



Hammond Power Solutions Inc. Announces Quarter 2, 2019 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

Quarter 2, 2019 Continuing Strong Earnings Growth

- **22% sales growth**
- **15% increase in bookings**
- **6% backlog rise**
- **Quarter EPS from continuing operations of \$0.29**

Guelph, Ontario, July 23, 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 Second Quarter of 2019.

SECOND QUARTER RESULTS

Sales from continuing operations for the quarter-ended June 29, 2019 were \$91,937, a significant increase of \$16,519 or 21.9% from Quarter 2, 2018 sales of \$75,418. Year-to-date 2019 sales from continuing operations increased \$30,812 or 21.1% to \$176,627 compared to \$145,815 in 2018. Sales in the United States ("U.S.") increased by \$11,104 or 23.1%, finishing at \$59,246 for Quarter 2, 2019 compared to \$48,142 in Quarter 2, 2018. Year-to-date U.S. sales were \$113,440 in 2019 and \$92,854 in 2018, a significant increase of \$20,586 or 22.2%. U.S. sales, when stated in U.S. dollars were \$44,282 in Quarter 2, 2019, compared to Quarter 2, 2018 of \$37,333, a growth of \$6,949 or 18.6%. Year-to-date U.S. sales stated in U.S. dollars were \$85,027 in 2019 compared to \$73,196 in 2018, an increase of \$11,831 or 16.2%. Canadian sales were \$29,283 for the quarter, an increase of \$6,691 or 29.6% from Quarter 2, 2018 sales of \$22,592. Year-to-date Canadian sales were \$55,524 in 2019 compared to \$43,312 in 2018, an increase of \$12,212 or 28.2%. Indian sales for Quarter 2, 2019 finished at \$3,408 versus \$4,684 in Quarter 2, 2018, a decrease of \$1,276 or 27.2%.

Booking rates in the distributor channel increased 47.3% over Quarter 2, 2018. On a direct channel basis, bookings were lower than Quarter 2, 2018 by 15.3%. Backlog increased 6.0% over Quarter 2, 2018.

"We are pleased to report a continuing and very positive trend of quarterly bookings, increasing sales, and improved profitability." Bill Hammond commented.

The gross margin rate for Quarter 2, 2019 was 23.5% compared to a Quarter 2, 2018 gross margin rate of 23.2%, an increase of 0.3% of sales. The year-to-date gross margin rate was 23.7% in 2019 versus 23.6% in 2018, an increase of 0.1%. The lift in the margin rate was achieved through the realization of implemented market specific price increases and the higher manufacturing throughput which has favorable impact on the absorption of factory overheads, both which offset a less favorable product mix, tariffs and competitor short-sighted pricing strategies.

Total selling and distribution expenses were \$10,848 in Quarter 2, 2019 or 11.8% of sales versus \$8,375 in Quarter 2, 2018 or 11.1% of sales, an increase of \$2,473 and 0.7% of sales. Year-to-date selling and distribution expenses were \$20,846 or 11.8% of sales in 2019 compared to \$16,714 or 11.5% in 2018, an increase of \$4,132 and 0.3% of sales.

General and administrative expenses for Quarter 2, 2019 was \$6,044 or 6.6% of sales, compared to Quarter 2, 2018 expenses of \$6,043 or 8.0% of sales, a decrease of 1.4% of sales. Year-to-date general and administrative expenses were \$11,821 or 6.7% of sales in 2019, compared to \$11,822 or 8.1% of sales in 2018, a decrease of 1.4% of sales.

Quarter 2, 2019 earnings from operations were \$4,731, an increase of \$1,649 or 53.5% from \$3,082 for the same quarter last year. The year-to-date earnings from operations were \$9,210 in 2019 compared to \$5,834 in 2018, an increase of \$3,376 or 57.9%. The robust improvements in the quarter and year-to-date earnings from operations is namely a result of the increase in sales and resultant lift in gross margin dollars and boost from the gross margin rate.

