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Attention: Business/Financial Editors

Hardwoods Distribution Inc.

TRADING SYMBOL: **Toronto Stock Exchange - HDI**

HDI Announces Annual and Fourth Quarter 2020 Results

Achieves record sales, gross margin percentage, profits, and adjusted EBITDA
Dividend of $0.10 per share declared

Langley, B.C., March 11, 2021/ CNW/ - Hardwoods Distribution Inc. ("HDI" or the "Company") today announced financial results for the three and twelve months ended December 31, 2020. HDI is North America's largest wholesale distributor of architectural grade building products to the residential and commercial construction markets, with a comprehensive US and Canadian distribution network.

Highlights *(for the year ended December 31, 2020)*

- Sales grew 6.3% to an all-time high of $1,245.3 million
- Gross profit margin percentage increased to a record 19.2%, from 18.1% in 2019
- Profit per share was up significantly to $1.78, from $1.38 in 2019, an increase of 29.0%. Adjusted profit per share was $2.09 as compared to $1.49 in 2019, an increase of 40.3%
- Adjusted EBITDA grew to $97.5 million, an increase of $18.6 million or 23.5%
- Cash flow provided by operating activities before changes in non-cash working capital was $83.5 million, or $3.91 per share, as compared to $3.11 per share in 2019
- Completed three acquisitions in 2020, adding over $90 million in annualized revenue. These transactions were financed from cash flows and are expected to be immediately accretive to shareholders
- Returned $10.0 million of cash to shareholders in the form of dividends and share re-purchases, while increasing dividend rate for the eighth consecutive year
- Lowered net bank debt-to-Adjusted EBITDA after rent ratio to 1.3x and achieved net bank debt-to-capital ratio of just 24%; $92.4 million of unused borrowing capacity as at December 31, 2020
- The Board of Directors approved a quarterly dividend of $0.10 per share, payable on April 30, 2021 to shareholders of record as at April 19, 2021

"I believe HDI is as well positioned right now as we have been at any point in my 16 years with the company," said Rob Brown, HDI's President and CEO. "We have just turned in record annual sales, gross profit percentage, adjusted EBITDA and profit results in a year heavily influenced by the global pandemic, and we did it on the strength of our operational and strategic execution."

"We moved quickly in 2020 to adapt to rapidly changing conditions, keeping our people safe and our operations open for business; we reduced expenses and working capital; and we turned our sales focus to capturing market share. At the same time, we continued to execute on our proprietary global sourcing capability. By the second half of the year, our import program was operating at peak performance and contributing to our record gross margin results. We also grew our high-margin door segment, and we completed three acquisitions during the year, adding $90 million of annualized sales to our business."

"I want to emphasize that our 2020 results were achieved without the benefit of significant increases in product prices," added Mr. Brown. "Because our products are used in the finishing stages of construction projects, we did not see the benefits of strengthening markets until after the year-end. This bodes well for HDI going forward. As discussed in our outlook, market conditions have strengthened significantly and we are entering the best macro-demand environment the industry has seen in years. Importantly, we are approaching this multi-year growth runway from a position of operational, financial and competitive strength. Together with a business model that enables us to capture and capitalize on organic demand, a robust acquisition program that accelerates our growth trajectory, and our long track record of translating topline growth into strong EBITDA and cash flow performance. We are very enthusiastic about what we can achieve in 2021 and beyond."

Outlook

Customers today are the busiest they have been since the onset of the COVID-19 pandemic in early 2020, and leading indicators for the US residential construction market are very positive. Housing starts have meaningfully lagged population growth this past decade, leading to pent-up demand for single family housing. Millennials represent the largest segment of the population and will further drive demand for homes. Furthermore record low mortgage rates and a trend, resulting from the pandemic, towards population shift from urban to suburban markets are contributing to a sharp increase in housing permits and starts. As HDI's products relate to the interior finishing of a building, there can be a six-to-nine-month lag between positive construction data and demand for the Company's products. Accordingly, the positive data in the latter half of 2020 should benefit HDI in 2021.

