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Hammond Power Solutions

Upstream play on the 'Green New Deal'

Hammond Power Solutions (TSX: HPS.A) is the leading North American producer of dry-type transformers and related magnetic products. The company is 104 years old and credits its success to a relentless focus on product and service quality. To differentiate this report, we interviewed some of Hammond's key distributor partners to better understand its competitive advantage. We found that HPS.A is seen as a service quality leader and that technology-driven changes in the market over the past decade are placing a growing premium on such companies. **Our investment thesis for this stock is that Hammond's market position allows for continued +2x industry growth via US distributors in the near term, with further upside as a preferred upstream supplier to clean-energy grid investment.** We see the potential for +25% upside to the stock in the next year based on existing estimates and a total 50-70% upside in the medium term if the company executes on its five-year growth goals. Given the upside relative to the risk profile, we are constructive on HPS.A.

TSX: HPS.A Quarterly and Annual Diluted EPS (CAD)

	2020	2021	2022	YoY Change 2021	YoY Change 2022
Q1	$ 0.18	$ 0.21	$ 0.31	16%	48%
Q2	$ 0.38	$ 0.23	$ 0.32	-40%	42%
Q3	$ 0.30	$ 0.27	$ 0.35	-9%	27%
Q4	$ 0.23	$ 0.31	$ 0.36	38%	15%
Annual	**$ 1.08**	**$ 1.02**	**$ 1.33**	**-6%**	**31%**

Source: Loderock Research & Company Fillings

Covid will drag on near term results – with catalysts expected in 2022. Judging from 2020 results, it is clear lockdowns have delayed electrical equipment sales. After bottoming in 2Q20, sales showed marginal +3.6% sequential improvement in 3Q20 and should maintain that trend until 2022 when we expect much greater growth as product and market expansion strategies kick in. We see 1-3% sales growth in 2021, followed by 10-15% growth in 2022/23. **We see EPS growing from $1.08 in 2020 to $2.00/share over the next five years for a CAGR of +13%.**

Hammond's product and service quality are growth enablers. Technology is commoditizing non-custom products, pushing distributors to become technical consultants. The best distributors are consolidating the market, and Hammond's industry leading products, design team, and sales team are increasingly seen as necessary for this process. This advantage should drive further sales through the distributor channel and become more important for new growth initiatives like geographic expansion (Mexico/India) and product expansion (renewable and EV).

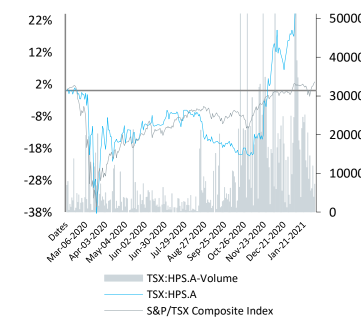
Valuation attractive vs risk and growth potential. HPS.A trades at just 9.4x PE, 4.6x EV/EBITDA, and 0.95x book. This is below its mid-cycle multiples and compares favourably to both comps and history. We see the potential for multiple expansion as the yield curve steepens and as the market better understands HPS.A's position in the green-grid upgrade. We see fair value in the **$14-16/share** range, with further upside should the market embrace the stock as an environmental theme play. A dividend yield of 3.5% with growth upside is a further positive.

Initiation Report

Industrials

2021-02-09	
Symbol	TSX:HPS.A
Price ($C)	$9.58
Mkt. cap ($mm)	$112.44
Shrs OS (mm)	11.74
Float (%)	65.6%
Div.yield	3.7%

(TSX:HPS.A) YTD Perf. vs. Index



Fundamentals

Yr end 31 Dec	2020E	2021E	2022E
Sales (C$Mln)	323.4	331.7	372.5
Growth %	-9.9%	2.5%	12.3%
Gross Margin %	26.2%	25.4%	26.0%
Diluted EPS	$1.08	$1.02	$ 1.33
EPS Growth%	-4.6%	-5.8%	31.0%
EBITDA Margin%	32.0%	32.7%	35.4%
ROE	10.8%	10.1%	12.0%
ROA	9.3%	8.5%	10.2%
BVPS ($)	$10.0	$ 10.1	$ 11.1
P/BV	0.95x	0.95x	0.87x
P/E	8.87x	9.41x	7.18x
Div. PS ($)	$0.34	$0.36	$0.38
Div. yield	3.5%	3.8%	4.0%

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Investment Summary

Our investment thesis for this stock is that Hammond's premium position in the market will benefit from industry trends that are placing greater demand on product and service quality. Specifically, we see Hammond; 1) continuing to take share in the U.S. market through strong relationships with the distributor channel, 2) growing its product suite and addressing new growth areas in the sustainable power generation verticals, and 3) expanding successfully in the Mexican and Indian domestic markets. We see potential for +25% upside to the stock in the next year if the company continues to execute on its existing strategy and the economy recovers in late 2021. As a kicker, we see potential for 50-70% upside in the medium term if the company can meet 3-5 year revenue targets driven by geographic expansion to Mexico and India, and product expansion into renewable and EV charging (early signs are positive as Hammond transformers have been used in Tesla EV charging stations and in SpaceX).

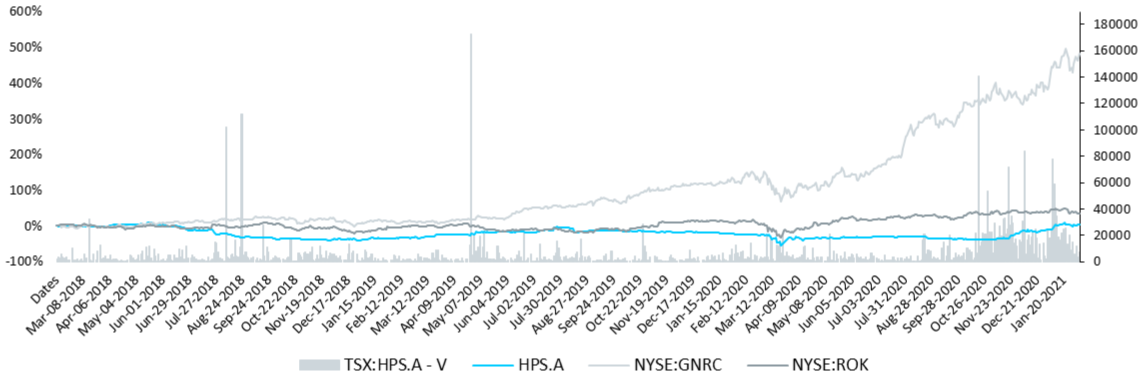
Hammond's (TSX:HPS.A) key competitive advantage is that it has a reputation for very high quality products as well as high service support for its products. Of note, HPS.A is by far the largest leading North American manufacturer of dry-type transformers and related magnetic products. While product quality has always been a key to the company's success, industry changes in the past decade have placed a greater emphasis on service support from manufacturers as a way of helping distributors grow into more of a technical 'solutions based' consulting role. With the largest engineering design team in the market, HPS.A stands out from its competition. Another key advantage is the company's scale and diversified manufacturing and warehouse facilities, which produce a 98% on-time delivery metric. These product and service advantages have resulted in market share growth within the U.S. distributor channel as well as growth in direct sales to competitors. We believe Hammond's quality differentiation will also drive future sales into the renewable energy vertical as resiliency and reliability require high quality product support. In short, the strong are getting stronger and HPS.A is benefitting.

Distributors specifically credit the company's investment in technology, quality of data and service support, and supply chain resiliency

We interviewed some of Hammond's key distributor partners to better understand its business model and market position, and our conclusion is that the company is a strategically important manufacturing source and is positioned to continue taking share. Distributors specifically credit the company's investment in technology, quality of data and service support, and supply chain resiliency. They also highlight how Hammond takes care of its employees, the benefits of which were evident in 2020 as manufacturing flexibility allowed for gross margin growth despite a decrease in sales and continued commodity tariff disruptions. Based on distributor insight, we see relatively low risk to Hammond's 30-40% U.S. sales growth projections over five years and believe its goal of $500 million in consolidated revenue over 3-5 years is quite feasible.

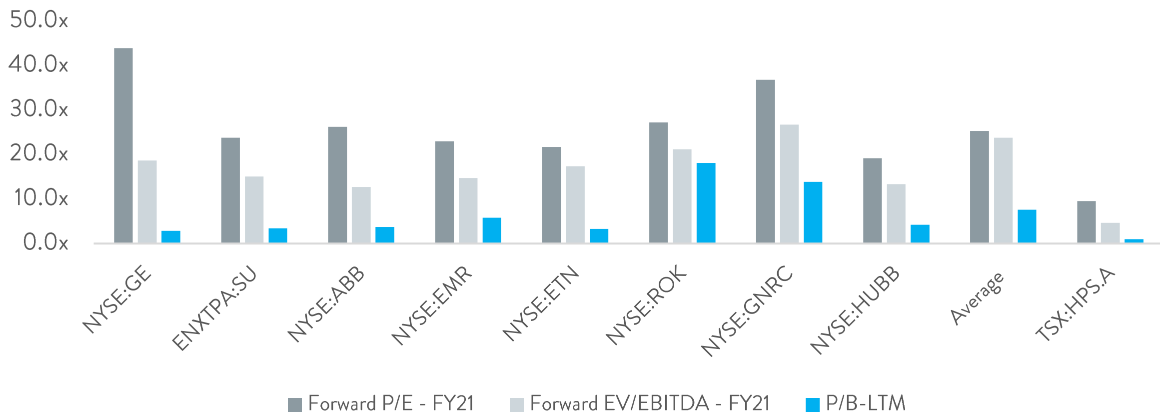
Hammond is more than a cyclical stock. Like other cyclical stocks, HPS.A has rallied roughly 65% from its lows in early November on the back of vaccine news. However, it has a low relative 0.65 beta, it trades at a lower-than-average cyclical multiple, a higher-than-average organic (non-macro driven) growth profile, and it has a 3.7% dividend yield providing some downside support. Based on 2021 estimates, the stock currently trades at 9.4x earnings, 4.6x EBITDA and 0.95x book. These multiples are below the mid-level of historical ranges, and assuming further steepening of the yield curve we think will further expand. In this scenario, we see upside to the **$14-16/share** range for the stock, which would assume multiples of 13x, 7x and 1.5x for P/E, EV/EBITDA and P/Book, respectively. That said, we also think HPS.A could benefit from a structural increase in the multiple range if 'Green New Deal' theme-based investors start to see the company as a strategic upstream beneficiary of EV charging and renewable energy investing. A catalyst for this could be details from the Biden administration's future infrastructure stimulus. We are constructive on HPS.A given what we see as significant double-digit upside in the medium term along with an attractive 3.5% dividend yield with additional growth potential.

Figure 1 Premiums on Companies that are Part of the Digitalization and Renewable Transformation



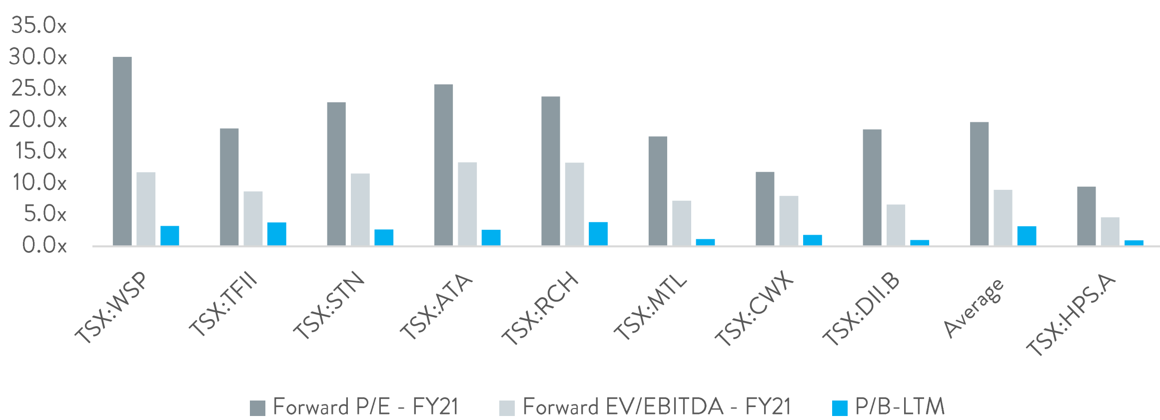
Source: Yahoo Finance

Figure 2 TSX: HPS.A Trading Multiple vs. U.S. Electrical Manufacturers & Distributors



