



Hammond Power Solutions Inc.

(Dollar amounts are in thousands unless otherwise specified)

HAMMOND POWER REPORTS SECOND QUARTER 2022 FINANCIAL RESULTS

GUELPH, Ontario, August 2, 2022 (GLOBE NEWSWIRE) -- 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 second quarter 2022.

HIGHLIGHTS

- Sales increased 56% to a record \$137 million
- Net Earnings of \$6,505, exceeding the second quarter of 2021 by \$1,816
- Earnings per share increased to \$0.55, compared with \$0.40 in Q2 2021
- Order backlog increased 124%
- Cash generated from operations of \$14,623 and ending net operating cash balance of \$9,542

" I am pleased to announce that the positive momentum continues for Hammond Power Solutions despite the growing global challenges around us. Our sales continue to grow at rates we've never experienced before, and although our margins during this quarter were impacted by rising material costs we still delivered significant year over year growth in earnings. We are all very proud of these results and they reflect the hard work and passion of all of our people." said Bill Hammond, CEO and Chairman of Hammond Power. " Our financial performance is the result of our focused strategy to diversify our business platforms. As continually highlighted, the expansion of our US distributor network has delivered significant growth through market share expansion and by taking on new opportunities in evolving technologies like EV recharging, solar energy, and energy storage applications. At the same time, we are seeing significant growth in our custom business to the energy, mining, silica chip manufacturing, and data center markets."

Sales for the quarter-ended July 2, 2022 were \$137,476, an increase of \$49,199 or 55.7% from Quarter 2, 2021 sales of \$88,277. Year-to-date 2022 sales increased \$96,860 or 57.5% to \$265,258 compared to \$168,398 in 2021. Sales in the United States and Mexico stated in Canadian dollars increased by \$30,806 or 58.1%, finishing at \$83,859 for Quarter 2, 2022 compared to \$53,053 in Quarter 2, 2021. Year-to-date U.S. and Mexican sales were \$166,970 in 2022 and \$99,558 in 2021, an increase of \$67,412 or 67.7%. U.S. and Mexican sales, when stated in U.S. dollars were \$65,734 in Quarter 2, 2022, compared to Quarter 2, 2021 of \$43,100, an increase of \$22,634 or 52.5%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were \$131,358 in 2022 compared to \$79,765 in 2021, an increase of \$51,593 or 64.7%. Canadian sales were \$46,846 for the quarter, an increase of \$14,179 or 43.4% from Quarter 2, 2021 sales of \$32,667. Year-to-date Canadian sales were \$85,000 in 2022 compared to \$60,468 in 2021, growth of \$24,532 or 40.6%. Indian sales for Quarter 2, 2022 finished at \$6,771 versus \$2,557 in Quarter 2, 2021, a significant increase of \$4,214 or 164.8%. Year-to-date Indian sales were \$13,288 in 2022 compared to \$8,372 in 2021, an increase of \$4,916 or 58.7%.

The Company saw a significant order backlog increase of 124.0% over Quarter 2, 2021 and has seen a continued increase of 26.6% from Quarter 1, 2022. The combination of price increases, strong demand at the end of 2021 and into 2022 along with delayed shipments due to material availability continue to contribute to the record-high backlog.

"In the second quarter, we continued to see record high sales volumes. The increases came from multiple channels, geographies and businesses. Both Distribution and OEM sales continued to be strong, Indian sales showed a dramatic improvement versus 2021, and we saw shipments in our new Mesta business accelerate." Said Richard Vollerling, CFO of Hammond Power Solutions. "Unfortunately, we also saw renewed economic uncertainty as a result of the conflict in eastern Europe, which drove further cost increases and resulted in a weaker gross margin in the quarter as compared to Q1. With the consistent and growing earnings that we have produced in the past year, we are seeing our cash position improve and our balance sheet strengthen with each passing quarter."

The company experienced a decline in its gross margin rate for Quarter 2, 2022, which was 25.7% compared to a Quarter 2, 2021 gross margin rate of 28.6%, a decline of 2.9% of sales. The year-to-date gross margin rate was 27.1% in 2022 versus 26.7% in 2021, an increase of 0.4%. Quarter 2, 2022 gross margin rate deteriorated mainly due to the absence of the Canada Emergency Wage Subsidy program ("CEWS") subsidy, which ended during 2021 and higher commodity costs – in part caused by the global effect of the conflict in Eastern Europe.