Demand in the repair and remodel market is also increasing as a result of rising home equity and availability of low-cost consumer capital, the age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their home. These factors are expected to drive multi-year demand for HDI's products.

The outlook for US commercial markets remains mixed. This is a diverse market for HDI, including manufacturers of recreational vehicles and furniture, as well as builders of healthcare, education, hospitality, and retail facilities, interiors and fixtures. The expectation is that certain of these commercial end-markets will perform better than others, with the diverse nature of HDI's participation reducing the impact of dynamics in any one geography or end-market.

With an overall strong growth environment forecasted for 2021, there is a potential for demand to outpace supply, which in turn could create supply constraints and result in rising product prices. Management generally expects to have consistent and predictable access to supply given HDI is often the largest customer for its suppliers. Additionally, the Company's price pass-through model and ability to adjust pricing in a relatively short period of time typically enable it to translate higher product costs into increased sales and gross margin dollars.

Moving into 2021, HDI is very well positioned with a diversified business with no significant geographic, supplier, or customer concentration. This also includes end-market diversification, with more than half of HDI's products used in residential and repair and remodel applications, and the remainder in a wide array of commercial and other applications.

The Company's financial position is also strong, supported by significant cash-generating capability, no term debt, and good liquidity. HDI remains well positioned to pursue its business strategies and to continue creating value for shareholders. Capital allocation priorities will continue to include growth through acquisitions as there are numerous accretive acquisition opportunities available. The Company also intends to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in its approach to share repurchases.

Please note that effective January 1, 2021, HDI will begin reporting results in U.S. dollars. Given that 90% of the Company's revenues come from the U.S., this is considered an appropriate currency for reporting purposes.

Annual and Q4 2020 Investor Call

HDI will hold an investor call on Friday March 12, 2021 at 8:00 am Pacific (11:00 am Eastern). Participants should dial 1-888-664-6383 or (416) 764-8650 (GTA) at least five minutes before the call begins. A replay will be available through March 26, 2021 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 835456.

Summary of Results

	Three months ended Dec 30 2020	Three months ended Dec 30 2019	Twelve months ended Dec 30 2020	Twelve months ended Dec 30 2019
Total sales	$ 308,394	287,830	$ 1,245,312	$ 1,171,921
Sales in the US (US$)	*206,295*	*193,260*	*821,034*	*779,203*
Sales in Canada	*39,439*	*32,845*	*144,077*	*138,100*
Gross profit	59,052	52,647	239,482	211,979
Gross profit %	*19.1%*	18.3%	*19.2%*	*18.1%*
Operating expenses	(46,467)	(42,167)	(180,934)	(163,721)
Profit from operating activities	$ 12,585	$ 10,480	$ 58,548	$ 48,258
Add: Depreciation and amortization	7,772	7,686	31,229	27,953
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 20,357	18,166	$ 89,777	$ 76,211
EBITDA as a % of revenue	*6.6%*	*6.3%*	*7.2%*	*6.5%*
Add (deduct):				
Depreciation and amortization	(7,772)	(7,686)	(31,229)	(27,953)
Net finance income (expense)	(1,797)	(2,756)	(7,593)	(9,158)
Income tax expense	(3,260)	(1,142)	(13,354)	(9,520)
Profit for the period	$ 7,527	$ 6,582	$ 37,602	$ 29,581
Basic profit per share	$ 0.36	$ 0.31	$ 1.78	$ 1.38
Diluted profit per share	$ 0.35	$ 0.31	$ 1.76	$ 1.38
Average Canadian dollar exchange rate for one US dollar	$ 1.303	$ 1.320	$ 1.342	$ 1.327