Source: Loderock Research & Company Fillings

Figure 3 TSX:HPS.A Trading Multiple vs. Canadian Industrials Public Comps



Source: Loderock Research & Company Fillings

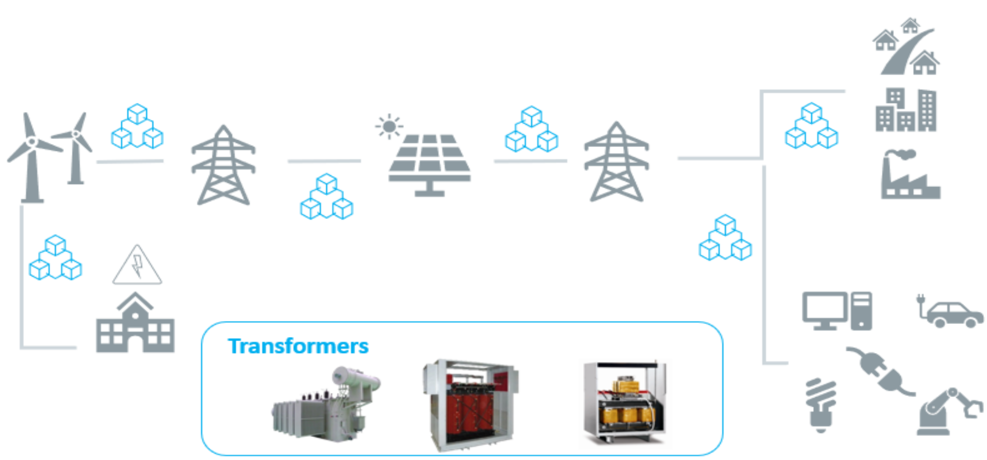
Business Description

Analyzing Hammond Power Solutions closely we have concluded that its competitive advantage, and the main driver behind its much higher than industry average growth, is written directly into its stated corporate culture 'Values'. Particularly relevant are its values of '***honesty, integrity and ethical behaviour***' and desire to '***promote innovation and a relentless pursuit of continuous improvement..***' *(source: MD&A).* To be more specific, as a 104 year old company HPS.A has developed a reputation for product and service quality and product breadth that few competitors can match. This has allowed it to become the number one provider of dry-type transformers in North America, and to do so profitably by maintaining pricing power throughout the business cycle. More so, it has positioned the company to gain market share as the industry shifts toward higher quality manufacturers and design teams.

Transformers are essential electrical devices that are used in power distribution systems to step up or step down voltages at the same frequency to meet the power requirements of end users. There are many types and sizes of transformers, from those several stories high found in generating stations to those small enough to fit in your hand found in electronic device chargers. Transformers are required at multiple locations across electrical grids (generation, transmission, distribution) and end user locations (commercial, industrial, residential). Consequently, macro growth drivers for companies like HPS.A are largely related to the outlook for power demand and to the changes taking place within the delivery of electricity.

Transformers are static solid state devices, which means they have no moving parts and therefore have very long lives. A basic transformer has several coils of an insulated wire conductor like copper wrapped around a laminated steel core so key to input costs are copper and steel prices. The basic concept is that voltage is introduced to an input coil, magnetizing the iron core, and then induced into a second output coil of different configuration which results in the voltage change. To maximize performance and lifespan, transformers are insulated in one of two ways; liquid fill transformers are generally insulated with oil, while dry-type (or air-filled) transformers utilize environmentally safer CSA and UL recognized higher temperature insulation systems. The benefit of dry-type transformers is that they can be installed inside buildings closer to the load which improves performance. The mix of liquid to dry type transformers globally is 90/10 while in North America and Asia Pacific it is 55/45 due largely to environmental reasons.

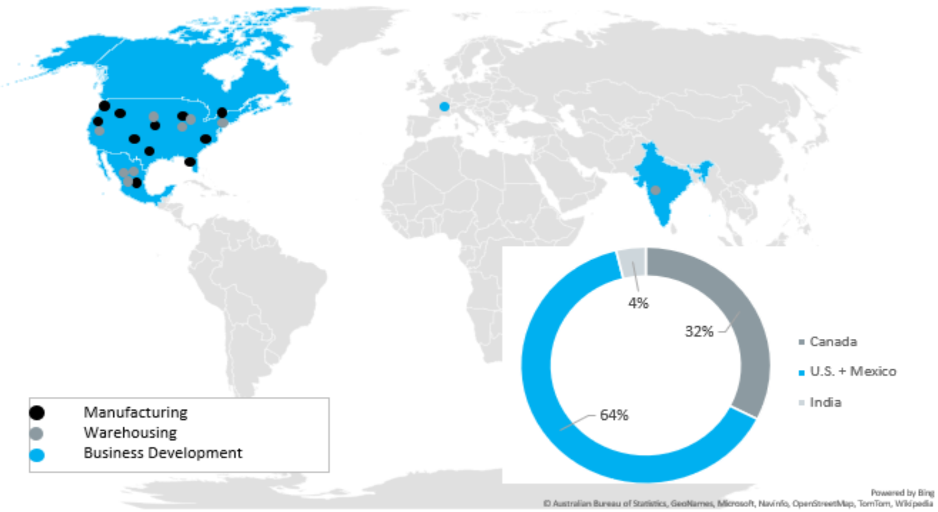
Figure 4 Transformers are Essential/Multi-Purpose/Ubiquitous in All Electrical Grids



Source: Company Presentation

HPS.A has 1,400 employees including 40 design engineers (largest design team in this part of the world) and serves 3,000 customers from 21 global locations including 9 manufacturing and 7 warehouse facilities. The three Maquiladora facilities in Mexico are part of HPS.A's global production strategy, though can clearly be leveraged for future Mexico market expansion. The Indian facility was primarily acquired to address the domestic market though will also be used as a low-cost production facility for liquid-fill products into North America going forward. The geographic sales breakdown (pie chart below) shows that HPS.A is very much a North American focused company currently, which is why international expansion plans are one segment of its long-term growth strategy.

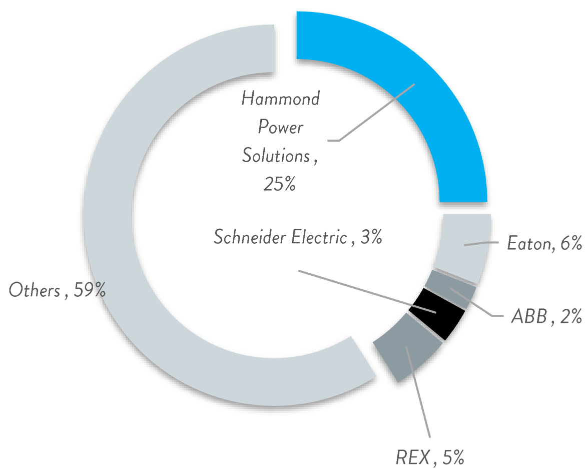
Figure 5 Facilities and Sales by Market



Source: Company Presentation

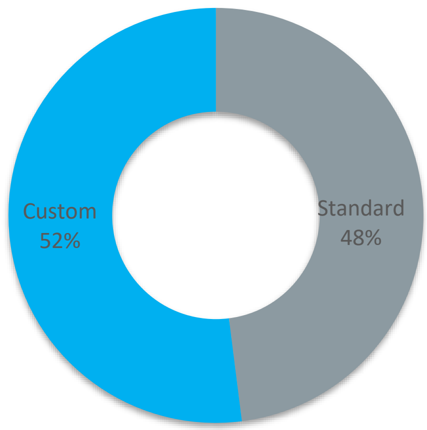
HPS.A is positioned in the market as having higher than average quality and service. The company has over 6,000 SKUs (including custom) and 1 million transformer designs. It sells about 700,000 units per year and has an average customer spend of $120,000 per year. The product differentiation is defined by three factors: distribution, customization, and intellectual property (IP). On distribution, HPS.A has built a manufacturing and warehouse presence that allows for most non-custom products (48% of sales) to be delivered within 24 hours. While higher cost, the 98% on-time delivery record protects margins and reputation for both distributors and end customers and is seen as a competitive advantage. For custom products (52% of sales) the company benefits from its high product quality, though the service HPS.A provides is easily as important if not more. As one example, HPS.A leveraged its team to develop a 'Triplex' 3-phase transformer design that can be fit into smaller physical locations and assembled on-site. This design has almost cornered the commercial transformer market for old building restorations/redevelopments in older cities like New York and is probably worth US$1-2 million in sales per year over the next ten years in that city alone. Hammond's major competitors have more of a scale-based strategy and so focus less on custom service. However, they do use HPS.A for custom contracts. Private label sales to competitors represent 15% of HPS.A sales. Of note, HPS.A already does about $30 million in annual sales direct to its large competitors and as these companies further move toward outsourcing HPS.A stands to benefit further. Hammond's IP is vital to its customers and distributors as the market moves from 'product' sales to 'solutions' sales. We expand on this in the next section, but this change in the industry is placing a greater premium on manufacturers that can provide high end technical support within and between products.

Figure 6 Hammond Market Share



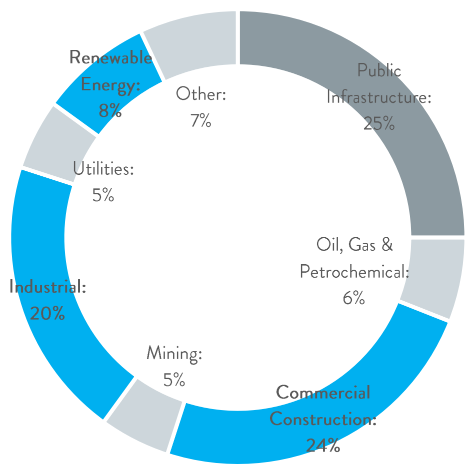
Source: Company Presentation

Figure 7 Hammond Product Breakdown



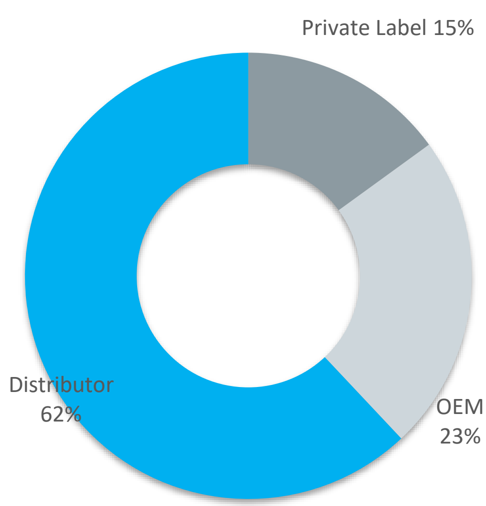
Source: Company Presentation

Figure 8 Hammond's End Market Exposure



Source: Company Presentation

Figure 9 Hammond's Channel to Market



Source: Company Presentation

What clients and distributors say… Hammond is in the sweet spot!

The investment thesis for this stock is that Hammond's top-quality product and service has been the cornerstone of its success with both distributor channels and direct sales and will be the driver of future success in its product and geographic expansion strategies. Key to judging the credibility of this thesis is evidence from what the purchase decision makers say, so we interviewed some of the U.S. distributor channel representatives. In short, we found that Hammond is positioned at the high end of the quality curve for product and service, and that this is important not only for pricing power but because of how technology and market forces are changing the industry. Below we provide insights from some of our interviews.

Craig Wiedemeier is President of Werner Electric Supply, one of the largest wholesale electrical distributors in North America with an estimated revenue of over $250 million USD. It is an authorized Rockwell Automation distributor, which is a big part of the company's business, but it is also one of the most diversified distributors in the market providing both custom and non-custom product solutions. It carries over 28,000 unique SKUs in its warehouses and sold 65,000 SKUs last year. Its customer profile is about a third commercial (ie construction) and two thirds industrial (ie OEM, manufacturing), so it is a good representation of the broader industry and Hammond's sales profile.

When asked what is unique about Hammond as a manufacturing partner Wiedemeier referenced; their technology (industry leading design team and SKUs), how well their sales team collaborates on service and support, and finally he stated flatly that they had inventory this past year, with minimal supply challenges even with tariffs and Covid chain resiliency

Wiedemeier's main message was how technology has changed the industry in the past ten years. Historically there was a premium on logistics, product breadth and personal relationships. These elements are still required though now a premium is placed on data, software, and technical expertise as non-custom products commoditize. This has forced distributors to become more like consultants, where market share leaders now provide product solutions to technical design challenges. Wiedemeier said he has heard it described this way, and agrees, "***in the past we sold drill bits, now we sell solutions to create a hole that are safer, at a better quality and are cost-effective***". These changes have resulted in distributor consolidation as companies look to achieve scale economies and compete for technical expertise.

