

Hammond Power Solutions Inc. Announces Quarter 2, 2020 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

HIGHLIGHTS

- **Earnings growth despite sales decline due to Covid-19**
- **Solid gross margin rate**
- **EPS from continuing operations up 31% for the quarter and 12% year-to-date**
- **Strong cash flow, low net operating debt**

Guelph, Ontario, July 23, 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 Second Quarter of 2020.

SECOND QUARTER RESULTS

Sales from continuing operations for the quarter-ended June 27, 2020 were \$75,393, a decrease of \$16,544 or 18.0% from Quarter 2, 2019 sales of \$91,937. 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 delay of electrical projects and their suspension of operations due to lockdowns. Year-to-date 2020 sales from continuing operations decreased \$12,814 or 7.25% to \$163,813 compared to \$176,627 in 2019. Sales in the United States ("U.S.") decreased by \$7,354 or 12.4%, finishing at \$51,892 for Quarter 2, 2020 compared to \$59,246 in Quarter 2, 2019. Year-to-date U.S. sales were \$108,233 in 2020 and \$113,440 in 2019, a decline of \$5,207 or 4.6%. Canadian sales were \$21,922 for the quarter, a decrease of \$7,361 or 25.1% from Quarter 2, 2019 sales of \$29,283. Year-to-date Canadian sales were \$49,266 in 2020 compared to \$55,524 in 2019, a decrease of \$6,258 or 11.3%. Indian sales for Quarter 2, 2020 finished at \$1,579 versus \$3,408 in Quarter 2, 2019, a decrease of \$1,829 or 53.7% due to government imposed COVID-19 100% lockdown of the country during the quarter. Year-to-date Indian sales were \$6,314 in 2020 compared to \$7,663 in 2019, a decrease of \$1,349 or 17.6%.

Due to the onset of the pandemic in both North America and India the Company experienced decreased bookings of 18.5% as compared to Quarter 2, 2019. Booking rates in the distributor channel decreased 19.4% versus Quarter 2, 2019. On a direct channel basis, bookings were lower than Quarter 2, 2019 by 17.0%.

The company was successful at delivering an increase in its gross margin rate for Quarter 2, 2020 which was 28.4% compared to a Quarter 2, 2019 gross margin rate of 23.5%, a significant increase of 4.9% of sales. The year-to-date gross margin rate was 25.8% in 2020 versus 23.7% in 2019, an increase of 2.1%. The margin rate improvement in Quarter 2, 2020 is attributed to a combination of market selling price realization, lower raw material commodity costs and receipt of the Canadian Emergency Wage Subsidy ("CEWS") which offset increased operating expenses related to the pandemic.

Bill Hammond, CEO commented, "The Company has been able to deliver higher than expected profitability through a combination of favorable product mix, cost reductions, as well as the ability to charge premium pricing on short lead time business. The Company also qualified for a wage subsidy provided by the Canadian federal government which provides support to companies with a significant downturn in their Canadian sales. This has been beneficial in allowing HPS to continue to serve the needs of our customers while supporting our employees and their families."

Mr. Hammond commented further, "The strength and resiliency of our business has contributed to our relative success during this pandemic. Our diversity in terms of geography, channels, markets and products has moderated the impact of certain devastated markets."

Total selling and distribution expenses were \$9,351 in Quarter 2, 2020 or 12.4% of sales versus \$10,848 in Quarter 2, 2019 or 11.8% of sales, a decrease of \$1,497 but an increase of 0.6% of sales. Year-to-date selling and distribution expenses were \$20,491 or 12.5% of sales in 2020 compared to \$20,846 or 11.8% in 2019, a decrease of \$355 but an increase of 0.7% of sales.

General and administrative expenses for Quarter 2, 2020 was \$5,560 or 7.4% of sales, compared to Quarter 2, 2019 expenses of \$6,044 or 6.6% of sales, a decrease of \$484 but an increase of 0.8% of sales. Year-to-date general and administrative expenses were \$12,261 or 7.5% of sales in 2020, compared to \$11,821 or 6.7% of sales in 2019, an increase of \$440 or 0.8% of sales.

Quarter 2, 2020 earnings from operations were \$6,514, an increase of \$1,783 or 37.7% from \$4,731 for the same quarter last year. The year-to-date earnings from operations were \$9,547 in 2020 compared to \$9,210 in 2019, an increase of \$337 or 3.7%. The improvement in the quarter is mainly a result of the increase in gross margin dollars, increase gross margin rate from price realization, government wage subsidy support and foreign exchange gains partially offset by increased operating expenses related to the pandemic.

Mr. Hammond stated, "Our highest priority has been and remains the well-being of our employees around the globe. As waves of this virus continue to surge over parts of the globe, our priority will remain on protecting the health of our employees and their families."

Interest expense for Quarter 2, 2020 was \$315, a decrease of \$94 or 23.0% compared to the Quarter 2, 2019 expense of \$409. Year-to-date interest cost was \$711, an increase of \$70 or 10.9% when compared to the 2019 year-to-date expense of \$641.

