

Hammond Power Solutions Inc. Announces Quarter 3, 2020 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

HIGHLIGHTS

- **Earnings increase despite sales decline due to COVID-19**
- **Strong gross margin rate**
- **Earnings per share up 11% for the quarter and 19% year-to-date**
- **Strong cash flow**
- **Solid cash generation**
- **Quarterly dividend paid with attractive yield**

Guelph, Ontario, October 22, 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 Third Quarter of 2020.

THIRD QUARTER RESULTS

Sales from continuing operations for the quarter-ended September 26, 2020 were \$78,115 versus Quarter 3, 2019 sales of \$91,502, a decrease of \$13,387 or 14.6%. The sales decline was primarily impacted by the negative effect that the COVID-19 global pandemic had on many of our markets and our customers due to the deferment of electrical projects, business interruptions and overall lower economic activity. Year-to-date 2020 sales from continuing operations were \$241,928 compared to \$268,129 in 2019, a decrease \$26,201 or 9.8%. Sales in the United States (“U.S.”) decreased by \$8,661 or 16.0%, finishing at \$45,608 for Quarter 3, 2020 compared to \$54,269 in Quarter 3, 2019. Year-to-date U.S. sales were \$153,841 in 2020 and \$167,709 in 2019, a decline of \$13,868 or 8.3%. Canadian sales were \$28,833 for the quarter, realizing a 31.5% increase or \$6,911 over Quarter 2, 2020 of sales of \$21,922 and decreased \$2,658 or 8.4% compared to Quarter 3, 2019 sales of \$31,491. Year-to-date Canadian sales were \$78,099 in 2020 compared to \$87,015 in 2019, a decrease of \$8,916 or 10.2%. Indian sales for Quarter 3, 2020 finished at \$3,674 versus \$5,742 in Quarter 3, 2019, a decrease of \$2,068 or 36.0% as COVID-19 continues to dramatically constrain the Indian market. Year-to-date Indian sales were \$9,988 in 2020 compared to \$13,405 in 2019, a decrease of \$3,417 or 25.5% due to government imposed COVID-19 100% lockdown of the country during the second quarter.

Due to the effects of the COVID-19 pandemic, both North America and India experienced decreased bookings of 20.2% as compared to Quarter 3, 2019, primarily in the direct sales/OEM sales channel, which had a decrease of 43.7% while booking rates in the distributor channel were up 2.3%, in spite of the business effects of the pandemic in Quarter 3, 2020.

The company delivered an increase in its gross margin rate for Quarter 3, 2020, which was 27.5% compared to a Quarter 3, 2019 gross margin rate of 24.9%, an increase of 2.6% of sales. The year-to-date gross margin rate was 26.4% in 2020 versus 24.1% in 2019, an increase of 2.3%. The margin rate improvement in both the quarter and year-to-date is attributed to a combination of a number of factors: sales mix, market selling price realization, lower raw material commodity costs and receipt of the Canada Emergency Wage Subsidy ("CEWS") benefit in Quarter 2 and 3, 2020, which offset increased operating expenses related to the pandemic.

Bill Hammond, CEO commented, "The Company continues to deliver higher than expected profitability through a combination of favorable product mix, cost reductions, as well as customer short lead time premium pricing and government wage subsidy. The strength and resiliency of our business has contributed to our relative success during this pandemic."

Total selling and distribution expenses were \$9,524 in Quarter 3, 2020 or 12.2% of sales versus \$10,706 in Quarter 3, 2019 or 11.7% of sales, a decrease of \$1,182 but an increase of 0.5% of sales. Year-to-date selling and distribution expenses were \$30,015 or 12.4% of sales in 2020 compared to \$31,552 or 11.8% of sales in 2019, a decrease of \$1,537 but an increase of 0.6% of sales.

General and administrative expenses for Quarter 3, 2020 was \$6,525 or 8.4% of sales, compared to Quarter 3, 2019 expenses of \$6,604 or 7.2% of sales, a decrease of \$79 but an increase of 1.2% of sales. Year-to-date general and administrative expenses were \$18,786 or 7.8% of sales in 2020, compared to \$18,425 or 6.9% of sales in 2019, an increase of \$361 or 0.9% of sales.

Quarter 3, 2020 earnings from operations were \$5,447, a small decrease of \$24 or 0.4% from \$5,471 for the same quarter last year. The year-to-date earnings from operations were \$14,994 in 2020 compared to \$14,681 in 2019, an increase of \$313 or 2.1%. The decline in the quarter is mainly a result of the decrease in gross margin dollars due to decreased sales, increased operating expenses related to the pandemic - offset by government wage subsidy support.

Interest expense for Quarter 3, 2020 was \$240, a decrease of \$179 or 42.7% compared to the Quarter 3, 2019 expense of \$419. Year-to-date interest cost was \$951, a decrease of \$109 or 10.3% when compared to the 2019 year-to-date expense of \$1,060.

The foreign exchange gain in Quarter 3, 2020 was \$45, a decrease of \$104 compared to the gain of \$149 in Quarter 3, 2019. The year-to-date foreign exchange gain for 2020 was \$524, compared to a gain of \$80 for the same period last year, an increase of \$444.

