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Attention: Business/Financial Editors

Hardwoods Distribution Inc.

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

**HDI Announces First Quarter 2019 Results  
Declares Quarterly Dividend of \$0.08 per share**

Langley, B.C., May 9, 2019/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three months ended March 31, 2019. 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 three months ended March 31, 2019)*

- First quarter 2019 results reflect challenging conditions, including severe weather that contributed to lost sales days and uneven market sentiment that affected certain US construction markets. As a result of these challenges, HDI reported first quarter profit and Adjusted EBITDA of \$6.0 million and \$17.3 million respectively, which was lower than results from the first quarter of 2018.
- Despite these impacts, the Company generated \$15.8 million of cash flow from operations, an increase of \$28.6 million compared to the first quarter of 2018.
- Sales also increased 6.0% to \$287.1 million on a combination of acquisition-based growth and the positive foreign exchange impact of a stronger US dollar. Even without the FX benefit, sales grew 1.6%.
- Gross profit grew to \$50.8 million, an increase of \$2.0 million. First quarter gross profit margin was 17.8%, at the higher end of HDI's forecast range of 17-18%. Operating expenses increased to \$41.0 million, or 14.3% of sales.
- In March and April 2019, the Company repurchased a total of 94,140 shares for \$1.2 million.
- The Board of Directors approved a quarterly dividend of \$0.08 per share, payable on July 26, 2019 to shareholders of record as at July 15, 2019.

"We delivered a 6.0% increase in sales and a 4.0% increase in gross profit in the first quarter, despite lost sales days due to severe weather in a number of our regions and the impact of uneven market sentiment in certain US construction markets," said Rob Brown, President and CEO of HDI.

"We ran the business well through this challenging period, carefully managing the balance sheet to increase cash flow from operations by \$28.6 million and achieving a gross profit percentage at the higher end of our forecast range."

"We also achieved our capital allocation plans during the quarter. We returned cash to shareholders in the form of dividends and share repurchases, while also reducing bank indebtedness. This was accomplished even after financing our first quarter purchase of Far West Plywood, a distributor located in the attractive and fast-growing Southern California market."

"Going forward we will continued to execute on our strategy, including capturing market share in the US and building our business with strategic acquisitions. We continue to see strong fundamentals underpinning our end-markets and expect our quarterly performance will gradually strengthen later in the year," said Mr. Brown.

## **Outlook**

The Company's longer-term view on US construction demand remains positive, supported by the current level of housing starts relative to the long-term average, low levels of current housing inventory, and the favourable demographic characteristics of US consumers. HDI continues to view the recent softness in US housing markets as a temporary pause and not a directional change, and anticipates sales growth and gross margin percentage improvement later in the year.

Moving forward, HDI will continue to pursue its strategy of capturing market share in the US, including capitalizing on opportunities in the fragmented US distribution market and growing through acquisitions. As in the first quarter, the near-term focus will remain on responsible management of the balance sheet and meeting capital allocation priorities, including executing on HDI's robust pipeline of acquisition opportunities and continuing to return value to shareholders in the form of dividends and share re-purchases.

## **Q1 2018 Investor Call**

The Company will hold an investor call on Friday, May 10, 2019 at 8:00 am Pacific (11:00 am Eastern). Participants should dial 1-888-390-0546 or (416) 764-8688 (GTA) at least five minutes before the call to register. A replay will be available until May 24, 2019 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 469132.

## Summary of Results

<b>Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)</b>			
	<b>Three months</b>		<b>Three months</b>
	<b>ended March 31</b>		<b>ended March 31</b>
	<b>2019</b>		<b>2018</b>
Total sales	\$	287,087	\$ 270,755
<i>Sales in the US (US\$)</i>		190,363	185,885
<i>Sales in Canada</i>		34,000	35,666
Gross profit		51,032	48,861
<i>Gross profit %</i>		17.8%	18.0%
Operating expenses		(41,166)	(36,554)
Profit from operating activities		9,866	12,307
Add: Depreciation and amortization		6,830	6,049
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	16,696	\$ 18,356
<i>EBITDA as a % of revenue</i>		5.8%	6.8%
Add (deduct):			
Depreciation and amortization		(6,830)	(6,049)
Net finance income (expense)		(2,297)	(1,672)
Income tax expense		(1,589)	(2,517)
Profit for the period	\$	5,980	\$ 8,118
Basic profit per share	\$	0.28	\$ 0.38
Diluted profit per share	\$	0.28	\$ 0.38
Average Canadian dollar exchange rate for one US dollar		1.33	1.26