	Three months ended Dec 30 2020		Three months ended Dec 30 2019		Twelve months ended Dec 30 2020		Twelve months ended Dec 30 2019
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$	20,357	$	18,166	$	89,777	$	76,211
Non-cash LTIP expense		605		529		3,551		2,249
Impairment loss related to HMI		3,085		—		3,085		—
Duties payable		—		—		912		—
Transaction expenses		218		433		218		509
Adjusted EBITDA	$	24,265	$	19,128	$	97,543	$	78,969
Adjusted EBITDA as a % of revenue		*7.9%*		*6.6%*		*7.8%*		*6.7%*
Profit for the period, as reported	$	7,527	$	6,582	$	37,602	$	29,581
Adjustments, net of tax		3,017		780		6,465		2,360
Adjusted profit for the period	$	10,544	$	7,362	$	44,067	$	31,941
Basic profit per share, as reported	$	0.36	$	0.31	$	1.78	$	1.38
Net impact of above items per share		0.14		0.04		0.31		0.11
Adjusted basic profit per share	$	0.50	$	0.35	$	2.09	$	1.49
Diluted profit per share, as reported	$	0.35	$	0.31	$	1.76	$	1.38
Net impact of above items per share		0.14		0.04		0.30		0.11
Adjusted diluted profit per share	$	0.49	$	0.35	$	2.06	$	1.49

Results from Operations - Twelve Months Ended December 31, 2020

For the year ended December 31, 2020, total sales increased 6.3% to $1,245.3 million, from $1,171.9 million in 2019, a year-over-year improvement of $73.4 million. The addition of Acquired Businesses contributed $75.0 million of this growth, representing a 6.4% increase in total sales, and $11.1 million of the increase related to the favorable foreign exchange impact of a stronger US dollar when translating US sales to Canadian dollars for reporting purposes. These gains were partially offset by a year-over-year organic sales decrease of $12.7 million, which represents a 1.1% decrease in total sales. Organic sales were negatively impacted by the second quarter decline in economic activity that followed the emergence of the COVID-19 pandemic. Organic sales returned to more typical levels in the third quarter, and by the fourth quarter, outpaced what HDI had achieved in the fourth quarter of 2019.

Sales from the US operations increased by US$41.8 million, or 5.4%, to US$821.0 million, from US$779.2 million in 2019. The Acquired Businesses contributed sales growth of US$55.9 million or 7.2%, which was partially offset by a US$14.0 million reduction in US organic sales attributable to second quarter COVID-19 related economic impacts. Sales in Canada increased by $6.0 million, or 4.3%, year-over-year.

Gross profit for the year ended December 31, 2020 increased 13.0% to $239.5 million, from $212.0 million in 2019. This $27.5 million improvement primarily reflects the increased sales and a higher gross profit margin, which improved year-over-year to 19.2%, from 18.1%. The increase in gross margin percentage was supported by strong performance of HDI's import supply lines, the inclusion of sales from the acquired Pacific Mutual Door operations which carry a higher gross profit margin percentage relative to the rest of the business, and higher gross margins in the door product category as a result of market demand outpacing supply.

For the year ended December 31, 2020, operating expenses were $180.9 million, as compared to $163.7 in 2019. The $17.2 million increase includes $14.2 million of operating expenses from the Acquired Businesses, an impairment loss related to HMI of $3.1 million, and $1.6 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. These increases were partially offset by a $1.7 million expense savings primarily attributable to the cost management and cost reduction measures taken in April in response to the COVID-19 related reduction in economic activity. As a percentage of sales, operating expenses were 14.5%, compared to 14.0% in the same period last year.

For the year ended December 31, 2020, Adjusted EBITDA increased by $18.6 million or 23.5% to $97.5 million, from $79.0 million in 2019. The record Adjusted EBITDA result reflects the $27.5 million increase in gross profit, partially offset by a $8.9 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, the impairment loss related to HMI, duties payable, and transaction expenses).

For the year ended December 31, 2020, net finance expense decreased $1.6 million to $7.6 million, from $9.2 million in 2019. The year-over-year decrease primarily relates to lower interest expense as a result of reduced bank indebtedness.

Income tax expense increased to $13.4 million for the year ended December 31, 2020, from $9.5 million in 2019. This increase was primarily driven by higher taxable income as compared to 2019.

Profit for the year ended December 31, 2020 grew 27.1% to $37.6 million, from $29.6 million in 2019. The $8.0 million profit improvement primarily reflects the $27.5 million increase in gross profit and the

$1.6 million decrease in finance expense, partially offset by the $17.2 million increase in operating expenses and income tax expense that was $3.8 million higher.