It has also changed the distributor relationship with manufacturers like Hammond, with a bias toward those that can support the new distributor model. Wiedemeier referenced three key things he looks for in a manufacturing partner; 1) investment in tech R&D, 2) foresight around services and data, and 3) supply chain resiliency. What strikes us is how Hammond's profile and business strategy seems to be very well positioned for the industry trends affecting distributors, from its design team's ability to provide technical support to its 98% ship on time metric. When asked what is unique about Hammond as a manufacturing partner Wiedemeier referenced the same three things; their technology (industry leading design team and SKUs), how well their sales team collaborates on service and support, and finally he stated flatly that they had inventory this past year, with minimal supply challenges even with tariffs and Covid having perhaps the greatest impact on developed country supply chains in the modern era. He also added a fourth observation he thought was very important, "***they really take care of their team***", referencing early-Covid precautions Hammond was taking for its employees. Aside from sustaining a strong corporate culture, it appears this approach enabled the manufacturing flexibility to maintain inventory levels.

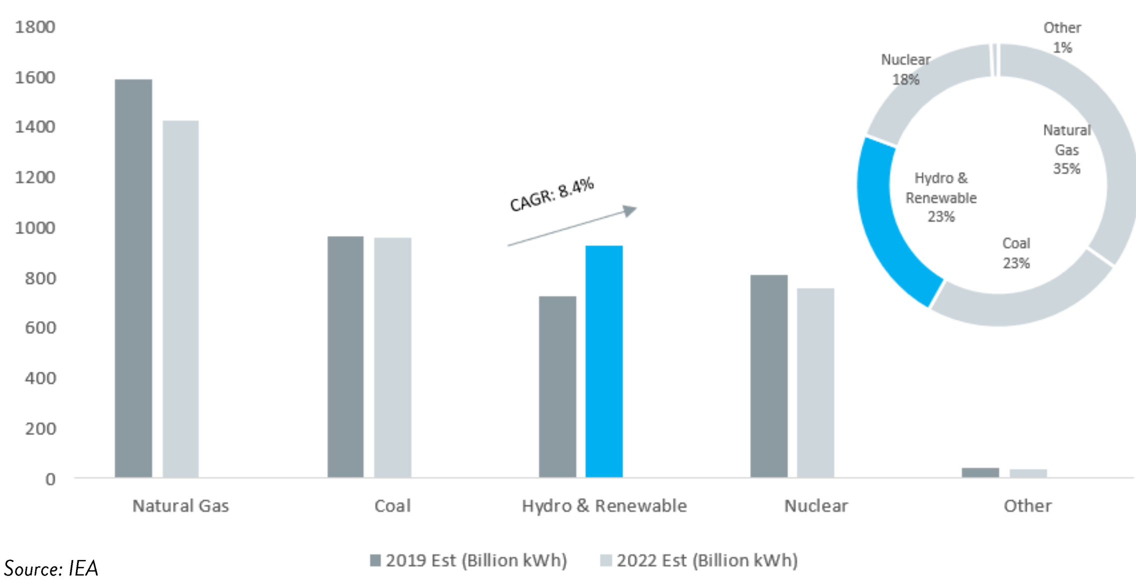
Other distributors requested anonymity, but echoed comments about changes in the industry including the impact of retailers like Home Hardware, Lowe's and even Amazon on evolving their business model towards solutions provision. On why Hammond is the premier transformer company in the market, brand awareness and acceptance, speed to market and seamlessness and ease of doing business were also referenced.

Some other issues that came up in our conversations include growth in renewable sources like wind and solar, and changes in the broader electrical product manufacturing industry. There is some evidence that larger electrical equipment manufacturers are moving to outsource more of their custom products as they streamline their businesses. In addition, one of the biggest growth areas for distributors is in power quality products needed to support less reliable renewable sources like solar and wind. It seems logical to us that these trends would favour high-quality manufacturers like Hammond, and our distributor conversations support this view.

Where the economy goes, so does Hammond

Vaccine deployment paints the macro picture. According to a December 2020 report from the US Energy Information Administration (EIA), a decrease in electricity consumption of up to 4% occurred in 2020 as consumption in the commercial and industrial sectors declined up to -6% and -9%, respectively while residential consumption increased up to 1.5% due to Covid work from home impacts. As vaccines get rolled out, the EIA expects overall U.S. consumption will rise about 1.5% in 2021 as work from home trends continue and maintain the same pace in 2022 but with mix shifting from residential back to commercial and industrial. A few inputs are important here. First, renewed growth in industrial and commercial consumption of 2.9% and 0.9%, respectively in 2021 is encouraging given HPS.A's customer profile. Note that commercial usage remains low in 2021 due to sustained lockdowns but should grow +1.7% in 2022 as office usage resumes. Second, the source of production growth is interesting as renewables (solar and wind) represents virtually all overall expected future growth at +14%/year and if we include hydro will be the second largest US source of energy by 2023. We discuss how HPS.A plans to address the renewable energy generation segment of the market later in the report. The long-term growth outlook for global electricity generation remains robust at 4-5% through 2050 according to the EIA as emerging markets continue to industrialize. Key drivers for developed markets include continued growth in data centers (Internet of Things) and electrification of transportation (EV charging).

Figure 10 U.S. Electricity Generation Forecast by Segment

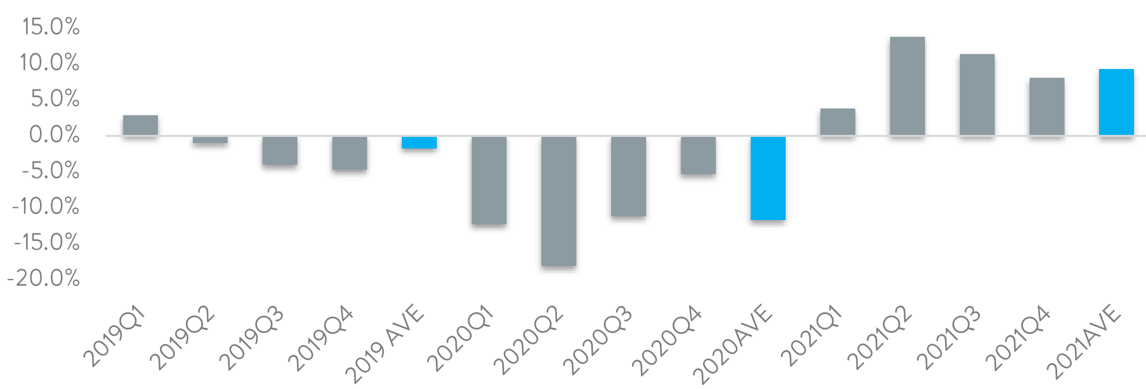


Source: IEA

Electrical product investment should rebound from pent up demand. We source both the National Electrical Manufacturers Association (NEMA) and private industry forecaster DISC Corp for insights on the expected economic impact to manufacturing and commercial activity and related electrical product sales demand. Despite the dramatic slowdown in March-May 2020 a strong rebound from China and inventory restocking in the rest of the developed world supported manufacturing in mid-late 2020. As we enter early 2021, NEMA has expressed caution based on the potential impact of new Covid restrictions in Europe and North America and we think this could pressure transformer sales in 1H21. However, much like the 2020 experience, NEMA also describes a likelihood of pent-up demand accelerating growth in 2H21 as vaccines are deployed in larger quantities. This outlook is supported by a recent Wall Street Journal survey of economists, which saw increased estimates for 2021 U.S. GDP growth from 3.7% to 4.3% (from a contraction of -2.3% in 2020).

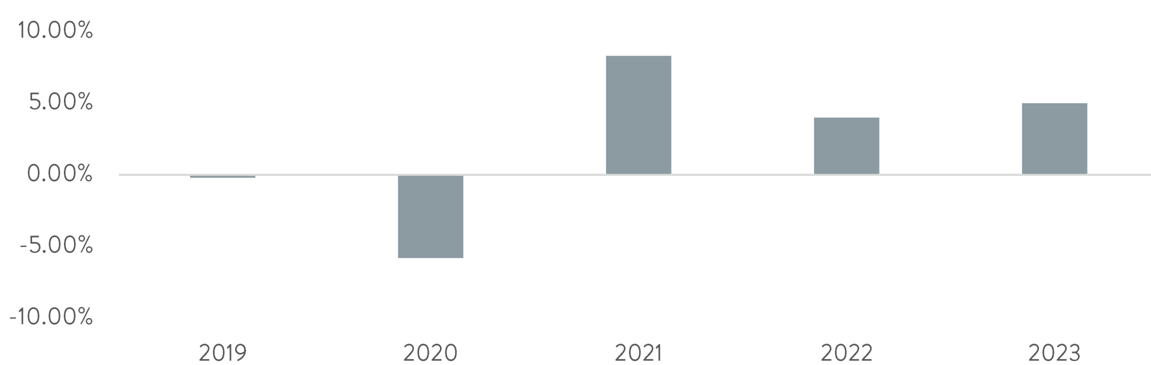
According to DISC Corp, the broad US market for electrical products contracted roughly -10% in 2020 and is expected to grow +7% in 2021 and +5% in 2022 supported by the themes above. Further detailing this trend, the industrial and commercial segments are expected to rebound +9% and +10%, respectively in 2021 as prior corporate spending plans get back online. Similar to that of industrial and commercial, utility segment spending paused in 2020 and early 2021, but is expected to rebound from pent up demand with +7% growth in 2H21. Growth in the utility segment remains focused on environmental compliance, as the grids continue to move toward renewable sources. Trends noted here include solar/wind generation, on-site backup power and load management. All of this suggests potential for positive earnings surprises in 2022 for HPS.A.

Figure 11 Quarterly Industrial Market YoY Forecast Percentage Change (DISC Corp)



Source: DISC Corp

Figure 12 Forecasts of Percentage of YoY Sales Growth Commercial (DISC Corp)



Source: DISC Corp

Transformer market closely matches broader electrical product spending. According to Global Market Insights (GMI), annual transformer sales are about $60 billion USD globally with about $10 billion coming from North America. The global market is expected to grow about 6% annually through 2026 with North America growing at half that rate. While dry-type transformers are primarily sold into North America and Asia, independent consultants expect dry-type to show outsize growth over time as non-North American governments look to improve environmental sustainability and resistivity to surges and short circuits (note, renewable energy is considered less reliable than other sources and therefore requires supportive 'power quality' equipment). GMI describes the global dry-type market at about $6 billion USD in annual sales with growth expectations of 7-8% supported by emerging market expansion. Similar to the overall transformer market, the North American market for dry-type is expected to grow at 2-4%. Consultants expect transformer spending to be affected by similar Covid timing issues as the broader electrical products market (slower 1H21, rebound in 2H21 and 2022).

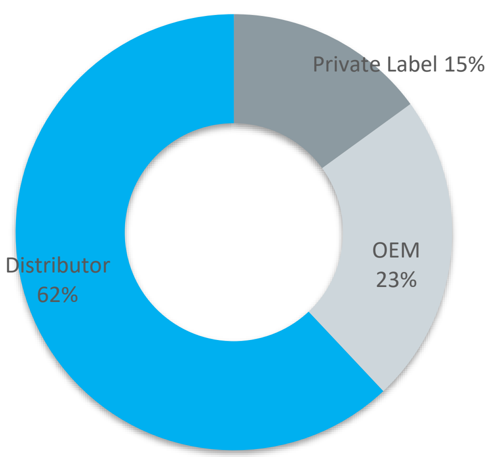
Hammond's three-part growth strategy

As the market for electrical products has evolved, so has Hammond's business strategy. Below, we describe three key initiatives that have both de-risked the sales profile and set up the company to maintain higher than industry average growth with consideration of the trends described above. **Of note, all three legs of the strategy leverage the company's quality/service competitive advantage.**

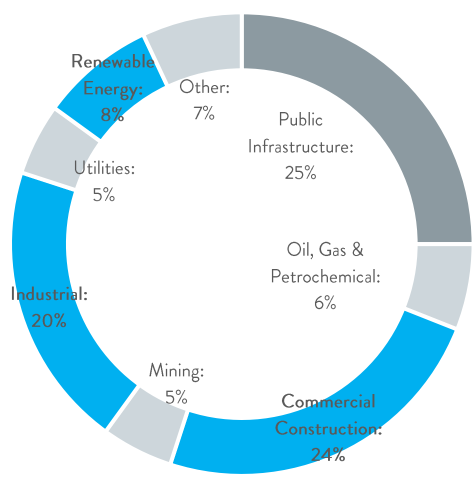
1) Diversification lowers exposure to the business cycle. A decade ago, HPS.A could be described as having significant exposure to the commodity super-cycle, with 60% of its sales mix coming from OEMs serving primarily the mining, energy and pipeline sectors. This served the company well through the 2000's as typical OEM customers like Caterpillar saw significant growth. When the commodity boom began to subside in the 2013-15 period, HPS.A made a concerted effort to shift its sales strategy toward U.S. distributors to diversify its customer profile. In the past four years, the U.S. distribution channel has grown from 52% of U.S. sales to 72% and as a result, distributors are now the largest channel at 62% of overall global sales while OEM sales represent about 23% and private label (sales to large competitors like Siemens) are 15%.