<b>Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)</b>			
	<b>Three months</b>		<b>Three months</b>
	<b>ended March 31</b>		<b>ended March 31</b>
	<b>2019</b>		<b>2018</b>
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per the table above	\$	16,696	\$ 18,356
Non-cash LTIP expense		586	566
Adjusted EBITDA	\$	17,282	\$ 18,922
<i>Adjusted EBITDA as a % of revenue</i>		6.0%	7.0%
Profit for the period, as reported	\$	5,980	\$ 8,118
Other adjustments, net of tax		514	511
Adjusted Profit	\$	6,494	\$ 8,629
Basic profit per share, as reported	\$	0.28	\$ 0.38
Net impact of above items per share		0.02	0.02
Adjusted basic profit per share	\$	0.30	\$ 0.40
Diluted profit per share, as reported	\$	0.28	\$ 0.38
Net impact of above items per share		0.02	0.02
Adjusted diluted profit per share	\$	0.30	\$ 0.40

## Results from Operations - Three Months Ended March 31, 2019

For the three months ended March 31, 2019, total sales increased by 6.0% to \$287.1 million, from \$270.8 million during the same period in 2018. Of the \$16.3 million year-over-year increase, \$7.4 million, representing a 2.7% increase in sales, was due to the addition of Acquired Businesses and \$12.0 million was related to the positive foreign exchange impact resulting from a stronger US dollar when translating US sales to Canadian dollars for reporting purposes. These gains were partially offset by a \$3.0 million, or 1.1% year-over-year decrease in organic sales.

Sales from HDI's US operations increased by US\$4.5 million, or 2.4%, to US\$190.4 million, from US\$185.9 million in the same period in 2018. The Acquired Businesses contributed sales of US\$5.5 million, partially offset by the US\$1.1 million reduction in organic sales. Sales in Canada decreased by \$1.7 million, or 4.7%, to \$35.6 million.

Gross profit for the three months ended March 31, 2019 increased 4.4% to \$51.0 million, from \$48.9 million during the same period in 2018. The \$2.2 million improvement reflects higher sales, partially offset by a lower gross profit margin. As a percentage of sales, gross profit margin was 17.8% as compared to 18.0% during the same period in 2018.

Operating expenses increased to \$41.2 million in the first quarter of 2019, from \$36.6 million during the same period in 2018. The \$4.6 million increase includes a \$1.7 million increase in expenses due to the impact of a stronger US dollar on translation of US operating expenses, \$1.3 million of added costs to support our growth strategy, \$1.1 million of operating expenses from the Acquired Businesses, and a \$0.5 increase in bad debt expense.

Income tax expense decreased to \$1.6 million in the first quarter of 2019, from \$2.5 million in the same period in 2018. The decrease was primarily driven by lower taxable income in the Q1 2019 period as compared to Q1 2018.

Profit for the three months ended March 31, 2019 was \$6.0 million, as compared to \$8.1 million in the same period in 2018. The \$2.2 million decrease primarily reflects the \$4.6 million increase in operating expenses and \$0.6 million increase in net finance expense, partially offset by the \$2.2 million increase in gross profit and a \$0.9 million decrease in income tax expense. First quarter diluted profit per share was \$0.28 as compared to \$0.38 in Q1 2018.

For the three months ended March 31, 2019, we reported Adjusted EBITDA of \$17.3 million, as compared to \$18.9 million during the same period in 2018. The \$1.6 million reduction reflects the increase in operating

expenses of \$3.6 million (before changes in depreciation and amortization), partially offset by the \$2.2 million increase in gross profit.

First quarter EBITDA and Adjusted EBITDA results also reflect the 2019 adoption of IFRS 16 - leases, which affects the Company's calculation of Adjusted EBITDA by converting rent expense to depreciation and interest.

A more detailed discussion of both IFRS 16 and the Company's financial performance can be found in HDI's Q1 2019 Management Discussion and Analysis (MD&A). The MD&A will be posted, along with the Company's audited financial statements, on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.hardwoods-inc.com](http://www.hardwoods-inc.com)) on or before May 9, 2019.

### **About Hardwoods Distribution Inc.**

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 62 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 certain items related to business acquisition activities. "Adjusted EBITDA margin" is as defined above, before certain items related to business acquisition activities, mark-to-market adjustments, and revaluation of deferred tax assets. 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 certain items related to business acquisition activities, mark-to-market adjustments, and revaluation of deferred tax assets. 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. These involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "may", "plan", "will", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to: We continue to see strong fundamentals underpinning our end-markets and expect our quarterly performance will gradually strengthen later in the year, the Company's longer-term view on US construction demand remains positive, HDI continues to view the recent softness in US housing markets as a temporary pause and not a directional change, and HDI anticipates sales growth and gross margin percentage improvement later in the year.

These forward-looking statements reflect current expectations of management regarding future events and operating performance as of the date of this news release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: national and local business conditions; political or economic instability in local markets; competition; consumer preferences; spending patterns and demographic trends; legislation or governmental regulation; acquisition and integration risks.

Although the forward-looking statements contained in this news release are based upon what management believes to be reasonable assumptions, management cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements reflect management's current beliefs and are based on information currently available.

All forward-looking information in this news release is qualified in its entirety by this cautionary statement and, except as may be required by law, Hardwoods undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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