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Attention: Business/Financial Editors

Hardwoods Distribution Inc.
TRADING SYMBOL: **Toronto Stock Exchange - HDI**

HDI Announces Second Quarter 2019 Results

Cash flow from operations of $18.2 million, Profit per share of $0.38, Adjusted EBITDA of $21.2 million
Declares Quarterly Dividend of $0.08 per share

Langley, B.C., August 12, 2019/ CNW/ - Hardwoods Distribution Inc. ("HDI" or the "Company") today announced financial results for the three and six months ended June 30, 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 June 30, 2019 unless otherwise noted)*

- HDI generated $18.2 million of cash flow from operations in the second quarter, a year-over-year increase of $15.6 million.
- Sales increased 2.1% to $304.5 million on a combination of acquisition-based growth and the positive foreign exchange translation impact of a stronger US dollar.
- Gross profit margin increased to 18.1%, an improvement of thirty basis points from 17.8% in the same period in 2018.
- Operating expense increased 8.5% primarily due to the unfavorable foreign exchange translation impact of a stronger US dollar, the addition of operating expenses from acquired businesses, and a return to more typical levels of bad debt.
- Diluted earnings per share were $0.38 and Adjusted EBITDA was $21.2 million.
- At the end of Q2 2019, net bank debt-to-Adjusted EBITDA after rent ratio was a conservative 1.9x, net bank debt-to-capital ratio was just 26%, and HDI had $90.2 million of unused borrowing capacity.
- In the first half of 2019, HDI returned $5.8 million of cash to shareholders in the form of dividends and share re-purchases.
- The Board of Directors approved a quarterly dividend of $0.08 per share, payable on October 25, 2019 to shareholders of record as at October 14, 2019.

“We experienced softer operating conditions in the first half of the year as US construction markets were affected by a delayed start to the construction season, along with mixed economic data. In addition sales in the hardwood lumber category, which represents 22% of our sales mix, were lower than in the previous year. This was largely due to reduced pricing as a result of excess industry supply and a shift in demand to lower value species. Despite these challenges, we generated a very strong $18.2 million of cash flow from operations, achieved sales growth, and exceeded our target range for gross margin in the second quarter,” said Rob Brown, President and CEO of HDI.

“Our 18.1% gross margin result was achieved as our new import lines began to gain traction. We have made excellent progress in transitioning our import supply chain beyond China, while continuing to provide the high-quality and customizable proprietary products our customers expect. At the same time, consistently careful management of our balance sheet and a reduction of inventory to normal levels helped us increase cash flow from operations by $15.6 million in the second quarter and $44.3 million in the first half of 2019, as compared to the same periods in 2018. This cash flow financed our acquisition of Far West Plywood earlier this year, while also enabling us to pay our dividend, repurchase shares and reduce our bank indebtedness.”

"Our business model is resilient and we continue to manage for the long term, with a focus on balance sheet strength, strategy execution, and profitable organic and acquisition-based growth," said Mr. Brown.

Outlook

As the only North American-wide distributor in the industry, HDI remains well positioned for success going forward. The Company also benefits from a comprehensive suite of diverse architectural building products, including proprietary offerings from its global supply chain, a robust pipeline of accretive acquisition targets, and a strong balance sheet.

HDI'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 favorable demographic characteristics of US consumers. Management continues to view the recent softness in US housing markets as a temporary pause and not a directional change.

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 to grow through acquisitions. The near-term focus will remain on responsible management of the balance sheet and meeting capital allocation priorities, including executing on the pipeline of acquisition opportunities and continuing to return value to shareholders in the form of dividends and share re-purchases.

Q2 2019 Investor Call

The Company will hold an investor call on Tuesday August 13, 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 begins. A replay will be available through August 27, 2019 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 700058.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	Three months ended June 30 2019	Restated Three months ended June 30 2018	Six months ended June 30 2019	Restated Six months ended June 30 2018
Total sales	$ 304,545	298,172	$ 591,632	$ 568,927
Sales in the US (US$)	*200,748*	*202,397*	*391,111*	*388,282*
Sales in Canada	*36,046*	*36,997*	*70,046*	*72,663*
Gross profit	55,019	53,181	106,051	102,042
Gross profit %	*18.1%*	17.8%	*17.9%*	*17.9%*
Operating expenses	(41,194)	(37,972)	(82,360)	(74,527)
Profit from operating activities	13,825	15,209	23,691	27,515
Add: Depreciation and amortization	6,801	6,344	13,631	12,393
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 20,626	21,553	$ 37,322	$ 39,908
EBITDA as a % of revenue	*6.8%*	*7.2%*	*6.3%*	*7.0%*
Add (deduct):				
Depreciation and amortization	(6,801)	(6,344)	(13,631)	(12,393)
Net finance income (expense)	(2,208)	(2,020)	(4,505)	(3,692)
Income tax expense	(3,452)	(3,354)	(5,041)	(5,871)
Profit for the period	$ 8,165	$ 9,835	$ 14,145	$ 17,952
Basic profit per share	$ 0.38	$ 0.45	$ 0.66	$ 0.84
Diluted profit per share	$ 0.38	$ 0.45	$ 0.65	$ 0.83
Average Canadian dollar exchange rate for one US dollar	$ 1.338	$ 1.291	$ 1.334	$ 1.278