In addition to 98% ship on time rate, HPS.A has leading key performance indicators in product performance, ease of installation, online service, customer care and field service support

Figure 13 Sales Channels and End Market Exposures



Source: Company Presentation



Source: Company Presentation

The basis of Hammond's distributor channel diversification and expansion strategy has been to leverage the company's quality product and service competitive advantage. Like any agency business, single product sales make up the majority of distributor channel activity. However, the most successful agents focus on providing 'solutions' to their clients. As stated previously, this is the direction top distributors are now taking as technology commoditizes the sales process. A solutions approach takes technical expertise in being able to combine products. It also puts a premium on quality and service support from the manufacturer and is an area where HPS.A thrives.

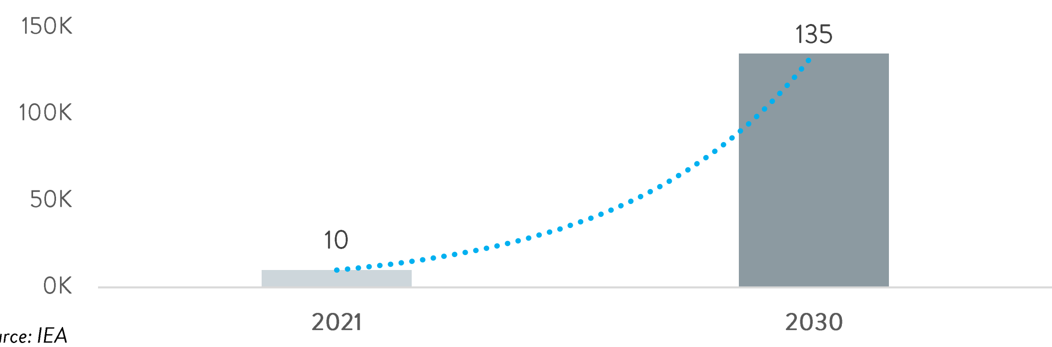
According the company, the biggest challenge to the strategy was convincing the distributors of the merits of the Hammond' product and service offerings. It took 1-2 years for agents to gain commercial success, after which channel expansion became easier. **In addition to 98% ship on time rate, HPS.A has leading key performance indicators in product performance, ease of installation, online service, customer care and field service support**. Interestingly, part of Hammond's success is that its inventory size is the largest in North America (resisting extreme just-in-time practices that impacted supply chains due to Covid). Localized inventory is supported by seven regional warehouses in the U.S. and a regional distribution center in Reno, Nevada. The company believes the major investment in building its distributor strategy is now complete and that future success is a function of continued execution in growing the number of branches serviced within their distributor partners. In short, the major risk associated with this strategy is behind the stock.

Between 2015 and 2020, HPS.A expanded its distributor network from approximately 2,500 branches representing $70 million USD in sales, to approximately 4,500 branches and $125 million in sales. Looked at another way, it has grown U.S. sales by +10%/year for over 10 years which is 2-3x market growth. Amongst its top 7 distributors, HPS.A increased sales fourfold with each of Graybar and Rexel and twofold with AD, Inmark and CED. Management believes they can still expand their penetration of these distributors by about 500-600 branches (about 25-35% in sales) with about +200 this year before seeing growth level off. Concurrently, the company is continuing to improve sales per branch, suggesting potential for $10k per branch to grow as high as $500k. The key point here is that HPS.A is clearly taking market share within the distributor channel given the broad market's low single digit growth. **Overall, the company believes it has further upside of US$25-40 million in annual sales in the next 3-5 years as it executes on the US distributor strategy**.

2) Product expansion leverages exposure to 'greening of the grid': In our view, 2021 could be a year when investors bring sustainability into their investment process in a much more significant way. A recent KPMG analysis points to investor pressure on ESG and declining overall costs of wind and solar generation as key drivers. Anecdotally, we detect more fund managers working ESG targets into their analysis not just for risk mitigation, but as part of their thesis for upside investment catalysts. There are many political indicators (such as the Biden presidential win and green energy stimulus plans) that imply potential for acceleration in renewable sources in the grid. Of note, the Biden administration is expected to include significant investment in EV charging infrastructure expansion as part of its post-Covid stimulus strategy.

What this means for HPS.A specifically is a likely increase in demand for its existing renewable energy products. HPS.A currently sells utility, commercial and ground transformers designed specifically for renewable source generation, which require voltage adjustments between the source and the utility. It also sells neutral ground reactors designed for renewable generation. However, perhaps the most interesting theme-based product Hammond offers are its electric vehicle charging transformers. EV chargers act as non-linear loads which cause current and voltage distortion and therefore require transformers that can manage this unique grid challenge. HPS.A offers autotransformers and power centers that address level 1 (home), 2 (parking lot) and 3 (fast charge) solutions. The IEA estimates that globally the number of private chargers could grow to 135 million by 2030 from less than 10 million today based on their Stated Policies Scenario (the Sustainable Development Scenario would result in +240 million EV chargers being deployed).

Figure 14 Rapid Growth of EV Charging Stations



Source: IEA

HPS.A sees the sales process for renewable energy integration moving toward transformer plus 'solutions' and so sees product expansion as both an offensive and defensive move. HPS.A estimates it did C$2-3 million in EV charging related business in 2020 and **believes it can comfortably match industry growth to achieve $25-30 million in sales within 5-10 years** with dry-type transformers only, suggesting a CAGR of +70% in the vertical. Depending on the profile of its liquid-filled expansion it could potentially double or triple that estimate. Overall, management sees the sale of power quality solutions as the key driver of North American revenue beyond the distributor expansion strategy.

3) Geographic expansion into emerging markets with existing assets. HPS.A plans to further leverage its existing manufacturing facilities in Mexico and India to expand in those markets. While both markets have experienced substantial GDP impacts due to Covid (GDP declined -10% each in 2020), economic rebounds are expected for different reasons and post-Covid GDP growth will remain consistent with prior trends. OECD expects 2021/22 GDP growth of +8%/+5% for India and +3.6%/+3.4% for Mexico, respectively versus +3.2%/+3.5% for U.S..

Of the two markets, we consider India the bigger potential not just because of its GDP growth upside but also the country's significant recent expansion of the electrical grid. In 2005 the Indian government launched the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), with its goal being 100% electrification of the country. In 2019 it launched 'One Nation One Grid' to promote affordable power to all states. There has been significant investment in India with the Institute for Energy Economics and Financial Analysis (IEEFA) estimating a 12% compound transmission network expansion over the past six years. In our view, **this forms the foundation for significant future industrial and commercial transformer sales as companies leverage the grid**. We note that the EIA forecasts electricity generation will increase +40% (and renewable sources will double) by 2025 to meet demand.

...the Institute for Energy Economics and Financial Analysis (IEEFA) estimate(es) a 12% compound transmission network expansion over the past six years. In our view, this forms the foundation for significant future industrial and commercial transformer sales as companies leverage the grid.

HPS.A has had a presence in India since 2012 when it acquired 70% of Hyderabad based Pan-Electro Technic Enterprises, one of the largest manufacturers and suppliers in country with four manufacturing facilities. HPS.A was one of several global transformer companies to enter the market in anticipation of grid expansion (which was at about 65% coverage in 2012). The experience has not been without its challenges as noted by the recent India reorganization. It is important to note that the problems were subsidiary company specific and not market related. India sales actually grew from $8 million to a high of $24 million between 2012 and 2018, though profitability lagged. Insufficient local operating controls were an issue, as were questionable sales practices. The solution was for HPS.A to acquire the 30% minority interest, make significant management changes and integrate reporting and operations management into head office.

In 2019 HPS.A streamlined reporting directly into head office by inserting a new Plant Manager and Managing Director. In addition, it brought Indian operations into its Corporate Financial and Enterprise Resource Planning (ERP) systems which has allowed for rollout of best practices in engineering, quality control, purchasing, production planning and sales prospecting. Finally, the Indian operation is now selling direct to end user with custom products as a way of leveraging its service expertise. **We think the main lesson HPS.A has learned from international expansion challenges is that it must maintain strong operational control, and that assets can and should be sweated to a greater degree**. A key message from the 2020 consolidated results is that overall margins were up, in a Covid year, due to better utilization of global operations for out of market production.

Indian facilities primarily produce liquid-fill transformers given the domestic demand profile. After strong growth through 2018, Indian revenues were down about -20% in 2019, in line with industry sales. It is widely known that the Indian election affected the economy and consequently electrical product sales, but a major factor was a government decision to cut solar project subsidies. HPS.A is taking steps to diversify its market exposure from a high concentration in renewable generation utility related transformers to a greater focus on industrial and commercial transformers. We like this strategy for two reasons; first, it boosts future growth sustainability now that the grid expansion is largely complete, and second, HPS.A can better leverage its quality/service/ethics reputation selling to corporate rather than utility customers in the Indian market. Finally, HPS.A is also using the Indian facilities to manufacture liquid-fill transformers for expansion into the North American market since solar, wind and pharma plants often use these types.

While 2020 sales in India were affected by Covid, both 1Q20 and 4Q20 were robust and support a segment run rate revenue back in the $24 million range. **Management's 3-5 year goal for India is to grow it to a $45-50 million business not including potential for liquid-fill sales into North America**. India is a competitive market, but HPS.A is already a significant player and believes its quality product/service advantage can be a differentiator. The largest domestic competitor has sales in the $40 million range so HPS.A believes it can eventually at that level. We anticipate potential for shakeup in the Indian market if ever there is a greater focus on corruption. In such a blue-sky scenario, some competitors could see significant erosion and HPS.A believes it could see long term upside of annual sales in the $100m range.

While Mexico is a smaller growth opportunity, it remains an attractive one because it requires little investment. The plan is to further leverage existing manufacturing facilities with some warehouse expansion dependent on growth. HPS.A has three manufacturing facilities in the Macquiadora region primarily set up as a low-cost manufacturing strategy to supply global customers. In 2015 the company set up a Mexican JV called Corefficient to focus on the manufacture of steel transformer cores. This facility's strategic importance was obvious in 2019 after availability and pricing of offshore core steel was negatively affected by U.S. government tariffs. Going forward the strategy is to expand into the Mexican market by partnering with Affiliated Distributors (AD) related local independent Mexican distribution partners. A challenge in the Mexican transformer market is its heavy biased toward domestic-owned manufacturers. AD partners represent about 30% of the Mexican transformer market and are therefore a politically sound way to expand locally. **Management sees potential for about $25 million in annual sales from the domestic Mexican market within 3-5 years**.

Acquisitions could supplement product expansion strategy

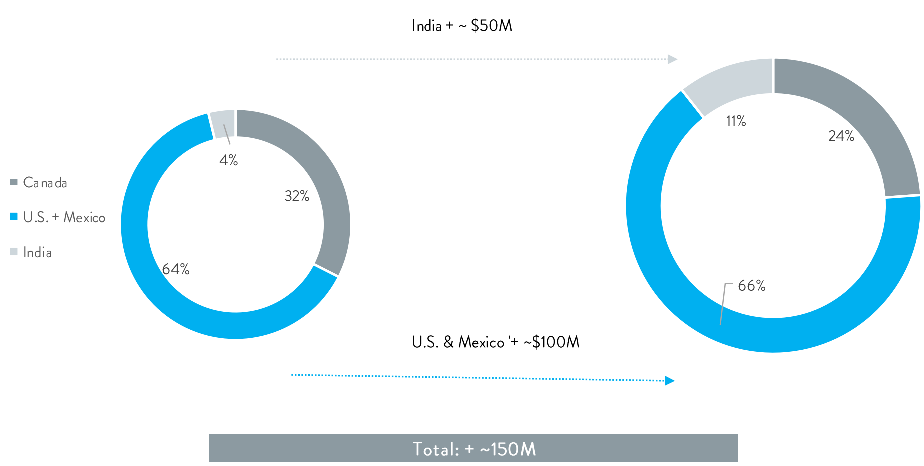
Acquisition and joint venture strategy will focus on power quality solutions. Hammond has had some mixed success with acquisitions. The Italian and Indian challenges reflect the risks of operating in foreign markets where business practices and political factors can be difficult to navigate. That said, we believe the stock is well served by the decision to remain focused on India and Mexico and leverage distributor relations and their service advantage. Both markets represent outsized growth opportunities for HPS.A but more importantly the company has de-risked its exposure by streamlining operations to improve margins and diversifying sales to greater sweat assets. In short, leveraging its quality advantage to drive sales with relatively low investment makes sense.