Total selling and distribution expenses were \$15,288 in Quarter 2, 2022 or 11.1% of sales versus \$10,660 in Quarter 2, 2021 or 12.1% of sales, an increase of \$4,628 and a decrease of 1.0% of sales. Year-to-date selling and distribution expenses were \$29,759 or 11.2% of sales in 2022 compared to \$20,467 or 12.2% in 2021, an increase of \$9,292 or a decrease of 1.0% of sales. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the large increase in sales.

General and administrative expenses for Quarter 2, 2022 were \$10,051 or 7.3% of sales, compared to Quarter 2, 2021 expenses of \$6,925 or 7.8% of sales, an increase of \$3,126 and a decrease of 0.5% of sales. Year-to-date general and administrative expenses were \$19,298 or 7.3% of sales in 2022, compared to \$13,544 or 8.0% of sales in 2021, an increase of \$5,754 and a decrease of 0.7% of sales. The increase is due to our strategic investments in people, resources and incentive plans, Mesta and Mexico general and administrative expenses, higher information technology expenses to support growth, increased bad debt expense and outside consulting and service costs.

Quarter 2, 2022 earnings from operations increased to \$10,046, an increase of \$2,426 or 31.8% from \$7,620 for the same quarter last year. The year-to-date earnings from operations were \$22,704 in 2022 compared to \$11,022 in 2021, an increase of \$11,682 or 106.0%.

Interest expense for Quarter 2, 2022 was \$349, a decrease of \$170 or 32.8% compared to the Quarter 2, 2021 expense of \$519. Year-to-date interest cost was \$612, a decrease of \$12 or 1.9% when compared to the 2021 year-to-date expense of \$624.

Net earnings for Quarter 2, 2022 finished at \$6,505 compared to net earnings of \$4,689 in Quarter 2, 2021, an improvement of \$1,816 or 38.7%. Year-to-date net earnings were \$15,074 in 2022 compared to \$6,987 in 2021, an increase of \$8,087 or 115.7%. The improvement in the 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 and additional foreign exchange losses.

EBITDA for Quarter 2, 2022 was \$12,225 versus \$8,694 in Quarter 2, 2021, an increase of \$3,531 or 40.6%. Year-to-date EBITDA was \$26,683 in 2022 and \$14,043 in 2021, an increase of \$12,640 or 90.0%.

Net cash generated by operating activities for Quarter 2, 2022 was \$14,623 versus cash used of \$29 in Quarter 2, 2021, an improvement of \$14,652. This change is due to an increase in cash generated from working capital offset by higher income tax payments during the Quarter. Year-to-date net cash generated by operating activities was \$15,160 compared to cash used of \$6,883 in 2021, an increase of \$22,043. Cash used in investing activities increased by \$1,161 from \$1,596 in the first six months of 2022 to \$435 in the same period of 2021. Capital expenditures were \$1,304 in Quarter 2, 2022 compared to \$480 for Quarter 2, 2021, an increase of \$824. The Company's overall net operating cash balance was \$9,542 in Quarter 2, 2022 compared to net operating debt balance of \$14,392 in Quarter 2, 2021, a decrease in debt position of \$23,934 primarily reflective of increased profitability.

The Company continued with its regular quarterly dividend program in the second quarter, paying ten cents (\$0.10) per Class A Subordinate Voting Share of HPS and ten cents (\$0.10) per Class B Common Share of HPS on June 28, 2022.

THREE MONTHS ENDED:

(dollars in thousands)

	July 2, 2022	June 26, 2021	Change
Sales	\$ 137,476	\$ 88,277	\$ 49,199
Earnings from operations	\$ 10,046	\$ 7,620	\$ 2,426
Exchange loss	\$ 629	\$ 241	\$ 388
Net earnings	\$ 6,505	\$ 4,689	\$ 1,816
Earnings per share			
Basic	\$ 0.55	\$ 0.40	\$ 0.15
Diluted	\$ 0.55	\$ 0.40	\$ 0.15
Cash generated by (used in) operations	\$ 14,623	\$ (29)	\$ 14,652

SIX MONTHS ENDED:

(dollars in thousands)

	July 2, 2022	June 26, 2021	Change
Sales	\$ 265,258	\$ 168,398	\$ 96,860
Earnings from operations	\$ 22,704	\$ 11,022	\$ 11,682
Exchange loss	\$ 753	\$ 357	\$ 396
Net earnings	\$ 15,074	\$ 6,987	\$ 8,087

Earnings per share			
Basic	\$ 1.27	\$ 0.59	\$ 0.68
Diluted	\$ 1.27	\$ 0.59	\$ 0.68
Cash generated by (used in) operations	\$ 15,160	\$ (6,883)	\$ 22,043

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. ("HPS" or the "Company") enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States (U.S.), Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

Hammond Power – passionate people energizing a better world

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