Adjusted profit for the year ended December 31, 2020 grew to $44.1 million, from $31.9 million in 2019, an increase of $12.1 million or 38.0%. Adjusted diluted profit per share also climbed to $2.06, from $1.49 in 2019.

Results from Operations - Three Months Ended December 31, 2020

For the three months ended December 31, 2020, total sales increased 7.1% to $308.4 million, from $287.8 million during the same period in 2019, a year-over-year increase of $20.6 million. The addition of Acquired Businesses contributed $13.6 million of this increase, representing a 4.7% increase in total sales. Organic sales growth accounted for an additional $10.4 million, representing a 3.6% increase in total sales. These gains were partially offset by a $3.4 million negative foreign exchange impact related to a stronger Canadian dollar when translating our US sales to Canadian dollars for reporting purposes.

Fourth quarter sales from HDI's US operations increased to US$206.3 million, from US$193.3 million in the same period in 2019, an increase of US$13.0 million, or 6.7%. The Acquired Businesses contributed sales growth of US$10.4 million, or 5.4%, and organic sales growth accounted for an additional $2.6 million, or 1.4%.

Fourth quarter sales in Canada grew to $39.4 million, from $32.8 million in Q4 2019, an increase of $6.6 million or 20.1%. The year-over-year improvement in Canadian sales reflects strong performance across all locations and was generally volume driven.

Gross profit for the three months ended December 31, 2020 increased 12.2% to $59.1 million, from $52.6 million during the same period in 2019. This $6.4 million improvement primarily reflects increased sales and a higher gross profit margin. As a percentage of sales, fourth quarter gross profit margin increased to 19.1%, from 18.3% year-over-year, reflecting a combination of the strong performance of HDI's import supply lines and higher gross margins in the door product category.

For the three months ended December 31, 2020, operating expenses were $46.5 million, as compared to $42.2 million during the same period in 2019. The $4.3 million increase includes $2.4 million of added operating expenses from the Acquired Business and an impairment loss of $3.1 million related to the HMI business. This was partially offset by $0.7 million of expense savings resulting primarily from the cost management and cost reduction measures taken earlier in the year, and a $0.5 million expense reduction related to the impact of a stronger Canadian dollar on translation of US operating expenses. As a percentage of sales, fourth quarter operating expenses were 15.1%, as compared to 14.6% in Q4 2019.

For the three months ended December 31, 2020, Adjusted EBITDA increased by 26.9% to $24.3 million, from $19.1 million during the same period in 2019. The $5.1 million improvement primarily reflects the $6.4 million increase in gross profit partially offset by a $1.3 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, the impairment loss related to HMI, and transaction expenses).

For the three months ended December 31, 2020, net finance expense decreased to $1.8 million, from $2.8 million in Q4 2019. The $1.0 million decrease primarily relates to lower interest expense as a result of reduced bank indebtedness.

Fourth quarter income tax expense increased to $3.3 million, from $1.1 million during the same period in 2019. This increase was primarily driven by a higher taxable income as compared to 2019.

Profit for the three months ended December 31, 2020 grew 14.4% to $7.5 million, from $6.6 million in the same period in 2019. The $0.9 million improvement primarily reflects the $6.4 million increase in gross profit and $1.0 million reduction in finance expense, partially offset by the $4.3 million increase in operating expenses and $2.1 million increase in tax expense. Fourth quarter diluted profit per share increased to $0.35, from $0.31 in Q4 2019, a gain of $0.04 per share.

Adjusted profit for the three months ended December 31, 2020 grew 43.2% to $10.5 million, from $7.4 million in the same period in 2019. Fourth quarter Adjusted diluted profit per share increased to $0.49, from $0.35 in Q4 2019.

About HDI

HDI is North America's largest wholesale distributor of architectural grade building products to the residential and commercial construction sectors. The Company operates a North American network of 70 distribution centres, as well as one sawmill and kiln drying operation.