With the geographic focus now set, the M&A strategy shifts to supporting product and possibly sales channel expansion. The company has had success in this type of M&A. The acquisition of Marnate accelerated the R&D program for the company's cast resin transformer technology, which is now being utilized in several facilities. **Future deals are likely to be smaller tuck-ins focused on expansion opportunities in the power quality segment as the company looks to gain better leverage into renewable power and specialized utility growth**. Referenced earlier, these are products that address the voltage fluctuations and interruptions that are common with renewable sources like wind and solar. Specifically, products are evolving to provide backup power, temporary power support (mobile substations) and distribution support, such as surge protection and network monitoring to help renewable providers seamlessly integrate to the grid. HPS.A is particularly excited about the opportunity in energy storage solutions such as are required for EV charging stations. Specialty equipment manufacturers are combining these products to provide full solutions and HPS.A believes broadening the scope of its product suite makes sense for both direct and distributor sales channels.

Hammond sees a 5-year 7% CAGR sales opportunity

HPS.A sees a path to roughly $500 million in annual revenue over the next five years. This marginal $140 million in annual sales represents a compound growth rate of about 7% which compares to the 2-4% growth rate for transformers in North America. We describe the growth path below in order of risk from low to high. In our view, potential to grow an additional $25-40 million from the U.S. distributor channel is low risk because the strategy is proven, the market is stable and there is significant supporting data on number of branches and sales per branch (potential growth of $25-30 million in EV related transponder sales could drive NA sales beyond the 5-yr outlook). Potential to grow private label sales to large competitors is also low risk given the likelihood for companies like Eaton and Schnieder to continue outsourcing and only a small number of quality manufacturers can meet their demands. Potential to grow an additional $45-50 million domestically in India is medium risk as electricity consumption and GDP growth is very high and a certain portion of that market will demand a quality premium despite relatively high competition and political risk. We see potential $25 million in growth from Mexico as medium risk given the lower GDP growth and unproven independent distributor sales strategy. Finally, we consider power quality product expansion/liquid-fill sales expansion to be medium/high risk respectively, given lack of concept proof and likely need for acquisitions to fulfil the power quality product suite.

Figure 15 2020'Q3 vs. 2025 Est. Sales Breakdown



Source: Loderock Research & Company Fillings

Key risks: Economics, politics, currencies and commodities

Road to economic recovery could still have bumps. The general sentiment of the stock market has started to move away from big tech and toward cyclical and emerging markets as the rollout of vaccinations and continued large stimulus spending position the developed economies for economic recovery. With that, HPS.A has rallied +65% in the past two months along with other cyclical and small cap stocks and so have already benefitted partly from related fund flow trends with retail investors adding greater volatility than we've seen historically. While economists have recently increased economic growth expectations for 2021, continued lockdowns, variant Covid strains and questions on timing and size of the next U.S. stimulus bill remain. In particular, if moderate Senate Democrats resist a large stimulus bill the market could re-adjust to lower expectations.

Lower political risk already in the market. Politically, the outlook just got clearer with the Biden administration taking control of the senate and the market seems to be assuming execution of the Democrats' key agenda items. Relevant to HPS.A are tougher environmental regulations, large spending on infrastructure (renewable energy expansion) and potentially lower tariff risk. It is likely at least some of these political positives are already behind the recent cyclical and small cap stock rally and so any risk to getting these bills passed could pose a risk to the stock.

$USD could further weaken versus the $CAD. While most of Hammond's revenue is USD denominated so are its key costs (particularly commodity inputs), so currency fluctuations do not have a material impact on operating leverage and margins. However, as the India and Mexico operations make a greater contribution to future growth the outlook for the USD will matter more. More importantly, HPS.A reports in CAD and the stock trades in CAD so a depreciation in the USD is a negative for reported results and the stock. The USD has depreciated roughly -4% in the past year versus the CAD and some economists believe it could depreciate a further -4% in 2021 as global markets further recover and as real rates remain depressed. Our estimates assume spot currency rates so further USD depreciation could be a negative.

Credit risk may evolve with international expansion. A significant portion of Hammond's accounts receivable are with customers in manufacturing. Vaccine rollouts suggest a return to normal production in 2021 though it is entirely feasible a variant strain third wave could be a disruptor and affect customer financial health. Also, expansion into emerging markets may carry greater customer credit risk. Note, HPS.A does have a proprietary credit risk assessment process where each potential client is assessed individually on financial statements, credit agency info, bank references, industry info and debt rating agencies where applicable. The company has a history of low bad debt, but it is worth mentioning given current economic conditions.

Key input costs rising due to Covid industrial shifts. As indicated earlier in this report, key inputs to transformer production are steel (iron ore) and copper, with crude oil and cardboard having a smaller but relevant impact. The global transformer market has witnessed instability in raw material pricing in recent years due to volatility in commodity prices related to trade wars and the pandemic. Notable were the 2018 U.S. imposition of a 25% tariff on steel imports and last year's dramatic increase in base metal demand due to higher Chinese industrial production. Commodity pricing volatility is one of the higher risks facing HPS.A and so requires greater analysis.

Understanding Chinese-based demand. While Chinese production was the key driver of the late 2020 base metals rally, it is important to understand two important inputs. First, China is a marginal counter-cyclical buyer of commodities which explains its aggressive production-based stimulus as commodity prices sagged last year. As we enter 2021 with its monetary policy and credit cycle normalizing many experts believe Chinese consumption is now key to its impact on commodity prices. Second, Chinese consumption continues to lag historical trends, and the thinking is that if it starts to grow then it will take pressure off the need for production and ease commodity pricing pressure. One key indicator to watch is the RMB/USD, where an easing of appreciation would signal an easing of commodity demand.

Developed market demand may now be the key commodity factor. Where China is seen as a marginal buyer, developed markets are viewed as core-demand for commodities. The shift in domestic purchasing patterns toward home improvement and auto purchases has increased demand for commodities and this has been a factor in commodity prices, particularly steel and copper. The key to future pricing is the overlap in China and ex-China trends. Many commodity experts hesitate to forecast significantly higher prices because of potential for easing demand in China as developed market demand picks up.

Gross margins in Hammond's business are between 20% and 30%, with overall margins in the 24-26% range. Raw materials make up roughly 65-70% of total non-SGA costs, with copper and steel making up about half of materials cost. Finally, 52% of sales are custom orders which are quoted on current input costs, so only half of sales are immediately exposed to input cost changes. HPS.A does not hedge commodity exposure, but we do not consider this a material risk because the industry has a history of passing through commodity input cost changes relatively quickly. In addition, HPS.A is a price leader given its position in the market. Overall, we think recent input cost increases could have a slight negative affect on gross margins (less than 1.0%) in early 2021 though we expect a recovery as the year progresses.

Copper prices have rallied about 20% in the past quarter to roughly US$3.60/lb today, while steel is up +30% in the same period to +US$1300/metric tonne for cold rolled coil. Most other manufacturing and construction input commodities have experienced similar price increases. However, future estimates look relatively flat to slightly down from current levels as analysts and economists consider the various China and ex-China trends. Our estimates reflect spot prices for copper and steel going forward though it is important to consider the risk of upside volatility as Covid continues to have an impact on global demand and potentially supply. Some key factors that can affect this dynamic include Chinese inflation, a U.S. infrastructure bill, global tariff trends, near-term elections in Peru and Chile and the impact of Covid strain variants and potential for further lockdowns.

Financial outlook: Execution on strategy would mean double digit EPS growth

Think of 2019 as normal run rate for HPS.A. Fiscal year 2019 was second best financial result since 2001. It was also the second year in a row that sales growth was top quartile in Canada and U.S.. The performance can be ascribed to continued market share expansion in the U.S. distributor channel, a positive given the slowdown in 2019 U.S. exports due to China-U.S. trade war. The trade war was felt mostly through slower sales to original equipment manufacturers (OEMs) and industrial customers, though there was also a cyclical slowdown in data center sales growth. Concerns over the broader economic outlook prompted the company to exit the European business, which had an immediate positive +130bps impact on consolidated margins between 2018 and 2019 given the loss profile in Europe.

The immediate benefit to profitability was important because it reminded the market that the core North American EPS was in the +$1.00/share range, but equally important that it could deleverage in the face of higher economic risk as net debt has declined from $23 million to $5 million in the past year as free cash flow increased by over $10 million annually. This not only improved the financial statement profile to the capital markets, it also gave the market much more comfort on the dividend which went from a free cash payout of 44% in 2018 to 18% in 2019.

As for most companies, fiscal 2020 was defined as a year of significant shock absorption. Sales and gross margin look like they will be down -10% and -4%, respectively. We think the market is tolerant of the revenue declines given the lockdown impacts on industrial and commercial activity. However, the benign margin impact is clearly a positive relative to expectations and we ascribe this to the company leveraging existing plants with the help of greater employee flexibility to achieve operating leverage. Hammond talks a lot about how it treats its employees. An example is how it has taken measures such as hiring dedicated transportation for its Mexican employees to provide protection from Covid. It is difficult to argue with the results as employees were an obvious driver of results in 2020.

Looking into 2021, industry experts forecast another slowdown in 1H21 as Covid case counts rise through flu season, but also a rebound in 2H21 as economic activity resumes and delayed production potentially gets caught up. We have reflected this expected trend in our estimates which explains our +2.6% sales growth for 2021. Looking into 2022 we see a much bigger +12.6% growth in sales driven by sales channel business development taking place in both India and Mexico. **In our view, investors are not likely to see signs of geographic market expansion until 4Q21 at the earliest. While we have high confidence in the company's ability to resume market share growth, it may take 3-5 quarters before this catalyst is evident in the results**.

We have described Hammond's sales profile as being roughly half standard and half custom. The majority of standard product sales are stocked in warehouses and while there are seasonal impacts (4Q is the strongest quarter), volumes are fairly predictable. Alternatively, custom sales are derived from major customer projects and are therefore lumpy and influence quarterly sales fluctuations. Therefore, we look for a combination of sales plus order book rates (backlog) as prime indicator of potential to meet our estimates. Results for 3Q20 show the impact of lockdowns with overall bookings down -20%y/y, mostly affected by direct and OEM booking declines while distributor bookings have rebounded and are slightly positive y/y. Speaking with distributors we think 4Q20 will likely see a further improvement in bookings, though sales will likely remain down from last year which is why we estimate a -10%y/y revenue decline. In our view, the market is likely to place more emphasis on the bookings trend and outlook for 2021 and beyond than on the 4Q20 results.

What investments are required to meet medium term targets? The company has described a strategy to build an annual revenue profile in the $500 million range through further expansion in the U.S. distributor channel, further market expansion in Mexico and India and further product expansion in the power quality segment. North American production capacity is at around 75% and Indian capacity is around 50%. Given the expected growth profile from each of these markets, management believes marginal capacity would largely be absorbed with the expected $140-150 million in sales growth, and so as we approach this goal additional manufacturing and warehouse facilities will be required. In short, 2018 represented the bottom of the capex cycle and we expect spending to further ramp for the expected growth initiatives. For manufacturing, Mexican facilities are leased while Indian facilities are owned. Management describes a manufacturing facility cost as being in the $3-6 million range with a lease carriage in the $500,000 per year range. In addition, we expect Hammond to invest in further R&D, equipment for existing facilities and warehousing over the next 3-5 years.

Looking into 2021, we have modelled capex of $8 million (about double 2020) and consider this a more normalized level as the company approaches its $500 million sales goal. As we approach 2024/25 we are likely to see some upside bumps as the company looks to add capacity in India. Given the expected investments and operating leverage in the model, if the company can reach its roughly +40% sales growth target by 2025 we believe it can double its post-capex free cash profile toward a range of $2.00/share.

Balance sheet remains very strong. As mentioned, Hammond has almost zero net debt on its balance sheet and is expected to produce $10-13 million in post-capex free cash annually for the next three years with growth toward $18 million thereafter. The company has a conservative approach to leverage which some may argue under-utilizes the low interest rate environment. However, we do not consider this a negative for the stock for two reasons; first, product-focused acquisitions will very likely be financed by debt and quickly paid down, and second, low financial leverage adds comfort to dividend investors and in our view increases likelihood of dividend increases and equally the downside protection for the stock in the event that the economy continues to stagnate due to lockdowns.

