

Hammond Power Solutions Inc. Announces Quarter 4, 2019 Financial Results

(Dollar amounts are in thousands unless otherwise specified)

Reports Surge in Net Earnings for Year

HIGHLIGHTS

- Record annual sales
- Industry leading market share growth in North America
- Increased margin rates
- Basic earnings per share from continuing operations of \$1.13-up 83%
- 2020 dividend increase

GUELPH, Ontario, March 05, 2020 -- Hammond Power Solutions Inc. ("HPS") (TSX: HPS.A) a leading manufacturer of dry-type, cast resin transformers, liquid filled and related magnetics, today announced its financial results for the Fourth Quarter of 2019.

FOURTH QUARTER RESULTS

"I am pleased to report that Hammond Power Solution Inc. had one of the best years of financial performance since the creation of the Company," Bill Hammond Chairman and CEO commented.

Sales for the quarter ended December 31, 2019 were \$90,653, an increase of \$3,939 or 4.5% from the comparative quarter last year, which is reflective of increased market activity and growth in market share within North America. Year-to-date Sales from continuing operations in 2019 were \$358,782 as compared to sales of \$314,082 in 2018, a significant increase of \$44,700 or 14.2%. U.S. sales (stated in Canadian dollars) for Quarter 4, 2019 increased \$4,586 from \$53,414 in 2018 to \$58,000 in 2019. Year-to-date U.S. market sales were \$225,709, an increase of \$27,849, or 14.1%, compared to 2018 sales of \$197,860. Canadian sales were \$29,981 for the quarter, an increase of \$3,458 or 13.0% from Quarter 4, 2018 sales of \$26,523. Canadian sales were \$116,996, an increase of \$23,355 or 24.9% as compared to sales of \$93,641 in 2018.

Bookings for continuing operations for the year were very strong. Overall, 2019 bookings increased by 11.4% over the prior year. In 2019 bookings in the distributor channel increased by 31.1% and direct sales bookings decreased by 8.4%. The Company's Quarter 4 2019 bookings increased by 5.0% over Quarter 4, 2018.

The consolidated gross margin rate from continuing operations in 2019 increased to 24.5% versus 23.2% in 2018, an increase of 1.3% of sales. The boost in margin rates is attributed to sales mix, achieved price increases, decreased commodity costs, increased manufacturing throughput and cost reductions. Quarter 4, 2019 gross margin dollars increased slightly by \$3,156 compared to Quarter 4, 2018. The gross margin rate increased to 25.7% in Quarter 4, 2019 versus 23.2% in Quarter 4, 2018 as a result of sales mix and price increases.

Selling and distribution expenses amounted to \$9,924 in Quarter 4, 2019 versus \$10,006 in Quarter 4, 2018, a decrease of \$82 or 0.8%. Selling and distribution expenses as a percentage-of-continuing sales have decreased to 10.9% in 2019 compared to 11.5% in 2018. Year-to-date selling and distribution expenses from continuing operations were \$36,003 for 2018 versus \$32,816 in 2017, an increase of \$3,187 or 9.7% due to a rise in variable freight and commission expense. On a percentage-of-continuing sales basis, year-to-date selling and distribution increased slightly to 11.5% of sales in 2018 from 11.3% in 2017.

General and administrative expenses for Quarter 4, 2019 totaled \$7,515 – an increase of \$2,102 when compared to Quarter 4, 2018 costs of \$5,413. As a percentage-of-continuing sales, expenses have decreased to 8.3% in 2019 compared to 6.2% in 2018. General and administrative expenses from continuing operations in 2019 were \$25,940 compared to \$23,153 for 2018, an increase of \$2,787 or 12.0%. On a percentage-of-continuing-sales basis these costs have decreased from 7.4% in 2018 to 7.2% in 2019.

Earnings from continuing operations surged, finishing at \$20,543 in 2019, as compared to earnings of \$13,779 in 2018, an increase of \$6,764 or 49.1%. The change in earnings from operations is a result of the increase in sales, higher gross margin rates and dollar contribution offset by increased selling and distribution and general and administrative expenses. Quarter 4, 2019 earnings from continuing operations were \$5,862 as compared to Quarter 4, 2018 earnings of \$4,726 an increase of \$1,136 or 24.0%.

Net finance and other costs have decreased \$1,771 from \$3,126 in 2018 to \$1,355 in 2019. Majority of the change, \$1,811, relates to the prior year provision for the uncertainty over collectability of the note receivable partially offset by higher interest costs in 2019 related to the implementation of the lease standard.

