

## Hammond Power Solutions Inc. Announces Quarter 3, 2019 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

### Quarter 3, 2019 Continued Rise in Earnings

- **12% sales growth**
- **32% sales growth in Canada**
- **13% increase in bookings**
- **47% lift in quarterly earnings from continuing operations**
- **70% upsurge in year-to-date earnings from continuing operations**
- **EPS from continuing operations of \$0.31 for the quarter and \$0.81 year to date**

Guelph, Ontario, October 24, 2019 – 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 Third Quarter of 2019.

### THIRD QUARTER RESULTS

Sales from continuing operations for the quarter-ended September 28, 2019 were \$91,502, an increase of \$9,949 or 12.2% from Quarter 3, 2018 sales of \$81,553. Year-to-date 2019 sales from continuing operations increased \$40,761 or 17.9% to \$268,129 compared to \$227,368 in 2018. Sales in the United States ("U.S.") increased by \$2,677 or 5.2%, finishing at \$54,269 for Quarter 3, 2019 compared to \$51,592 in Quarter 3, 2018. Year-to-date U.S. sales were \$167,709 in 2019 and \$144,446 in 2018, a significant increase of \$23,263 or 16.1%. U.S. sales, when stated in U.S. dollars were \$41,118 in Quarter 3, 2019, compared to Quarter 3, 2018 of \$39,468, a growth of \$1,650 or 4.2%. Year-to-date U.S. sales stated in U.S. dollars were \$126,145 in 2019 compared to \$112,663 in 2018, an increase of \$13,482 or 12.0%. Canadian sales continued to surge and were \$31,491 for the quarter, an increase of \$7,685 or 32.3% from Quarter 3, 2018 sales of \$23,806. Year-to-date Canadian sales were \$87,015 in 2019 compared to \$67,118 in 2018, a substantial increase of \$19,897 or 29.6%. Indian sales for Quarter 3, 2019 finished at \$5,742 versus \$6,155 in Quarter 3, 2018, a decrease of \$413 or 6.7%. Year-to-date Indian sales were \$13,405 in 2019 compared to \$15,804 in 2018, a decrease of \$2,399 or 15.2%.

Overall booking rates increased 13.3% over Quarter 3, 2018. Backlog increased 2.9% over Quarter 3, 2018 and up 1.8% from Quarter 2, 2019.

"We are pleased to report another quarter of strong financial results as we continue to deliver above average growth in both sales and profits," Bill Hammond commented.

The gross margin rate for Quarter 3, 2019 was 24.9% compared to a Quarter 3, 2018 gross margin rate of 22.6%, an increase of 2.3% of sales. The year-to-date gross margin rate was 24.1% in 2019 versus 23.2% in 2018, an increase of 0.9%. The improvement in the margin rate was realized through the attainment of implemented market specific price increases and the higher manufacturing throughput, which has a favorable impact on the absorption of factory overheads. These factors offset an unfavorable product mix, additional tariffs and aggressive competitor pricing strategies.

Total selling and distribution expenses were \$10,706 in Quarter 3, 2019 or 11.7% of sales versus \$9,283 in Quarter 3, 2018 or 11.4% of sales, an increase of \$1,423 and 0.3% of sales. Year-to-date selling and distribution expenses were \$31,552 or 11.8% of sales in 2019 compared to \$25,997 or 11.4% in 2018, an increase of \$5,555 and 0.4% of sales.

General and administrative expenses for Quarter 3, 2019 was \$6,604 or 7.2% of sales, compared to Quarter 3, 2018 expenses of \$5,918 or 7.3% of sales, an increase of \$686 but a decrease of 0.1% of sales. Year-to-date general and administrative expenses were \$18,425 or 6.9% of sales in 2019, compared to \$17,740 or 7.8% of sales in 2018, an increase of \$685 and a decrease of 0.9% of sales.

Quarter 3, 2019 earnings from operations were \$5,471, an increase of \$2,252 or 70% from \$3,219 for the same quarter last year. The year-to-date earnings from operations were \$14,681 in 2019 compared to \$9,053 in 2018, an increase of \$5,628 or 62.2%. The improvements in the quarter and year-to-date earnings from operations is a result of increased sales, improved gross margin rate

and resultant lift in gross margin dollars.

Interest expense for Quarter 3, 2019 was \$419, an increase of \$211 or 101.4% compared to the Quarter 2, 2018 expense of \$208. Year-to-date interest cost was \$1,060, an increase of \$449 or 73.5% when compared to the 2018 year-to-date expense of \$611. \$73 of the change in Quarter 3, 2019 and \$228 year-to-date was due to the accounting standard adoption of IFRS 16 for leases which allocates part of lease costs to interest expense.

