

Hammond Power Solutions Reports Fourth Quarter and Year-End 2022 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

GUELPH, Ontario, March 07, 2023 -- Hammond Power Solutions Inc. ("HPS") (TSX: HPS.A) a leading manufacturer of dry-type transformers, power quality products and related magnetics, today announced its financial results for the fourth quarter and year-end 2022.

HIGHLIGHTS

- Sales of \$144 million in the quarter and \$558 million for the year. Full year 2022 sales increased by 47% versus 2021
- Net Income of \$18.2 million in the quarter and \$44.8 million for the year. Full year 2022 earnings increased by 195%
- Earnings per share of \$1.55 for the quarter and \$3.79 for the year, a year-over-year increase of 194%
- Order backlog increased 117% versus 2021
- Cash generated from operations of \$33,498 and ending net operating cash balance of \$21,972

"We are extremely proud of what we have been able to accomplish during 2022. It was a year fraught with challenges in terms supply chains, rising costs, and a tight labour market. Through this, Hammond Power Solutions performed admirably, in fact we delivered the strongest financial performance of our 22 years of being a separate public company," said Bill Hammond, CEO and Chairman of Hammond Power Solutions. "Our service and quality have always been a point of pride for HPS, and we are working hard to maintain the high standards our customers have come to expect. In December, we announced our plans to add capacity in all three North American countries in which we operate in order to meet increasing demand in our low and medium voltage transformers, power quality, and induction heating products. Demand for our products remains strong and we are determined to grow our competitive position in the coming years."

Sales in 2022 were \$558,464 as compared to sales of \$380,202 in 2021, an increase of \$178,262 or 46.9%. U.S. and Mexico market sales (stated in Canadian dollars) were \$349,710, an increase of \$117,972, or 50.9%, compared to 2021 sales of \$231,738. U.S. and Mexico sales, (stated in U.S. dollars), have increased from \$184,900 in 2021 to \$268,733 in 2022, an increase of \$83,833 or 45.3%. Canadian sales were \$184,495, an increase of \$54,311 or 41.7% as compared to sales of \$130,184 in 2021. Indian sales in 2022 were \$24,259, an increase of \$5,979 or 32.7% compared to sales of \$18,280 in 2021. Sales in Quarter 3 2022 were \$144,253 million compared to \$116,278 in Quarter 3, 2021, an increase of 24%. In Q4, 2022, there was a significant order for \$7,596 produced and shipped from India that could not be recognized given sales terms of freight on board (FOB) destination. These sales will be recognized in Quarter 1, 2023.

The Company's December 31, 2022 backlog has increased by 117.1% as compared to December 31, 2021 and has increased 13.3% from Quarter 3, 2022. The combination of price increases and strong demand in the third and fourth quarters contributed to the record-high backlog.

"2022 was a remarkable year for HPS with all business units performing well on sales and profitability metrics. Our sales increased by 47%, mostly driven by price increases over the past two years, but also supported by strong organic growth, which we estimate to be in the 10-11% range. Our customer, product and geographic diversity increased during the year with sales growth in Mexico and within our power quality products. We are particularly pleased with the growth of the Mesta business in our first full year of operations with HPS, which has increased to \$14.5 million in Canadian dollars," said Richard Vollering, Chief Financial Officer of Hammond Power Solutions. "Gross margins have been strong throughout the year and we ended 2022 at 29.6%. Most of this increase has been due to higher throughput in the factories, and a favourable product mix during the year. Volatile material and freight costs were less of a concern in the latter half of the year as compared to previous quarters and margins in the fourth quarter were exceptionally strong due to some inventory adjustments and product mix."

The consolidated gross margin rate in 2022 increased to 29.6% versus 26.9% in 2021, an increase of 2.7% of sales. The improvement in the margin rate is attributed to favourable sales mix, selling price increases, and higher fixed cost absorption. Gross margins were affected by the sales mix, which was favourable throughout the course of 2022. Higher distribution sales, which typically have higher gross margins but also higher selling costs, contributed to higher margins. Stronger Mesta sales also resulted in margin improvement. In addition to this, HPS saw significant margin improvements in the Indian business. During 2022, HPS estimates an organic volume increase of 10-11%. This increase, along with a similar organic increases in 2021, resulted in some facilities operating close or at capacity. This volume increase resulted in higher fixed overhead leverage and as a result, higher gross margins.

