in the joint venture performance was a result of elevated sales, higher manufacturing throughput, lower material costs and increased selling prices.

Net earnings from continuing operations for Quarter 1, 2020 finished at \$2,148 compared to net earnings of \$2,508 in Quarter 1, 2019, a decrease of \$360 or 14.4%. The decrease in the quarter earnings is a result of increased sales, additional gross margin dollars and improved results from the joint venture offset by higher selling, distribution, general and administration expenses.

The basic earnings per share from continuing operations were \$0.18 for Quarter 1, 2020 versus \$0.21 in Quarter 1, 2019.

Net cash used in operating activities for Quarter 1, 2020 was \$6,038 versus cash generated of \$2,316 in Quarter 1, 2019, an increase in cash usage of \$8,354. This increase is a result of a rise in cash utilized for working capital and increased income tax payments. In Quarter 1, 2020, non-cash working capital used cash of \$9,847 compared to cash used of \$4,114 for the same quarter last year, an increase of \$5,733.

The Company's overall operating debt balance net of cash has increased \$1,768 in the current year from \$16,588 in Quarter 1, 2019 to \$18,356 in Quarter 1, 2020.

Mr. Hammond commented, "As important as financial performance is, our number one priority has been the health and safety of our employees. Even though we are deemed to be an essential supplier, we cannot build and ship transformers if our employees within our operations are not protected in the safest means possible. We are going to great lengths to accomplish this."

In Quarter 1, 2020, the Board of Directors of HPS declared a 21.4% increase in the quarterly cash dividend to eight and a half cents (\$0.085) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of eight and a half cents (\$0.085) per Class B Common Share.

The current pandemic, COVID-19, has had an unprecedented impact on the global economy. The full impact is not yet known but the government decisions to declare a state of emergency in a number of countries in which we operate has had an immediate impact on the economies of such countries. HPS has been identified as an essential service in most countries. The demand for HPS transformers particularly in North America continues to exist but sales volumes are expected to be tempered, primarily by which industries and services are continuing to operate. Based on the foregoing, the Company expects to see a decline of revenues and an increase in operational costs which will have the effect of reducing HPS' financial performance in 2020.

Mr. Hammond concluded, "I am confident that due to our engaged and supportive employee culture, our strong financial foundation, our channel and market diversity, our dominant position in this business, as well as our superior service capabilities we will make it through this tough and challenging trough. I am confident that when this happens, HPS will be in an even stronger market and financial position."

THREE MONTHS ENDED:

(dollars in thousands)

	March 28, 2020	March 30, 2019	Change
Sales	\$ 88,420	\$ 84,690	\$ 3,730
Earnings from operations	\$ 3,033	\$ 4,479	\$ (1,446)
Exchange (gain) loss	\$ (376)	\$ 25	\$ 401
Share of (income) loss of investment in joint venture	\$ (151)	\$ 281	\$ 432
Net earnings from continuing operations	\$ 2,148	\$ 2,508	\$ (360)
Earnings per share			
Basic	\$ 0.18	\$ 0.20	\$ (0.02)
Diluted	\$ 0.18	\$ 0.20	\$ (0.02)
Basic from continuing operations	\$ 0.18	\$ 0.21	\$ (0.03)
Diluted for continuing operations	\$ 0.18	\$ 0.21	\$ (0.03)
Cash (used in) generated by operations	\$ (6,038)	\$ 2,316	\$ (8,354)

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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