Figure 16 Income Statement

Hammond Power Solutions
Income Statement

		2020E	2020E	2021E	2021E	2021E	2021E	2021E	2022E	2022E	2022E	2022E	2022E	2023E	2024E	2025E
		Projected														
		Q4	31-Dec	Q1	Q2	Q3	Q4	31-Dec	Q1	Q2	Q3	Q4	31-Dec	31-Dec	31-Dec	31-Dec
Sales	(C$ thous)	81,507	323,435	77,770	80,647	84,498	88,738	331,653	86,233	89,692	96,557	100,032	372,514	411,686	450,267	482,932
Cost of Sales	(C$ thous)	60,723	238,856	58,327	60,485	62,951	65,666	247,430	63,812	66,372	71,452	74,024	275,660	304,647	333,198	357,370
Gross Margin	(C$ thous)	20,784	84,579	19,442	20,162	21,547	23,072	84,223	22,421	23,320	25,105	26,008	96,854	107,038	117,070	125,562
Selling and Distribution	(C$ thous)	9,862	39,877	9,332	9,678	10,140	10,649	39,798	10,262	10,673	11,490	11,904	44,329	48,167	51,781	54,571
General and Administrative	(C$ thous)	6,684	25,470	6,222	6,290	6,422	6,744	25,678	6,554	6,817	7,338	7,602	28,311	30,876	33,320	35,254
Total Costs	(C$ thous)	16,546	65,347	15,554	15,968	16,562	17,393	65,476	16,815	17,490	18,829	19,506	72,640	79,044	85,101	89,825
EBIT	(C$ thous)	4,238	19,232	3,888	4,194	4,985	5,679	18,747	5,605	5,830	6,276	6,502	24,213	27,995	31,969	35,737
Net Finance and Other Costs	(C$ thous)	325	818	275	275	275	275	1,101	275	275	275	275	1,101	1,104	1,104	1,104
EBT	(C$ thous)	3,913	18,414	3,613	3,919	4,710	5,404	17,646	5,330	5,555	6,001	6,227	23,113	26,891	30,865	34,633
Total Income Taxes	(C$ thous)	1,263	5,734	1,166	1,265	1,520	1,744	5,696	1,720	1,793	1,937	2,010	7,460	8,680	9,963	11,179
Net Income from Con. Ops.	(C$ thous)	2,650	12,680	2,447	2,654	3,190	3,660	11,950	3,610	3,762	4,064	4,217	15,652	18,211	20,903	23,454
Average Basic Shares O/S	(Thouss)	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737
Average Diluted Shares O/S	(Thouss)	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737	11,737
Earnings per Share - Basic	(C$ / share)	$ 0.23	$ 1.08	$ 0.21	$ 0.23	$ 0.27	$ 0.31	$ 1.02	$ 0.31	$ 0.32	$ 0.35	$ 0.36	$ 1.33	$ 1.55	$ 1.78	$ 2.00
Earnings per Share - Diluted	(C$ / share)	$ 0.23	$ 1.08	$ 0.21	$ 0.23	$ 0.27	$ 0.31	$ 1.02	$ 0.31	$ 0.32	$ 0.35	$ 0.36	$ 1.33	$ 1.55	$ 1.78	$ 2.00
Dividend Per share	(C$ / share)	$ 0.08	$ 0.34	$ 0.09	$ 0.09	$ 0.09	$ 0.09	$ 0.36	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.38	$ 0.40	$ 0.42	$ 0.44

Source: Loderock Research & Company fillings

Figure 17 Balance Sheet

Hammond Power Solutions
Balance Sheet

		2019A	2020E	2021E	2022E	2023E	2024E	2025E
			Projected					
		31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
ASSETS								
Cash	(C$ thous)	23,371	22,532	22,532	23,000	24,000	25,000	26,000
Account receivable	(C$ thous)	64,004	65,155	66,811	74,839	82,483	89,720	96,228
Inventory	(C$ thous)	50,926	45,329	47,084	52,456	57,973	63,232	68,005
Income taxes receivable	(C$ thous)	1,626	1,355	1,355	1,355	1,355	1,355	1,355
Prepaid expenses and other ass	(C$ thous)	2,657	2,418	2,418	2,418	2,418	2,418	2,418
Total Current Assets	**(C$ thous)**	**142,584**	**136,788**	**140,200**	**154,068**	**168,228**	**181,725**	**194,006**
Long-term lease and note receiv	(C$ thous)	3,180	3,254	3,254	3,254	3,254	3,254	3,254
Net PP&E	(C$ thous)	32,468	29,858	30,154	28,772	26,894	25,247	25,790
Investment in properties	(C$ thous)	3,709	3,893	3,893	3,893	3,893	3,893	3,893
Investment in joint venture	(C$ thous)	13,428	13,857	13,857	13,857	13,857	13,857	13,857
Intangible assets	(C$ thous)	6,331	5,718	5,873	6,000	6,073	6,069	6,196
Goodwill	(C$ thous)	11,309	11,309	11,309	11,309	11,309	11,309	11,309
Other	(C$ thous)	1,944	1,086	-2,138	323	5,528	13,409	23,863
Total Assets	**(C$ thous)**	**214,953**	**205,763**	**206,402**	**221,476**	**239,037**	**258,763**	**282,168**
Bank operating lines of credit	(C$ thous)	*32,697*	*27,322*	*27,322*	*27,322*	*27,322*	*27,322*	*27,322*
Accounts payable and accrued li	(C$ thous)	*56,216*	*51,411*	*53,402*	*59,495*	*65,752*	*71,717*	*77,131*
Other	(C$ thous)	5,002	2,212	2,212	2,212	2,212	299	0
Total Current Liabilities	**(C$ thous)**	**93,915**	**80,945**	**82,936**	**89,029**	**95,286**	**99,338**	**104,453**
Other long term liabilities	(C$ thous)	11,271	6,935	4,723	2,511	299	0	0
Total Liabilities	**(C$ thous)**	**105,186**	**87,880**	**87,659**	**91,540**	**95,585**	**99,338**	**104,453**
Share capital	(C$ thous)	14,491	14,491	14,491	14,491	14,491	14,491	14,491
Contributed surplus	(C$ thous)	2,498	2,498	2,498	2,498	2,498	2,498	2,498
Accum. other comprehensive inc	(C$ thous)	7,439	6,865	0	0	0	0	0
Retailed earnings	(C$ thous)	85,339	94,029	101,754	112,946	126,463	142,436	160,726
Shareholder's Equity	**(C$ thous)**	**109,767**	**117,883**	**118,743**	**129,935**	**143,452**	**159,425**	**177,715**
Check		*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*
Book Value/Share	**(C$/share)**	**$ 9.34**	**$ 10.04**	**$ 10.12**	**$ 11.07**	**$ 12.22**	**$ 13.58**	**$ 15.14**

Source: Loderock Research & Company filling

Valuation: Hammond is more than a cyclical stock

In our experience, theme-based investing has consistently gained traction with investors over the past two decades, starting with the great tech expansion in the 1990s. Since then, we have seen multiple themes develop from declining interest rates and the great bond bull expansion, to the tech redux with the move to cloud-based computing, to most recently the evolving ESG theme (specifically environmental). Historically, theme-based investment strategies have focused both on companies delivering direct to customer solutions (ie, Apple), and on the upstream suppliers to these companies (ie, Broadcom). As investors shift focus to companies like Brookfield Renewable Partners as potential beneficiaries of Biden's 'Green New Deal', we think they will also start to focus on high-end suppliers to these companies. **In our view, Hammond will increasingly be viewed by investors as a preferred supplier of transformers and related products to the renewable segment because these sources are less stable than non-renewable sources**, and therefore require premium power network components as they increasingly look to minimize power loss and disruption impacts. We think this has important ramifications for long term valuation multiples for this stock.

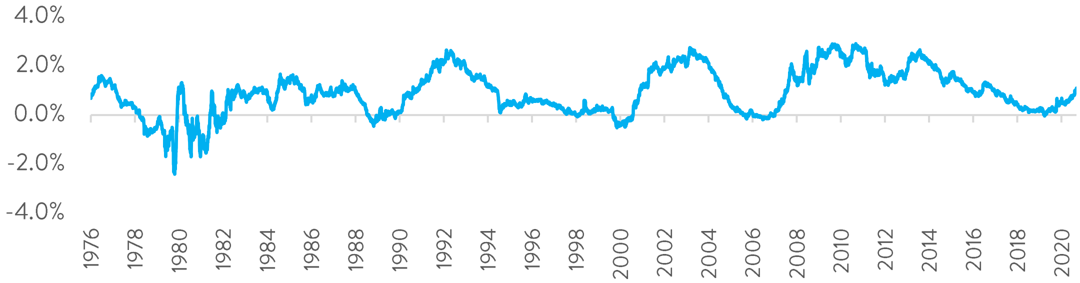
In our view, Hammond will increasingly be viewed by investors as a preferred supplier of transformers and related products to the renewable segment...

Is Hammond a cyclical stock, value stock, or both? This is an important question for two reasons; first the market has already provided some significant lift to cyclicals as the vaccine deployment optimism commenced in late 2020. HPS.A has not missed the party, with a +65% appreciation between early November and today. Second, value stocks may have a little more downside protection relative to cyclicals if vaccine rollouts are delayed or new Covid variants hinder vaccine effectiveness later this year. As we see it, HPS.A is viewed as a cyclical stock in the market given its recent rally and its history of trading multiples. However, the stock also trades at lower absolute multiples than most cyclicals with higher-than-average organic growth which suggests a value component and potential for multiple expansion should the profile of the stock evolve (Figure 22). We think the market has historically viewed HPS.A as a low beta cyclical, which is to say it has lower than average exposure to economic swings compared to typical cyclical stocks.

What does all this mean? Assuming vaccines are effective, electrical infrastructure investment remains supported due in part to environmental focused stimulus, and Hammond executes on its market share growth initiatives we believe multiples can trend toward the historically higher end of the range. A more bullish scenario is feasible though if the market starts to consider HPS.A to be a key supplier of renewable generation as part of a thematic trend. In our view this could cause a more permanent expansion in the multiple range with the low end potentially in the high single digits and high end toward the high teens.

What stage are we in the most recent cyclical rally? A valued historical indicator of negative economic shocks is the yield curve, specifically the delta between the 2-yr and 10-yr treasury yields. In the three recessions since 1990, spreads have consistently reached a low of -0.4% (slightly inverted) and +3.4% (modern era steep). The curve inverted in mid-2019 in anticipation of a cyclical economic slowdown and remained depressed after Covid hit in early 2020. However, the rollout of vaccines plus further unprecedented stimulus has caused economists and investors to anticipate greater economic expansion and potentially inflation. This has caused a recent steepening trend in the curve with the spread now at about 1%. Historically, a steepening of the yield curve has favoured value over growth stocks, and cyclical over defensive stocks. A steepening of the curve would be positive for HPS.A and many economists are calling for continued steepening as the economy improves throughout 2021/22.

Figure 18 10 Year - 2 Year Treasury Yield



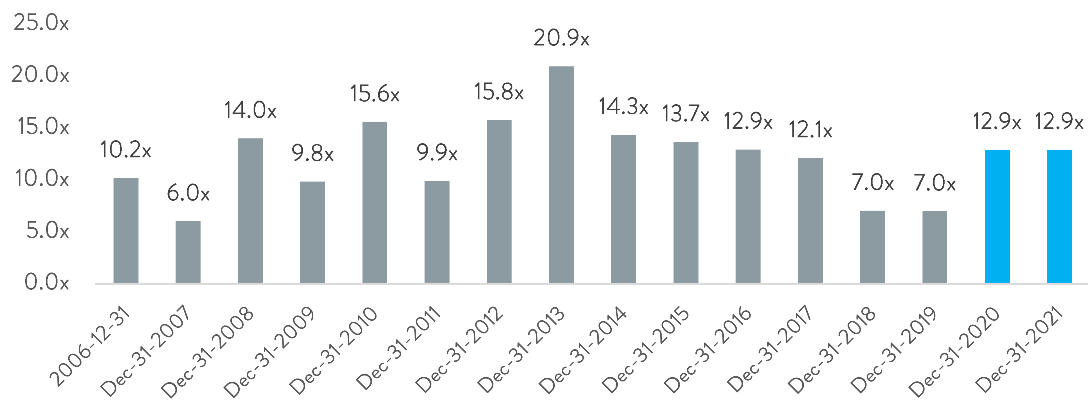
Source: Federal Reserve Bank of St. Louis

We analyze HPS.A valuation on both a relative and absolute basis. For relative analysis, Figures 19-21 show historical trends for forward Price/Earnings, Enterprise Value/EBITDA and Price/Book for HPS.A based on average share price per year. Over the past 15 years, EV multiples have been as low as 4x and as high as 10x, P/E multiples have been as low as 6x and as high as 20x, and P/book multiples have been as low as 0.6x and as high as 1.9x (we exclude 2006/07 as unusual). We use 15 years of data to capture two economic cycles. Based on all three metrics, HPS.A is currently trading below the mid-range of historical multiples even after the recent rally. Given our outlook for further operating earnings growth over the next five years, we think this positions the stock for further upside even without multiple expansion. However, we do expect further multiple expansion as the economic recovery progresses (yield curve steepens). Using average multiples of 13x and 7x for P/E and EV/EBITDA, respectively, on forward estimates implies a valuation range of $13-15/share or 40-60% upside from current levels. Some consider P/Book multiples to be more relevant than P/E for cyclical stocks. At about 0.95x P/Book, the stock currently trades below its average 1.5x for the last 15 years. Assuming a multiple expansion to 1.5x would yield a valuation in the $15-16/share range.