The foreign exchange gain in Quarter 3, 2019 was \$149, an increase of \$24 compared to the gain of \$125 in Quarter 3, 2018. The year-to-date foreign exchange gain for 2019 was \$80, compared to \$32 for the same period last year. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada.

Net earnings from continuing operations for Quarter 3, 2019 finished at \$3,595 compared to net earnings of \$2,445 in Quarter 3, 2018, an improvement of \$1,150 or 47.0%. Year-to-date net earnings from continuing operations were \$9,455 in 2019 compared to \$5,551 in 2018, a significant increase of \$3,904 or 70.3%. The increase in the earnings from continuing operations is a result of the substantial increases in sales, gross margin dollar contribution, supported by higher gross margin rate, and controlled general and administrative expenses.

The basic earnings per share from continuing operations increased 47% and was \$0.31 for Quarter 3, 2019, versus \$0.21 in Quarter 3, 2018, an improvement of \$0.10. The year-to-date basic earnings per share from continuing operations was \$0.81 in 2019 and \$0.47 in 2018, an increase of \$0.34 or 72%.

Net cash used for operating activities for Quarter 3, 2019 was \$1,460 versus cash generated of \$2,468 in Quarter 3, 2018, a decrease in cash of \$3,928. Year-to-date net cash generated by operating activities was \$1,363 compared to \$1,533 in 2018, a decrease of \$170. This change is a result of an increased net earnings offset by an increase in income tax payments, increase in the cash used for working capital and an increase in depreciation of right-to-use assets as required under the accounting standard adoption of IFRS 16.

The Company's overall operating debt balance net of cash was \$22,678 in Quarter 3, 2019 compared to \$20,502 in Quarter 3, 2018, an increase in debt position of \$2,176 primarily reflective of increased working capital needs.

During Quarter 3, 2019 the Board of Directors of HPS declared a quarterly cash dividend of seven cents (\$0.07) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of seven cents (\$0.07) per Class B Common Share of HPS. The Company has paid a cash dividend of twenty-one cents (\$0.21) per Class A Subordinate Voting Share and twenty-one cents (\$0.21) per Class B Common Share year-to-date. The quarter and year to date dividend per share paid in 2019 has increased 16.7% over 2018.

Mr. Hammond concluded, "HPS has never been in a stronger position and we intend to do our best to remain the leading transformer supplier of choice. We are well positioned in the marketplace. I am confident in our ability to sustain our financial results and delivering value to our stakeholders."

**THREE MONTHS ENDED:**

(dollars in thousands)

	September 28, 2019	September 29, 2018	Change
Sales	\$ 91,502	\$ 81,553	\$ 9,949
Earnings from operations	\$ 5,471	\$ 3,219	\$ 2,252
Exchange gain	\$ 149	\$ 125	\$ 24
Share of loss (income) of investment in joint venture	\$ 139	\$ (345)	\$ (484)
Net earnings from continuing operations	\$ 3,595	\$ 2,445	\$ 1,150
Loss from discontinued operations	\$ (472)	\$ (1,054)	\$ (582)
Net earnings	\$ 3,123	\$ 1,391	\$ 1,732
Earnings per share			
Basic	\$ 0.27	\$ 0.12	\$ 0.15
Diluted	\$ 0.27	\$ 0.12	\$ 0.15
Basic from continuing operations	\$ 0.31	\$ 0.21	\$ 0.10
Diluted for continuing operations	\$ 0.31	\$ 0.21	\$ 0.10
Cash (used by) generated by operations	\$ (1,460)	\$ 2,468	\$ (3,928)

**NINE MONTHS ENDED:**

(dollars in thousands)

	September 28, 2019	September 29, 2018	Change
Sales	\$ 268,129	\$ 227,368	\$ 40,761
Earnings from operations	\$ 14,681	\$ 9,053	\$ 5,628
Exchange gain	\$ 80	\$ 32	\$ 48
Share of (income) loss of investment in joint venture	\$ (86)	\$ 413	\$ 499
Net earnings from continuing operations	\$ 9,455	\$ 5,551	\$ 3,904
Loss from discontinued operations	\$ (1,059)	\$ (3,635)	\$ (2,576)
Net earnings	\$ 8,396	\$ 1,916	\$ 6,480
Earnings per share			
Basic	\$ 0.72	\$ 0.17	\$ 0.55
Diluted	\$ 0.72	\$ 0.17	\$ 0.55
Basic from continuing operations	\$ 0.81	\$ 0.47	\$ 0.34
Diluted for continuing operations	\$ 0.81	\$ 0.47	\$ 0.34
Cash generated by operations	\$ 1,363	\$ 1,533	\$ (170)

**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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