Non-GAAP Measures - EBITDA

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance costs as per the consolidated statement of comprehensive income. Furthermore, this press release references certain EBITDA Ratios, such as EBITDA margin (being EBITDA as a percentage of revenues). In addition to profit, HDI considers EBITDA and EBITDA Ratios to be useful supplemental measures of the Company's ability to meet debt service and capital expenditure requirements, and interprets trends in EBITDA and EBITDA Ratios as an indicator of relative operating performance.

References to "Adjusted EBITDA" are EBITDA as defined above, before non-cash Long Term Incentive Plan (LTIP) expense, impairment loss related to Hardwoods of Michigan ("HMI"), transaction expenses, and duties payable. "Adjusted EBITDA margin" is as defined above, before non-cash Long Term Incentive Plan (LTIP) expense, impairment loss related to Hardwoods of Michigan ("HMI"), transaction expenses, and duties payable. References to "Adjusted profit", "Adjusted basic profit per share", and "Adjusted diluted profit per share" are profit for the period, basic profit per share, and diluted profit per share, before non-cash Long Term Incentive Plan (LTIP) expense, impairment loss related to Hardwoods of Michigan ("HMI"), transaction expenses, and duties payable. The aforementioned adjusted measures are collectively referenced as "the Adjusted Measures". HDI considers the Adjusted Measures to be useful supplemental measures of the Company's profitability, its ability to meet debt service and capital expenditure requirements, and as an indicator of relative operating performance, before considering the impact of business acquisition activities.

EBITDA, EBITDA Ratios, and the Adjusted Measures (collectively "the Non-GAAP Measures") are not measures recognized by International Financial Reporting Standards ("IFRS") and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that the Non-GAAP Measures should not replace profit, earnings per share or cash flows (as determined in accordance with IFRS) as an indicator of our performance. HDI's method of calculating the Non-GAAP Measures may differ from the methods used by other issuers. Therefore, Non-GAAP Measures may not be comparable to similar measures presented by other issuers.

Forward-Looking Statements

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This news release includes forward-looking statements. HDI is as well positioned right now as we have been at any point in my 16 years with the company; because our products are used in the finishing stages of construction projects, we did not see the benefits of strengthening markets until after the year-end, this bodes well for HDI going forward; we are entering the best macro-demand environment the industry has seen in years; importantly, we are approaching this multi-year growth runway from a position of operational, financial and competitive strength; HDI's prospects have never been better; we are very enthusiastic about what we can achieve in 2021 and beyond; customers today are the busiest they have been since the onset of the COVID-19 pandemic in early 2020, and leading indicators for the US residential construction market are very positive; housing starts have meaningfully lagged population growth this past decade, leading to pent-up demand for single family housing; millennials represent the largest segment of the population and will further drive demand for homes; furthermore record low mortgage rates and a trend, resulting from the pandemic, towards population shift from urban to suburban markets are contributing to a sharp increase in housing permits and starts; as HDI's products relate to the interior finishing of a building, there can be a six-to-nine-month lag between positive construction data and demand for the Company's products and accordingly, the positive data in the latter half of 2020 should benefit HDI in 2021; demand in the repair and remodel market is also increasing as a result of rising home equity and availability of low-cost consumer capital, the age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their home; these factors are expected to drive multi-year demand for HDI's products; the outlook for US commercial markets remains mixed; with an overall strong growth environment forecasted for 2021, there is a potential for demand to outpace supply, which in turn could create supply constraints and result in rising product prices; management generally expects to have consistent and predictable access to supply given HDI is often the largest customer for its suppliers; additionally, the Company's price pass-through model and ability to adjust pricing in a relatively short period of time typically enable it to translate higher product costs into increased sales and gross margin dollars; moving into 2021, HDI is very well positioned with a diversified business with no significant geographic, supplier, or customer concentration; HDI remains well positioned to pursue its business strategies and to continue creating value for shareholders; capital allocation priorities will continue to include growth through acquisitions as there are numerous accretive acquisition opportunities available. The Company also intends to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in its approach to share repurchases.

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