Total selling and distribution expenses were \$62,263 for 2022 versus \$46,459 in 2021, an increase of \$15,804 or 34.0%. On a percentage-of-sales basis, total selling and distribution expense decreased to 11.1% of sales for 2022 from 12.2% in 2021. 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 in 2022 were \$43,481 compared to \$32,821 for 2021, an increase of \$10,660 or 32.5%. On a percentage-of-sales basis these costs have decreased from 8.6% in 2021 to 7.8% in 2022. 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 and increased bad debt expense.

Earnings from operations improved, finishing at \$59,441 in 2022, as compared to earnings of \$23,151 in 2021 – an increase of \$36,290 or 156.8%. The increase in earnings from operations is due to higher sales and additional gross margin dollars, offset by higher selling, distribution, general and administrative expenses.

Interest expense for the year-ended December 31, 2022 finished at \$1,596 as compared to \$1,301 in 2021, an increase of \$295. The foreign exchange gain in 2022 of \$96 related primarily to the transactional exchange gain on the Company's U.S. dollar trade accounts receivable, compared to a foreign exchange loss of \$561 in 2021.

Net earnings from operations for 2022 finished at \$44,828 compared to net earnings of \$15,176 in 2021, an increase of \$29,652 or 195.4%. The main contributors to the higher current year net earnings were higher sales, additional gross margin dollars. These gains were offset by increases in selling, distribution, general and administration expenses, no government wage subsidy support in the current year and the lower effective tax rate in 2022.

EBITDA from operations for the year-ended December 31, 2022 was \$69,746 versus \$30,114 in 2021 – an increase of \$39,632 or 131.6%. Basic earnings per share for the year was \$3.79 versus \$1.29 in 2021.

Cash provided from operating activities during 2022 was \$33,498 versus \$20,447 in 2021, an increase in cash generated of \$13,051 or 63.8%. Cash used in financing activities was \$22,303 in 2022, compared to cash used of \$4,257 in 2021, an increase of \$18,046. Cash used in investing activities in 2022 decreased \$1,755 from \$10,914 in 2021 to \$9,159 in 2022.

Subsequent to the year end, the Company announced the transition plan for Chairman and CEO, Bill Hammond, to move into the Executive Chairman role by the end of 2023 as part of a planned leadership succession process. Mr. Hammond is retiring from his CEO role after a 45-year career at Hammond, a company started by his grandfather that has been in his family for more than 100 years. Mr. Hammond remains the largest shareholder of Hammond Power and directly and indirectly controls approximately 59.7% of the voting rights of the Company.

The Board of Directors has retained external advisors to evaluate both internal and external candidates for the CEO role. The search timeline will help support an orderly transition, as Mr. Hammond will remain in his current role until a successor is onboarded and then Mr. Hammond will move into the Executive Chair role.

The Board of Directors of HPS declared quarterly cash dividend of ten cents (\$0.10) per Class A Subordinate Voting Share of HPS and ten cents (\$0.10) per Class B Common Share of HPS, for the fourth quarter of 2022. In 2022, the Company has paid a total cash dividend of thirty-eight and a half cents (\$0.385) per Class A Subordinate Voting Share and thirty-eight and a half cents (\$0.385) per Class B Common Share.

THREE MONTHS ENDED:

(dollars in thousands)

	December 31, 2022	December 31, 2021	Change
Sales	\$ 144,253	\$ 116,278	\$ 27,975
Earnings from operations	\$ 20,369	\$ 6,220	\$ 14,149
Exchange (gain) loss	\$ (847)	\$ 129	\$ 976
Net earnings	\$ 18,223	\$ 4,241	\$ 13,982
Earnings per share			
Basic	\$ 1.55	\$ 0.36	\$ 1.19
Diluted	\$ 1.53	\$ 0.36	\$ 1.17
Cash generated by operations	\$ 1,837	\$ 19,900	\$ 18,063
EBITDA	\$ 24,093	\$ 6,220	\$ 17,873
Capital Spending	\$ 2,640	\$ 1,202	\$ 1,438

TWELVE MONTHS ENDED:

(dollars in thousands)

	December 31, 2022	December 31, 2021	Change
Sales	\$ 558,464	\$ 380,202	\$ 178,262

Earnings from operations	\$	59,441	\$	23,151	\$	36,290
Exchange (gain) loss	\$	(96)	\$	561	\$	657
Net earnings	\$	44,828	\$	15,176	\$	29,652
Earnings per share						
Basic	\$	3.79	\$	1.29	\$	2.50
Diluted	\$	3.77	\$	1.28	\$	2.49
Cash generated by operations	\$	33,498	\$	20,447	\$	13,051
EBITDA	\$	69,746	\$	30,114	\$	39,632
Capital Spending	\$	8,646	\$	5,051	\$	3,595

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 Solutions – passionate people energizing a better world

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