



Hammond Power Solutions Reports Fourth Quarter 2023 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

GUELPH, Ontario, March 27, 2024 -- 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 2023.

HIGHLIGHTS

- **Record sales of \$187 million in the quarter, a 29.6% increase versus 2022. Year-to-date sales of \$710 million, a 27.1% increase versus 2022.**
- **Net Income of \$19.9 million in the quarter, a 9.2% increase versus 2022. Year-to-date net income of \$63.4 million, a 41.4% increase versus 2022.**
- **Earnings per share of \$1.68 for the quarter and \$5.33 year-to-date.**
- **Gross margin of 32.5% for the year.**

"Hammond Power Solutions continued to deliver exceptional results with 2023 showing robust growth across all geographies and channels. Financially, the fourth quarter ended with record shipments of \$187 million globally. This represents a 30% increase over the fourth quarter last year and a 27% increase on a year-to-date basis. This is a new record top line also helped us to achieve our margin and profit targets," said Adrian Thomas, CEO of HPS. "In late 2022, we embarked on the largest capital program in our company's history, allocating \$52 million to growing manufacturing capacity at our facilities in Mexico, Guelph, and our Mesta location in Pennsylvania. Through 2023, our efforts to build capacity to support demand growth have paid off, as inventory levels recovered and lead times for many facilities came back in line with customer expectations. In 2024, the bulk of our announced capital expenditures will be spent and will provide us with more than \$900 million in yearly manufacturing capacity by 2025."

Geography	Q4 2023	Q4 2022	\$ Change	% Change	2023	2022	\$ Change	% Change
US & Mexico	\$ 123,703	\$ 102,122	21,581	21.1%	\$ 489,579	383,137	106,442	27.8%
Canada	51,694	36,869	14,825	40.2%	175,619	151,058	24,561	16.3%
India	11,561	5,262	6,299	119.7%	44,866	24,269	20,597	84.9%
Total	\$ 186,958	\$ 144,253	42,705	29.6%	710,064	558,464	151,600	27.1%

U.S. and Mexico sales were positively impacted by the strengthening of the U.S. dollar relative to the Canadian dollar versus 2022. The U.S. market experienced significant increases in the OEM channel, with higher sales supporting data centres, warehousing, industrial manufacturing, mining, electric vehicle charging, renewable energy and oil and gas production. Sales in the U.S. distributor channel also improved due to strong market activity and resulting growth within our established distributors. The Canadian market experienced increases in commercial construction, EV charging, and data centre projects. A significant part of the growth in India is through both domestic sales and exports to other Southeast Asian countries.

The Company's December 31, 2023 backlog increased by 19.9% as compared to December 31, 2022 and has decreased 3.2% from Quarter 3, 2023. During the second half of the year, commercial construction and industrial markets began to moderate in their growth profile, while our capacity additions allowed us to ship more backlog than previous quarters.

"The backlog contracted in the fourth quarter versus the third as a result of both our ability to ship more product but also flattening bookings in certain areas, mainly in commercial and industrial applications. While growth rates are moderating in some areas, demand in certain sectors, such as EV charging and data centres remains strong," said Richard Vollerling, CFO of HPS. "While margins in the quarter are higher than normal due to year end adjustments, we are very pleased with our gross margin rate of 32.5% for the year, which is at the high end of our recent range. The margins for the year are the result of strong operating leverage, higher Mesta and power quality sales, product and channel mix, and improved margins in India. Our balance sheet remains strong even with higher working capital requirements and increased capex for the year of over \$20 million."

The consolidated gross margin in 2023 increased to 32.5% versus 29.6% in 2022, an increase of 2.9% of sales. The improvement in gross margin is the result of better operating leverage due to high factory throughput, stabilizing cost inputs, a higher proportion of Mesta and power quality sales, and margin improvements in India. Higher gross margins were achieved in all channels and regions. Margins in the fourth quarter were higher than the previous three quarters due to inventory adjustments resulting from the annual physical count in conjunction with adjustments to inventory reserves.

Total selling and distribution expenses were \$76,283 for 2023 versus \$62,263 in 2022, an increase of \$14,020 or 22.5%. On a percentage-of-sales basis, total selling and distribution expenses decreased to 10.7% of sales for 2023 from 11.1% in 2022. 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 2023 were \$68,007 compared to \$43,481 for 2022, an increase of \$24,526 or 56.4%. On a percentage-of-sales basis these costs have increased from 7.8% in 2022 to 9.6% in 2023. The increase is mainly due to higher share-based compensation costs, but also due to our ongoing strategic investments in people and resources to support our growth strategies with respect to Mesta, Mexico, and power quality, as well as supporting higher levels of general business activity.