Interest expense for Quarter 2, 2019 was \$409, an increase of \$92 or 29.0% compared to the Quarter 2, 2018 expense of \$317. Year-to-date interest cost was \$641, an increase of \$238 or 59.1% when compared to the 2018 year-to-date expense of \$403. \$77 of the change in Quarter 2, 2019 and \$155 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 loss in Quarter 2, 2019 was \$44, a decrease of \$211 compared to the loss of \$255 in Quarter 2, 2018. The year-to-date foreign exchange loss for 2019 was \$69, compared to \$93 for the same period last year. This loss 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 2, 2019 finished at \$3,352 compared to net earnings of \$1,222 in Quarter 2, 2018, a significant improvement of \$2,130 or 174.3%. Year-to-date net earnings from continuing operations were \$5,860 in 2019 compared to \$3,106 in 2018, an increase of \$2,754 or 88.7%. The increase in the earnings from continuing operations is a result of the significant increases in sales.

The basic earnings per share from continuing operations was \$0.29 for Quarter 2, 2019, versus \$0.10 in Quarter 2, 2018, an improvement of \$0.19. The year-to-date basic earnings per share from continuing operations was \$0.50 in 2019 and \$0.26 in 2018, an increase of \$0.24.

Net cash generated by operating activities for Quarter 2, 2019 was \$507 versus \$972 in Quarter 2, 2018, a decline of \$465. Year-to-date net cash generated by operating activities was \$2,823 compared to cash used in operations activities of \$935 in 2018, an increase of \$3,758. This change is a result of an increased net earnings offset by an increase in income tax payments and an increase in the cash used for working capital.

The Company's overall operating debt balance net of cash was \$18,582 in Quarter 2, 2019 compared to \$21,578 in Quarter 2, 2018, a decrease in debt position of \$2,996 primarily reflective of increased profitability. During Quarter 2, 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 fourteen cents (\$0.14) per Class A Subordinate Voting Share and fourteen cents (\$0.14) per Class B Common Share year-to-date. The dividend per share paid in 2019 has increased 16.7% over 2018.

Mr. Hammond concluded, "HPS has a strong reputation of being an industry leader and is both operationally and financially strong. As we move through the year, we are well positioned in the market-place. I am confident in our ability to continue gaining market share and delivering value for all our stakeholders".

THREE MONTHS ENDED:

(dollars in thousands)

	June 29, 2019	June 30, 2018	Change
Sales	\$ 91,937	\$ 75,418	\$ 16,519
Earnings from operations	\$ 4,731	\$ 3,082	\$ 1,649
Exchange loss	\$ 44	\$ 255	\$ (211)
Share of (income) loss of investment in joint venture	\$ (506)	\$ 479	\$ 985
Net earnings from continuing operations	\$ 3,352	\$ 1,222	\$ 2,130
Loss from discontinued operations	\$ (394)	\$ (1,592)	\$ (1,198)
Net earnings (loss)	\$ 2,958	\$ (370)	\$ 3,328
Earnings per share			
Basic	\$ 0.25	\$ (0.03)	\$ 0.28
Diluted	\$ 0.25	\$ (0.03)	\$ 0.28
Basic from continuing operations	\$ 0.29	\$ 0.10	\$ 0.19
Diluted for continuing operations	\$ 0.29	\$ 0.10	\$ 0.19
Cash generated by operations	\$ 507	\$ 972	\$ (465)

SIX MONTHS ENDED:

(dollars in thousands)

	June 29, 2019	June 30, 2018	Change
Sales	\$ 176,627	\$ 145,815	\$ 30,812
Earnings from operations	\$ 9,210	\$ 5,834	\$ 3,376
Exchange loss	\$ 69	\$ 93	\$ (24)
Share of (income) loss of investment in joint venture	\$ (225)	\$ 758	\$ 983
Net earnings from continuing operations	\$ 5,860	\$ 3,106	\$ 2,754
Loss from discontinued operations	\$ (587)	\$ (2,581)	\$ (1,994)
Net earnings	\$ 5,273	\$ 525	\$ 4,748
Earnings per share			
Basic	\$ 0.45	\$ 0.05	\$ 0.40
Diluted	\$ 0.45	\$ 0.05	\$ 0.40
Basic from continuing operations	\$ 0.50	\$ 0.26	\$ 0.24
Diluted for continuing operations	\$ 0.50	\$ 0.26	\$ 0.24
Cash generated by (used in) operations	\$ 2,823	\$ (935)	\$ 3,758

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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