The foreign exchange gain in Quarter 2, 2020 was \$103, an increase of \$147 compared to the loss of \$44 in Quarter 2, 2019. The year-to-date foreign exchange gain for 2020 was \$479, compared to a loss of \$69 for the same period last year.

Corefficient de R.L. de C.V. realized a small loss of \$11 for Quarter 2, 2020 compared to Income of \$506 for Quarter 2, 2019 a decline of \$517. Year-to-date Corefficient had income of \$140 in 2020 compared to income of \$225 in 2019 a decline of \$85.

Net earnings from continuing operations for Quarter 2, 2020 finished at \$4,420 compared to net earnings of \$3,352 in Quarter 2, 2019, an improvement of \$1,068 or 31.9%. Year-to-date net

earnings from continuing operations were \$6,568 in 2020 compared to \$5,860 in 2019, an increase of \$708 or 12.1%. The increase in the earnings from continuing operations is a result of the increases in gross margin dollar contribution, government wage subsidy support and foreign exchange gains in the current year compared to losses in 2019.

The basic earnings per share from continuing operations was \$0.38 for Quarter 2, 2020, versus \$0.29 in Quarter 2, 2019, an improvement of \$0.09 or 31.0%. The year-to-date basic earnings per share from continuing operations was \$0.56 in 2020 and \$0.50 in 2019, an increase of \$0.06 or 12.0%.

Net cash generated by operating activities for Quarter 2, 2020 was \$7,229 versus \$507 in Quarter 2, 2019, an improvement of \$6,722. This change has been generated by a decrease in cash used for working capital during the Quarter. Year-to-date net cash generated by operating activities was \$1,191 compared \$2,823 in 2019, a decrease of \$1,632. During the quarter, non-cash working capital used cash of \$1,451 compared to \$6,317 for the same quarter last year, a decrease of \$4,866. The year-to-date change in non-cash working capital was a usage of cash of \$11,298 in 2020 compared to \$10,431 in 2019, an increase of usage of \$867.

The Company's overall operating debt balance net of cash was \$12,906 in Quarter 2, 2020 compared to \$18,582 in Quarter 2, 2019, a decrease in debt position of \$5,676 primarily reflective of increased profitability and receipt of CEWS payments.

During Quarter 2, 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 seventeen cents (\$0.17) per Class A Subordinate Voting Share and seventeen cents (\$0.17) per Class B Common Share. The year-to-date dividend per share paid in 2020 has increased 21.4% over 2019.

The current pandemic, COVID-19, continues to have an unprecedented impact on the global economy. The full impact is not yet known but the government decisions to declare a state of emergency in a number of countries in which we operate has 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, the Company expects to see a continued moderation and fluctuation of revenues and a continuation of increased operational costs which will have a negative effect on HPS' financial performance in 2020.

Mr. Hammond concluded, "All considered, we are very pleased with our relative performance over the first half of 2020. We believe that when this crisis has abated, HPS will emerge in a stronger market position. We will continue to focus on fiscal discipline and striking the right balance between short and long-term strategic investments that we believe will position us well for the future."

THREE MONTHS ENDED:
(dollars in thousands)

	June 27, 2020	June 29, 2019	Change
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Sales	\$ 75,393	\$ 91,937	\$ (16,544)
Earnings from operations	\$ 6,514	\$ 4,731	\$ 1,783
Exchange (gain) loss	\$ (103)	\$ 44	\$ 147
Share of loss (income) of investment in joint venture	\$ 11	\$ (506)	\$ (517)
Net earnings from continuing operations	\$ 4,420	\$ 3,352	\$ 1,068
Loss from discontinued operations	\$ -	\$ (394)	\$ 394
Net earnings	\$ 4,420	\$ 2,958	\$ 1,462
Earnings per share			
Basic	\$ 0.38	\$ 0.25	\$ 0.13
Diluted	\$ 0.38	\$ 0.25	\$ 0.13
Basic from continuing operations	\$ 0.38	\$ 0.29	\$ 0.09
Diluted for continuing operations	\$ 0.38	\$ 0.29	\$ 0.09
Cash generated by operations	\$ 7,229	\$ 507	\$ 6,722

SIX MONTHS ENDED:
(dollars in thousands)

	June 27, 2020	June 29, 2019	Change
Sales	\$ 163,813	\$ 176,627	\$ (12,814)
Earnings from operations	\$ 9,547	\$ 9,210	\$ 337
Exchange (gain) loss	\$ (479)	\$ 69	\$ 548
Share of income of investment in joint venture	\$ (140)	\$ (225)	\$ (85)
Net earnings from continuing operations	\$ 6,568	\$ 5,860	\$ 708
Loss from discontinued operations	\$ -	\$ (587)	\$ 587
Net earnings	\$ 6,568	\$ 5,273	\$ 1,295
Earnings per share			
Basic	\$ 0.56	\$ 0.45	\$ 0.11
Diluted	\$ 0.56	\$ 0.45	\$ 0.11
Basic from continuing operations	\$ 0.56	\$ 0.50	\$ 0.06
Diluted for continuing operations	\$ 0.56	\$ 0.50	\$ 0.06
Cash generated by operations	\$ 1,191	\$ 2,823	\$ (1,632)

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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