Corefficient de R.L. de C.V. ("Corefficient") had a loss of \$107 for Quarter 3, 2020 compared to a loss of \$139 for Quarter 3, 2019, a decline of \$32. Year-to-date, Corefficient has generated income of \$33 in 2020 compared to income of \$86 in 2019, a decline of \$53.

Net earnings from continuing operations for Quarter 3, 2020 finished at \$3,462 compared to net earnings of \$3,595 in Quarter 3, 2019, a decline of \$133 or 3.7%. Year-to-date net earnings from continuing operations were \$10,030 in 2020 compared to \$9,455 in 2019, an increase of \$575 or 6.1%. The increase in the earnings from continuing operations is a result of the government wage subsidy support and higher foreign exchange gains in the current year offset by decreased gross

margin dollar contributions.

The basic earnings per share was \$0.30 for Quarter 3, 2020, versus \$0.27 in Quarter 3, 2019, an increase of \$0.03 or 11.1%. The year-to-date basic earnings per share was \$0.86 in 2020 and \$0.72 in 2019, an increase of \$0.14 or 19.4%.

Net cash generated by operating activities for Quarter 3, 2020 was \$10,419 versus net cash used for operating activities of \$1,460 in Quarter 3, 2019, an improvement of \$11,879. This change has been generated by positive cash from working capital during the Quarter. Year-to-date net cash generated by operating activities was \$11,610 compared to \$1,363 in 2019, an increase of \$10,247. During the quarter, non-cash working capital generated cash of \$7,131 compared to cash used of \$3,869 for the same quarter last year, an increase of \$11,000. The year-to-date change in non-cash working capital was cash usage of \$4,167 in 2020 compared to \$14,300 in 2019, a decrease of usage of \$10,133.

The Company's overall operating debt balance net of cash was \$4,790 in Quarter 3, 2020 compared to \$22,678 in Quarter 3, 2019, a decrease in debt position of \$17,888 primarily reflective of increased profitability and receipt of CEWS payments.

During Quarter 3, 2020 the Board of Directors of HPS declared a quarterly cash dividend of 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 of HPS. 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. The year-to-date dividend per share paid in 2020 has increased 21.4% over 2019. The dividend yield is 5.5%.

The COVID-19 pandemic continues to have an unprecedented impact on the global economy. The full impact or timeline is not yet known but governmental decisions to declare a state of emergency in a number of countries in which we operate had an immediate impact on the economies of such countries. The demand for our transformers particularly in North America continues, but sales volumes have been and are expected to be, tempered due to the economic impact caused by the pandemic. Based on the foregoing, HPS expects to see continued moderation and fluctuation of revenues as well as a continuation of increases in operational costs which will have the effect of reducing HPS' financial performance in 2020 and into 2021.

Mr. Hammond concluded, "We know that some challenges may lie ahead over the next six months due to a resurgence in this pandemic as well as U.S. political uncertainty however we are confident in our continued financial strength and performance, as well as our ability to provide superior service through the continuing efforts and passion of our employees."

THREE MONTHS ENDED:

(dollars in thousands)

	September 26, 2020	September 28, 2019	Change
Sales	\$ 78,115	\$ 91,502	\$ (13,387)
Earnings from operations	\$ 5,447	\$ 5,471	\$ (24)
Exchange gain	\$ (45)	\$ (149)	\$ (104)
Share of loss of investment in joint venture	\$ 107	\$ 139	\$ (32)
Net earnings from continuing operations	\$ 3,462	\$ 3,595	\$ (133)
Loss from discontinued operations	\$ -	\$ (472)	\$ 472
Net earnings	\$ 3,462	\$ 3,123	\$ 339
Earnings per share			
Basic	\$ 0.30	\$ 0.27	\$ 0.03
Diluted	\$ 0.30	\$ 0.27	\$ 0.03
Basic from continuing operations	\$ 0.30	\$ 0.31	\$ (0.01)
Diluted for continuing operations	\$ 0.30	\$ 0.31	\$ (0.01)
Cash generated by (used in) operations	\$ 10,419	\$ (1,460)	\$ 11,879

NINE MONTHS ENDED:
(dollars in thousands)

	September 26, 2020	September 28, 2019	Change
Sales	\$ 241,928	\$ 268,129	\$ (26,201)
Earnings from operations	\$ 14,994	\$ 14,681	\$ 313
Exchange gain	\$ (524)	\$ (80)	\$ 444
Share of income of investment in joint venture	\$ (33)	\$ (86)	\$ (53)
Net earnings from continuing operations	\$ 10,030	\$ 9,455	\$ 575
Loss from discontinued operations	\$ -	\$ (1,059)	\$ 1,059
Net earnings	\$ 10,030	\$ 8,396	\$ 1,634
Earnings per share			
Basic	\$ 0.86	\$ 0.72	\$ 0.14
Diluted	\$ 0.86	\$ 0.72	\$ 0.14
Basic from continuing operations	\$ 0.86	\$ 0.81	\$ 0.05
Diluted for continuing operations	\$ 0.86	\$ 0.81	\$ 0.05
Cash generated by operations	\$ 11,610	\$ 1,363	\$ 10,247

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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