We feel comfortable with average historical multiples and even consider potential for multiple expansion beyond these levels if the market embraces HPS.A as an environmental theme-based investment. Looking at comparable cyclical stocks, it is clear that HPS.A is not expensive on a relative basis. Some of the stocks in the comp list have been positively impacted by theme-based trends (ie, Rockwell on the product digitization theme or Generac on the renewable sourcing theme). Our point is not to argue that HPS.A should trade at the same multiple as these stocks (it is a smaller cap stock), rather that multiple expansion is possible if the market embraces a view that a secular trend like EV charging or renewable generation could lead to outsized growth beyond the economic cycle.

For absolute valuation analysis, figure 24 shows our discounted cash flow analysis reflecting current capital costs and growth projections. We calculate weighted average cost of capital (WACC) by using the current capital structure of 11% debt and 89% equity. We use the 3.6% cost of debt which is clearly an inexpensive source of capital and could be leveraged for any future M&A opportunities. We also use a very conservative 12% cost of equity to reflect the small cap status of the stock. One could argue for a much lower CAPM-based equity cost using the current 1% risk free rate, 10% equity premium and the stock's 0.64 beta. However, considering the reinflation potential over the DCF period we are more comfortable with higher discount rate assumptions. If we assume a WACC of 11-12% with a terminal growth rate of 2-3% we calculate valuations in the $14-16/share range. In our view, this analysis reflects the relatively high leverage not only in the operating model but also capital (ie, existing plants at 50-75% capacity and ability to leverage the existing warehouse distribution model). Overall, the DCF analysis supports our view that fair value is closer the mid-teens range assuming the company can reach its mid-term financial targets.

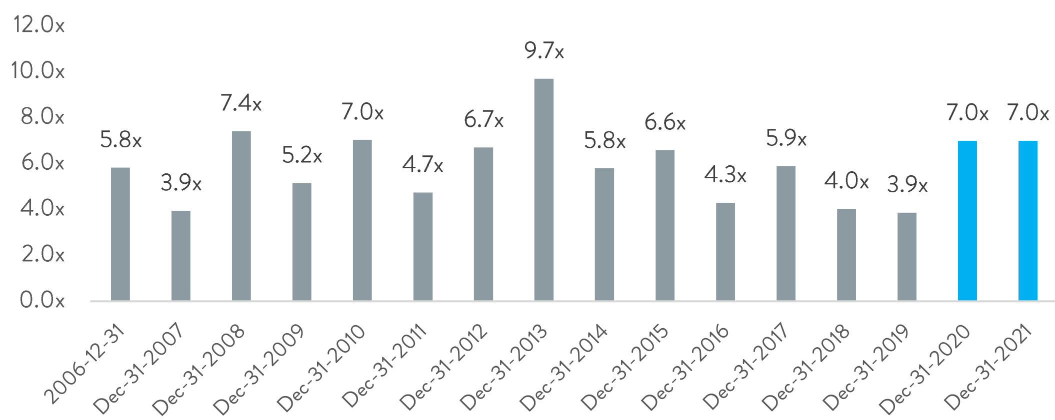
Figure 19 Forward P/E Multiple History & Estimates



*2020 Forward EPS based on Loderock Estimate

Source: Loderock Research & Company Fillings

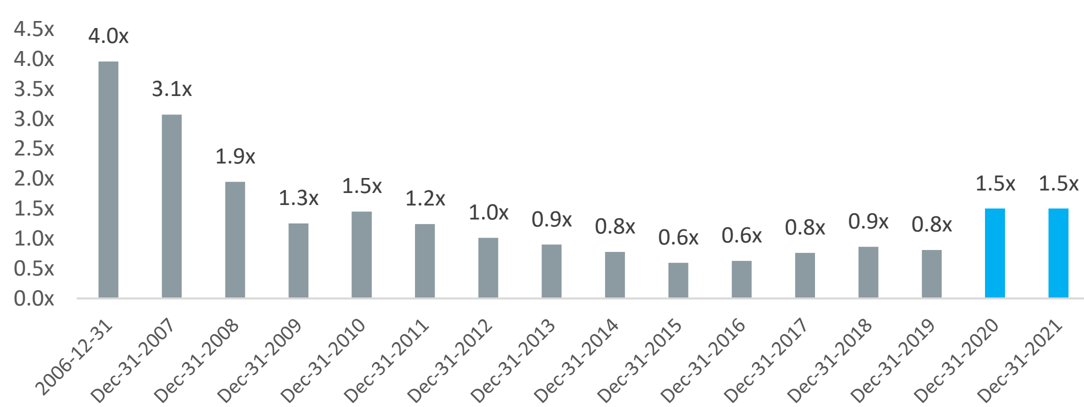
Figure 20 Forward EV/EBITDA Multiple History & Estimates



*2020 EBITDA based on Loderock Estimate

Source: Loderock Research & Company Fillings

Figure 21 P/B Multiple History & Estimates



Source: Loderock Research & Company Fillings

Figure 22 TSX:HPS.A vs. Public Comps Stock Information

U.S. Electrical Manufacturers & Distributors	Ticker	Cur.	52 week $Cur. Price	52 week Below High	52 week Above Lows	Shrs Out. (M)	Mar. Cap ($M)	Dividend Div/Shr. LTM	Dividend Div Yield	Dividend Payout Ratio	EPS est. FY21	Fwd. P/E FY21	EBITDA ($M) est. FY21	Fwd. EV/EBITDA FY21	P/B LTM
General Electric Company	NYSE:GE	USD	$ 11.54	-13.0%	110.6%	8761.0	101,089	$ 0.04	0.3%	N/A	$ 0.26	44.4x	$ 7,826.6	18.9x	2.8x
Schneider Electric S.E.	ENXTPA:SU	EURO	€ 123.15	-3.9%	99.5%	557.4	65,931	€ 2.55	2.1%	64.4%	€ 5.24	23.5x	€ 4,905.84	14.9 x	3.3 x
ABB Ltd	NYSE:ABB	USD	$ 29.34	-5.0%	99.5%	2119.0	52,984	$ 0.90	3.1%	33.73%	$ 1.10	26.7x	$ 4,281.33	12.8x	3.8x
Emerson Electric Co.	NYSE:EMR	USD	$ 85.90	-1.3%	127.5%	603.6	51,543	$ 2.01	2.3%	57.9%	$ 3.75	22.9x	$ 3,918.8	14.7 x	5.8 x
Eaton Corporation plc	NYSE:ETN	USD	$ 119.83	-7.8%	112.4%	404.0	47,968	$ 2.92	2.4%	0.00%	$ 5.63	21.3x	$ 3,264.4	16.9x	3.2x
Rockwell Automation, Inc.	NYSE:ROK	USD	$ 246.52	-8.3%	113.7%	116.7	28,635	$ 4.13	1.7%	36.7%	$ 8.92	27.6x	$ 1,431.4	21.5 x	18.4 x
Generac Holdings Inc.	NYSE:GNRC	USD	$ 275.56	-4.2%	265.0%	63.6	17,316	$ -	0.0%	0.00%	$ 7.36	37.5x	$ 657.0	27.2x	14.1x
Hubbell Incorporated	NYSE:HUBB	USD	$ 162.55	-5.6%	89.9%	54.5	8,816	$ 3.71	2.3%	57.3%	$ 8.44	19.3x	$ 758.8	13.4 x	4.3 x
Bloom Energy Corporation	NYSE:BE	USD	$ 41.82	-7.0%	1294.0%	126.8	6,950	$ -	0.0%	0.00%	$ (0.10)	N/A	$ 84.8	91.3x	N/A
GrafTech International Ltd.	NYSE:EAF	USD	$ 12.50	-0.1%	124.8%	267.9	3,340	$ 0.12	0.9%	7.1%	$ 2.01	6.2x	$ 783.1	5.9 x	N/A
Capstone Turbine Corporation	NasdaqCM:CPST	USD	$ 13.50	-11.6%	1250.0%	9.9	149	$ -	0.0%	0.00%	$ (1.05)	N/A	$ (3.6)	N/A	16.9x
Pioneer Power Solutions, Inc.	NasdaqCM:PPSI	USD	$ 8.45	-26.5%	838.8%	8.7	74	$ -	0.0%	0.0%	$ -	N/A	$ -	N/A	5.0 x
Average				-7.9%	377.1%		32,066		1.3%	23.4%		25.5x		23.7x	7.8x
Canadian Industrials															
Ballard Power Systems Inc.	TSX:BLDP	CAD	$ 51.93	-3.7%	430.4%	239.8	14,648	$ -	0.0%	0.00%	$ (0.13)	N/A	$ (22.8)	N/A	27.1x
WSP Global Inc.	TSX:WSP	CAD	$ 116.69	-8.5%	95.0%	108.3	13,281	$ 1.50	1.3%	35.5%	$ 3.89	30.0x	$ 1,236.3	11.8 x	3.3 x
TFI International Inc.	TSX:TFII	CAD	$ 100.00	-0.1%	330.8%	91.0	9,340	$ -	0.0%	24.52%	$ 4.62	21.6x	$ 1,001.2	10.9x	5.2x
Stantec Inc.	TSX:STN	CAD	$ 49.66	-0.7%	60.2%	111.8	5,567	$ 0.61	1.2%	33.9%	$ 2.16	23.0x	$ 568.6	11.7 x	2.7 x
Linamar Corporation	TSX:LNR	CAD	$ 71.95	-3.3%	192.8%	65.4	4,709	$ 0.36	0.5%	10.88%	$ 6.26	11.5x	$ 1,009.6	5.5x	1.1x
Finning International Inc.	TSX:FTT	CAD	$ 29.55	-2.3%	179.0%	162.3	4,790	$ -	0.0%	57.3%	$ 1.61	18.4x	$ 743.4	8.3 x	2.2 x
Methanex Corporation	TSX:MX	CAD	$ 51.50	-17.6%	289.0%	76.2	3,924	$ 0.47	0.9%	N/A	$ 1.60	32.2x	$ 723.7	9.9x	3.4x
ATS Automation Tooling Systems	TSX:ATA	CAD	$ 26.68	-3.9%	87.0%	92.4	2,455	$ -	0.0%	0.0%	$ 1.01	26.5x	$ 191.6	13.7 x	2.7 x
Richelieu Hardware Ltd.	TSX:RCH	CAD	$ 38.88	-5.7%	89.6%	56.8	2,171	$ 0.20	0.5%	13.24%	$ 1.59	24.4x	$ 160.2	13.6x	3.9x
Cascades Inc.	TSX:CAS	CAD	$ 16.39	-7.0%	64.9%	95.7	1,676	$ 0.32	2.0%	31.3%	$ 1.95	8.4x	$ 704.0	5.5 x	1.0 x
Russel Metals Inc.	TSX:RUS	CAD	$ 26.10	-0.3%	137.9%	62.2	1,594	$ 1.52	5.8%	354.31%	$ 1.81	14.4x	$ 239.0	8.5x	1.8x
Badger Daylighting Ltd.	TSX:BAD	CAD	$ 39.58	-5.4%	119.9%	34.7	1,380	$ 0.60	1.5%	52.6%	$ 1.71	23.2x	$ 162.6	9.4 x	4.0 x
Mullen Group Ltd.	TSX:MTL	CAD	$ 11.17	-5.7%	190.1%	102.6	1,082	$ 0.39	3.5%	68.28%	$ 0.62	18.2x	$ 214.8	7.4x	1.2x
Aecon Group Inc.	TSX:ARE	CAD	$ 17.35	-6.1%	58.6%	75.4	1,046	$ 0.63	3.6%	48.2%	$ 1.09	15.9x	$ 241.2	5.1 x	1.2 x
Savaria Corporation	TSX:SIS	CAD	$ 16.58	-9.7%	126.8%	50.8	846	$ 0.45	2.7%	82.79%	$ 0.59	28.1x	$ 63.3	13.9x	3.0x
Ag Growth International Inc.	TSX:AFN	CAD	$ 39.62	-16.7%	164.1%	18.7	742	$ 1.50	3.8%	N/A	$ 2.41	16.4x	$ 165.3	9.6 x	2.5 x
CanWel Building Materials Group	TSX:CWX	CAD	$ 7.80	-4.2%	185.7%	77.9	608	$ 0.54	6.9%	90.86%	$ 0.68	11.5x	$ 122.2	7.9x	1.8x
Neo Performance Materials Inc.	TSX:NEO	CAD	$ 15.45	-10.5%	178.4%	37.7	579	$ 0.31	2.0%	N/A	$ 0.43	36.1x	$ 38.5	12.6 x	1.6 x
Magellan Aerospace Corporation	TSX:MAL	CAD	$ 10.44	-27.2%	117.5%	58.2	603	$ 0.42	4.0%	68.63%	$ 0.64	16.2x	$ 102.4	6.1x	0.7x
Dorel Industries Inc.	TSX:DII.B	CAD	$ 15.65	-4.0%	1152.0%	32.5	505	$ -	0.0%	N/A	$ 0.83	18.9x	$ 178.2	6.7 x	1.0 x
Bird Construction Inc.	TSX:BDT	CAD	$ 8.59	-4.0%	116.9%	42.7	456	$ 0.39	4.6%	69.86%	$ 0.86	10.0x	$ 100.5	5.7x	2.3x
Velan Inc.	TSX:VLN	CAD	$ 7.91	-14.0%	125.4%	21.6	171	$ 0.03	0.4%	N/A	$ -	N/A	$ -	N/A	0.6 x
Average				-7.3%	204.2%				2.1%	61.3%		20.2x		9.2x	3.4x
Hammond Power Solutions Inc	TSX:HPS.A	CAD	$ 9.58	-7.9%	123.8%	11.7	112	$ 0.33	3.4%	28.8%	$ 1.02	9.4 x	$ 27.48	4.6 x	1.0x