2023 earnings before income taxes were \$83,994 as compared to earnings of \$57,169 in 2022 – growing by \$26,825 or 46.9%. The main contributors to the higher current year earnings before income tax were higher sales and additional gross margin dollars. These gains were offset by increases in selling, distribution, general and administration expenses.

EBITDA for the year-ended December 31, 2023 was \$95,995 versus \$69,746 in 2022 – an increase of \$26,249 or 37.6%. Adjusted for foreign exchange loss/gain, share based compensation expenses adjusted EBITDA for 2023 was \$117,229 versus \$73,435 in 2022 – an increase of \$43,794 or 59.6%.

Basic earnings per share were \$1.68 for Quarter 4, 2023 versus \$1.55 in Quarter 4, 2022, an increase of \$0.13. Year-to-date the basic earnings per share were \$5.33 in 2023 compared to \$3.79 in 2022, an increase of \$1.54.

The Board of Directors of HPS declared a quarterly cash dividend of fifteen cents (\$0.15) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of fifteen cents (\$0.15) per Class B Common Share of HPS paid on December 15, 2023 to shareholders of record at the close of business on December 8, 2023. The ex-dividend date was December 7, 2023. The Company has paid a cash dividend of fifty-five cents (\$0.55) per Class A Subordinate Voting Share and fifty-five cents (\$0.55) per Class B Common Shares year-to-date.

THREE MONTHS ENDED:

(dollars in thousands)

	December 31, 2023	December 31, 2022	Change
Sales	\$ 186,958	\$ 144,253	\$ 42,705
Earnings from operations	\$ 24,661	\$ 20,369	\$ 4,292
Exchange loss (gain)	\$ 1,593	\$ (847)	\$ 2,440
Net earnings	\$ 19,903	\$ 18,223	\$ 1,680
Earnings per share			
Basic	\$ 1.68	\$ 1.55	\$ 0.13
Diluted	\$ 1.68	\$ 1.53	\$ 0.15
Cash generated by operations	\$ 21,053	\$ 5,352	\$ 15,701
EBITDA	\$ 26,749	\$ 24,093	\$ 2,656
Capital Spending	\$ 4,619	\$ 2,640	\$ 1,979

TWELVE MONTHS ENDED:

(dollars in thousands)

	December 31, 2023	December 31, 2022	Change
Sales	\$ 710,064	\$ 558,464	\$ 151,600
Earnings from operations	\$ 86,721	\$ 59,441	\$ 27,280
Exchange loss (gain)	\$ 1,280	\$ (96)	\$ 1,376
Net earnings	\$ 63,399	\$ 44,828	\$ 18,571
Earnings per share			
Basic	\$ 5.33	\$ 3.79	\$ 1.54
Diluted	\$ 5.33	\$ 3.77	\$ 1.56
Cash generated by operations	\$ 44,108	\$ 37,013	\$ 7,095
EBITDA	\$ 95,995	\$ 69,746	\$ 26,249
Capital Spending	\$ 20,169	\$ 8,646	\$ 11,523

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, Hammond Power Solutions Inc.'s (the "**Corporation**" or "**HPS**") strategies, intentions, plans, beliefs, expectations and estimates, in connection with general economic and business outlook, prospects and trends of the industry, expected demand for products and services, product development and the Corporation's competitive position. Forward-looking statements can generally be identified, but not limited to, 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 the Corporation 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 risks related to foreign currency fluctuations and changing interest rates); risks associated with the Corporation's business environment (such as risks associated with the financial condition of the oil and gas, mining and infrastructure project business); geopolitical risks; climate related risks; changes in laws and regulations; operational risks (such as risks related to existing and developing new products and services; doing business with partners and suppliers; product sales and performance; legal and regulatory proceedings; dependence on certain customers and suppliers; costs associated with raw materials, products and services; human resources; and the ability to execute strategic plans. The Corporation 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.

This forward-looking information represents our views as of the date of this press release and such information should not be relied upon as representing our views as of any date subsequent to the date of this press release. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated, expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

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 – Energizing Our World

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