During 2019 the Company continued the closure process of its Italian facility. The Company was successful at selling the machinery and equipment, inventory and certain employee related liabilities to a third party. The asset purchase and sale agreement closed in late November 2019 for a sale price of 1,086 EUR (approximately \$1,583 Canadian dollars) and resulted

in a loss on disposal of 471 EUR (approximately \$687 Canadian dollars). Also, as a result of this transaction, 1,369 EUR (approximately \$2,035 Canadian dollars) of the 2018 restructuring provision for severances that were accrued but not paid was reversed. This recovery was partially offset by additional restructuring charges totaling 897 EUR (approximately \$1,307 Canadian dollars) for cancellation costs, legal fees and additional expected credit losses. The loss on discontinued operations for 2019 was \$1,699.

Net earnings from continuing operations for Quarter 4, 2019 finished at \$3,851 compared to net earnings from continuing operations of \$1,705 in Quarter 4, 2018, an increase of \$2,146. Year-to-date net earnings from continuing operations for 2019 finished at \$13,306 compared to net earnings of \$7,256 in 2018, an increase of \$6,050 or 83.4%. The improvement in earnings is a result of increased sales, gross margin rate improvement, positive foreign exchange movements, the prior year note receivable provision and improved results in the Company's joint venture partially offset by increased selling and distribution expenses.

The Quarter 4, 2018 basic earnings per share from continuing operations was \$0.32 in 2019 and \$0.15 in 2018 and the Quarter 4, 2019 basic earnings per share was \$0.27 compared to a basic loss per share of (\$1.27) for Quarter 4, 2018. The basic EPS from continuing operations was \$1.13 in 2019 and \$0.62 in 2018.

Cash provided by operations for Quarter 4, 2019 was \$16,447 versus \$4,941 in Quarter 4, 2018, an increase of \$11,506. Cash provided from operating activities during 2019 was \$17,810 versus \$6,474 in 2018, an increase in cash generated of \$11,336. This increase in cash generated from operating activities was due to higher net income.

Overall operating debt balance, net of cash, was \$9,326 as at December 31 2019, a decrease of \$7,730 as compared to a net debt balance of \$17,056 as at December 31, 2018, primarily reflecting improved profitability and cash generated from operations.

The Company continued with its regular quarterly dividend program in the fourth quarter, paying seven cents (\$0.07) per Class A Subordinate Voting Share of HPS and seven cents (\$0.07) per Class B Common Share of HPS on December 9, 2019, totaling twenty-eight cents (\$0.28) per Class A Subordinate Voting Share of HPS and twenty-eight cents (\$0.28) per Class B Common Share of HPS for the 2019 year.

Mr. Hammond concluded, "2019 was a stellar year in so many ways. HPS outpaced its industry peers in terms of sales growth, also increasing our gross margins and net income at impressive rates compared to the previous year. We delivered industry leading growth."

FINANCIAL RESULTS

THREE MONTHS ENDED:

(dollars in thousands)

	December 31, 2019	December 31, 2018	Change
Sales	\$ 90,653	\$ 86,714	\$ 3,939
Earnings from Continuing Operations	\$ 5,862	\$ 4,726	\$ 1,136
Exchange Gain	\$ (154)	\$ (95)	\$ 59
Net Earnings from Continuing Operations	\$ 3,851	\$ 1,705	\$ 2,146
Loss from Discontinued Operations	\$ (640)	\$ (16,538)	\$ (15,898)
Net (Loss) Earnings	\$ 3,211	\$ (14,833)	\$ 18,044
Earnings/(Loss) per Share			
Basic	\$ 0.27	\$ (1.27)	\$ 1.54
Diluted	\$ 0.27	\$ (1.27)	\$ 1.54
Basic from continuing operations	\$ 0.32	\$ 0.15	\$ 0.17
Diluted from continuing operations	\$ 0.32	\$ 0.15	\$ 0.17
Cash generated by operations	\$ 16,447	\$ 4,941	\$ 11,506

TWELVE MONTHS ENDED:

(dollars in thousands)

	December 31, 2019	December 31, 2018	Change
Sales	\$ 358,782	\$ 314,082	\$ 44,700
Earnings from Continuing Operations	\$ 20,543	\$ 13,779	\$ 6,764
Exchange Gain	\$ (234)	\$ (127)	\$ 107
Net Earnings from Continuing Operations	\$ 13,306	\$ 7,256	\$ 6,050
Loss from Discontinued Operations	\$ (1,699)	\$ (20,173)	\$ (18,474)

Net (Loss) Earnings	\$	11,607	\$	(12,917)	\$	24,524
(Loss)/Earnings per Share						
Basic	\$	0.99	\$	(1.10)	\$	2.09
Diluted	\$	0.99	\$	(1.10)	\$	2.09
Basic from continuing operations	\$	1.13	\$	0.62	\$	0.51
Diluted from continuing operations	\$	1.13	\$	0.62	\$	0.51
Cash generated by operations	\$	17,810	\$	6,474	\$	11,336

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 North American 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, India and Italy.

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