*EV calculated based on 2021-02-09's closing price

*Forward Estimates based on Loderock Research's estimates

Source: Loderock Research & Company fillings

Figure 23 TSX:HPS.A vs. Public Comps Operational Statistics

U.S. Electrical Manufacturers & Distributors	Ticker	Profitability: Gross Margins 19'A	Profitability: EBITDA Margin 19'A	Profitability: EBIT Margin% 19'A	Profitability: NI Margin 19'A	Ratios: ROA 19'A	Ratios: ROE 19'A	Ratios: Current Ratio 19'A	Ratios: Total D/E 19'A	Operating Efficiency (Days in) LTM: A/R	Operating Efficiency (Days in) LTM: Inventory	Operating Efficiency (Days in) LTM: A/P	3yr CAGR (17'-19'): Revenue Growth	3yr CAGR (17'-19'): EBITDA Growth	3yr CAGR (17'-19'): EPS Growth
General Electric Company	NYSE:GE	19.76%	12.53%	6.76%	-5.23%	1.39%	1.04%	1.58%	314.94%	85.6	94.9	99.4	-1.6%	141.2%	-77.1%
Schneider Electric S.E.	ENXTPA:SU	39.53%	17.93%	14.69%	8.89%	5.71%	11.13%	1.37%	36.79%	80.2	77.2	97.7	3.2%	7.1%	2.9%
ABB Ltd	SWX:ABBN	32.03%	12.56%	9.39%	5.14%	3.63%	7.65%	1.31%	72.11%	102.0	87.4	88.7	3.6%	6.3%	-9.9%
Emerson Electric Co.	NYSE:EMR	42.54%	20.48%	16.67%	12.55%	9.36%	26.97%	1.19%	69.15%	68.7	76.1	62.7	6.4%	5.9%	13.5%
Eaton Corporation plc	NYSE:ETN	32.97%	17.46%	13.33%	10.34%	5.58%	13.71%	1.70%	54.65%	66.0	72.5	64.1	1.6%	3.0%	-7.7%
Rockwell Automation, Inc.	NYSE:ROK	43.32%	22.60%	20.48%	10.39%	13.85%	68.83%	1.54%	558.36%	78.9	63.1	70.9	2.0%	8.3%	-2.8%
Generac Holdings Inc.	NYSE:GNRC	36.19%	19.65%	16.88%	11.43%	9.14%	26.33%	2.41%	85.54%	61.0	134.5	65.1	9.5%	12.7%	16.8%
Hubbell Incorporated	NYSE:HUBB	29.95%	16.60%	13.51%	8.73%	7.93%	21.67%	1.86%	85.32%	56.3	76.8	45.3	7.8%	6.1%	18.5%
Bloom Energy Corporation	NYSE:BE	24.51%	-10.66%	-17.57%	-38.77%	-6.06%	N/A	0.82%	N/A	21.3	85.2	46.2	29.0%	-6.0%	-53.8%
GrafTech International Ltd.	NYSE:EAF	58.10%	57.61%	54.16%	41.58%	39.99%	N/A	3.10%	N/A	64.2	192.2	54.4	48.1%	120.9%	279.8%
Capstone Turbine Corporation	NasdaqCM:CPST	12.26%	-15.67%	-17.18%	-19.97%	-12.95%	-68.12%	2.50%	118.09%	99.6	126.6	113.9	2.6%	-6.9%	-31.9%
Pioneer Power Solutions, Inc.	NasdaqCM:PPSI	5.66%	-39.00%	-42.68%	-6.99%	-10.91%	-84.81%	2.02%	13.77%	36.8	84.4	101.8	-43.5%	-350.8%	9.2%
Average		**31.40%**	**11.01%**	**7.37%**	**3.17%**	**5.56%**	**2.44%**	**1.78%**	**140.87%**	**68.4**	**97.6**	**75.9**	**5.7%**	**-4.4%**	**13.1%**
Canadian Industrials															
Ballard Power Systems Inc.	TSX:BLDP	21.25%	-21.25%	-25.93%	-36.73%	-5.02%	-14.66%	3.56%	7.89%	129.0	141.2	47.8	-4.3%	-428.4%	54.3%
WSP Global Inc.	TSX:WSP	19.12%	8.15%	6.14%	3.21%	4.16%	8.67%	1.07%	73.54%	118.7	0.0	85.1	8.7%	12.4%	9.2%
TFI International Inc.	TSX:TFII	20.25%	14.23%	8.68%	5.99%	6.53%	21.05%	1.08%	146.91%	55.1	1.2	44.3	1.8%	13.3%	30.8%
Stantec Inc.	TSX:STN	54.12%	11.86%	9.17%	5.24%	4.96%	10.27%	1.57%	83.60%	127.4	0.0	112.4	5.4%	9.2%	27.0%
Linamar Corporation	TSX:LNR	14.37%	14.31%	8.97%	5.80%	5.29%	10.99%	1.85%	47.59%	81.3	70.9	104.0	4.2%	0.6%	-7.6%
Finning International Inc.	TSX:FTT	23.01%	8.01%	5.67%	3.10%	4.74%	11.46%	1.81%	99.34%	62.1	137.2	82.1	7.8%	4.0%	5.0%
Methanex Corporation	TSX:MX	17.29%	11.30%	4.25%	2.67%	1.78%	6.77%	1.90%	152.56%	52.2	45.8	84.1	2.4%	-19.4%	-34.8%
ATS Automation Tooling Systems	TSX:ATA	26.22%	12.31%	9.53%	5.64%	4.62%	9.14%	1.65%	45.01%	126.6	25.3	73.9	7.4%	13.8%	25.7%
Richelieu Hardware Ltd.	TSX:RCH	10.51%	10.45%	9.03%	6.48%	9.99%	13.85%	4.65%	1.12%	47.8	105.8	37.1	3.4%	2.0%	0.9%
Cascades Inc.	TSX:CAS	15.29%	9.95%	5.38%	1.38%	3.32%	5.79%	1.34%	127.31%	49.3	50.8	65.2	5.0%	10.9%	-48.0%
Russel Metals Inc.	TSX:RUS	17.02%	4.99%	3.92%	2.08%	4.44%	7.86%	3.44%	65.47%	54.6	135.6	52.7	3.7%	-8.3%	-15.0%
Badger Daylighting Ltd.	TSX:BAD	30.72%	21.56%	12.82%	9.13%	8.24%	17.14%	1.67%	54.68%	114.8	8.2	53.5	9.6%	4.5%	-2.0%
Mullen Group Ltd.	TSX:MTL	28.83%	14.80%	6.99%	5.65%	3.29%	7.96%	3.29%	67.20%	56.4	14.7	48.9	3.9%	4.8%	3.0%
Aecon Group Inc.	TSX:ARE	10.62%	4.47%	2.60%	2.11%	1.86%	8.66%	1.57%	85.78%	129.3	2.8	95.3	7.2%	5.5%	32.7%
Savaria Corporation	TSX:SIS	33.48%	13.25%	10.32%	6.88%	5.74%	10.99%	2.45%	29.63%	48.1	119.9	52.4	26.8%	18.5%	4.1%
Ag Growth International Inc.	TSX:AFN	26.89%	11.48%	7.44%	1.47%	3.43%	3.62%	1.72%	223.12%	78.8	84.8	70.7	9.7%	1.8%	-29.2%
CanWel Building Materials Group	TSX:CWX	14.40%	4.85%	3.33%	1.29%	3.27%	4.99%	2.80%	131.01%	39.4	67.2	33.1	5.5%	6.3%	-19.3%
Neo Performance Materials Inc.	TSX:NEO	27.87%	13.08%	9.03%	5.63%	4.28%	5.33%	3.51%	1.09%	51.4	172.7	81.9	-2.1%	-4.5%	-1.1%
Magellan Aerospace Corporation	TSX:MAL	15.45%	13.91%	9.31%	6.63%	5.34%	8.40%	2.72%	14.57%	111.0	107.7	61.0	2.1%	-2.2%	-14.9%
Dorel Industries Inc.	TSX:DII.B	20.39%	4.55%	3.18%	-0.40%	2.91%	-1.87%	1.61%	130.47%	58.7	101.2	101.5	0.7%	-9.5%	-172.7%
Bird Construction Inc.	TSX:BDT	5.15%	1.58%	0.89%	0.69%	1.01%	7.19%	1.12%	123.04%	172.5	1.2	124.4	-1.0%	-2.6%	1.9%
Velan Inc.	TSX:VLN	23.33%	4.29%	0.65%	-1.33%	0.28%	-1.71%	2.10%	17.43%	123.1	272.3	109.1	3.4%	-21.8%	-186.4%
Average		**21.62%**	**8.73%**	**5.06%**	**1.94%**	**3.84%**	**7.36%**	**2.20%**	**78.56%**	**85.8**	**75.7**	**73.7**	**5.1%**	**-17.7%**	**-15.3%**
Hammond Power Solutions Inc	TSX:HPS.A	24.52%	6.93%	5.73%	3.24%	6.11%	12.18%	1.52%	40.18%	72.7	75.7	72.4	8.0%	1.5%	8.7%

Source: Loderock Research & Company fillings

Figure 24 TSX: HPS.A DCF Schedule

Hammond Power Solutions
DCF Valuation Schedule

(C$ thous, except per share amounts)

WACC		Terminal Value Growth Rate 2.0%		2.5%		3.0%		3.5%	
10.5%	PV of Cash Flows	50,510	28%	50,510	27%	50,510	26%	50,510	24%
	PV of Terminal Year	128,667	72%	137,379	73%	147,252	74%	158,536	76%
	Enterprise Value	**$179,177**		**$187,889**		**$197,763**		**$209,046**	
	Less Net Debt (09/30/20)	4,790		4,790		4,790		4,790	
	Equity Value	$174,387		$183,099		$192,973		$204,256	
	Shares O/S (MM) - (12/31/20)	11,736.75		11,736.75		11,736.75		11,736.75	
	Equity Value per Share	**$14.86**		**$15.60**		**$16.44**		**$17.40**	
11.0%	PV of Cash Flows	49,811	30%	49,811	28%	49,811	27%	49,811	26%
	PV of Terminal Year	118,806	70%	126,412	72%	134,968	73%	144,664	74%
	Enterprise Value	**$168,618**		**$176,223**		**$184,779**		**$194,476**	
	Less Net Debt (09/30/20)	13,937		4,790		4,790		13,937	
	Equity Value	$154,681		$171,433		$179,989		$180,539	
	Less Net Debt (09/30/20)	11,736.75		11,736.75		11,736.75		11,736.75	
	Equity Value per Share	**$13.18**		**$14.61**		**$15.34**		**$15.38**	
11.5%	PV of Cash Flows	49,127	31%	49,127	30%	49,127	28%	49,127	27%
	PV of Terminal Year	110,052	69%	116,736	70%	124,206	72%	132,609	73%
	Enterprise Value	**$159,179**		**$165,863**		**$173,332**		**$181,736**	
	Less Net Debt (09/30/20)	13,937		4,790		4,790		13,937	
	Equity Value	$145,242		$161,073		$168,542		$167,799	
	Less Net Debt (09/30/20)	11,736.75		11,736.75		11,736.75		11,736.75	
	Equity Value per Share	**$12.37**		**$13.72**		**$14.36**		**$14.30**	
12.0%	PV of Cash Flows	48,457	32%	48,457	31%	48,457	30%	48,457	28%
	PV of Terminal Year	102,237	68%	108,145	69%	114,710	70%	122,047	72%
	Enterprise Value	**$150,694**		**$156,602**		**$163,167**		**$170,504**	
	Less Net Debt (09/30/20)	13,937		13,937		13,937		13,937	
	Equity Value	$136,757		$142,665		$149,230		$156,567	
	Less Net Debt (09/30/20)	11,736.75		11,736.75		11,736.75		11,736.75	
	Equity Value per Share	**$11.65**		**$12.16**		**$12.71**		**$13.34**	

Source: Loderock Research & Company fillings

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