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)	Three months ended June 30 2019	Restated Three months ended June 30 2018	Six months ended June 30 2019	Restated Six months ended June 30 2018
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 20,626	$ 21,553	$ 37,322	$ 39,908
Non-cash LTIP expense	559	678	1,144	*1,242*
Allowance related to duty deposits receivable	$ —	$ 880	$ —	$ 880
Adjusted EBITDA	$ 21,185	$ 23,111	$ 38,466	$ 42,030
Adjusted EBITDA as a % of revenue	*7.0%*	*7.8%*	*6.5%*	*7.4%*
Profit for the period, as reported	$ 8,165	$ 9,835	$ 14,145	$ 17,952
Adjustments, net of tax	496	1,294	1,011	1,803
Adjusted profit for the period	$ 8,661	$ 11,129	$ 15,156	$ 19,755
Basic profit per share, as reported	$ 0.38	$ 0.45	$ 0.66	$ 0.84
Net impact of above items per share	0.02	0.06	0.05	0.08
Adjusted basic profit per share	$ 0.40	$ 0.51	$ 0.71	$ 0.92
Diluted profit per share, as reported	$ 0.38	$ 0.45	$ 0.65	$ 0.83
Net impact of above items per share	0.02	0.06	0.05	0.08
Adjusted diluted profit per share	$ 0.40	$ 0.51	$ 0.70	$ 0.91

Results from Operations - Three Months Ended June 30, 2019

For the three months ended June 30, 2019, total sales increased 2.1% to $304.5 million, from $298.2 million during the same period in 2018 - a year-over-year increase of $6.4 million. The increase is comprised of $8.0 million, representing a 2.7% increase in sales, attributed to the addition of Acquired Businesses, and $9.1 million related to a favorable foreign exchange impact from a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes. These gains were partially offset by a year-over-year decrease of $10.7 million, or 3.6%, in organic sales.

Sales from our US operations increased by US$1.6 million, or 0.8%, to US$200.7 million, from US$202.4 million in the same period in 2018. The Acquired Businesses contributed sales of US$6.0 million, which was partially offset by a US$7.6 million reduction in organic sales. Organic sales were impacted by softer market conditions in the first half of the year. Sales in Canada decreased by $1.0 million, or 2.6%, year-over-year.

Gross profit for the three months ended June 30, 2019 increased 3.5% to $55.0 million, from $53.2 million during the same period in 2018. This $1.8 million improvement reflects higher sales and a higher gross profit margin. As a percentage of sales, second quarter gross profit margin increased to 18.1%, from 17.8% as our new import supply lines began to gain traction.

For the three months ended June 30, 2019, operating expenses were $41.2 million as compared to $38.0 million during the same period in 2018. This increase includes expenses related to the impact of a stronger US dollar on translation of US operating expenses, the addition of operating expenses from acquired businesses, and an increase in bad debt expense.

For the three months ended June 30, 2019, HDI generated Adjusted EBITDA of $21.2 million, as compared to $23.1 million during the same period in 2018. The $1.9 million reduction primarily reflects the $3.5 million increase in operating expenses (before changes in depreciation and amortization, and an allowance related to duty deposit in the prior year of $0.8 million), partially offset by the $1.8 million increase in gross profit.

Profit for the three months ended June 30, 2019 was $8.2 million, as compared to $9.8 million in the same period in 2018. The $1.7 million decrease primarily reflects the $3.2 million increase in operating expenses and $0.2 million increase in net finance expense, partially offset by the $1.8 million increase in gross profit. Second quarter diluted profit per share was $0.38 as compared to $0.45 in Q2 2018.

Adjusted profit for the three months ended June 30, 2019 was $8.7 million, as compared to $11.1 million in the same period in 2018. Second quarter Adjusted diluted profit per share was $0.40 as compared to $0.51 in Q2 2018.

Results from Operations - Six Months Ended June 30, 2019

For the six months ended June 30, 2019, total sales increased 4.0% to $591.6 million, from $568.9 million during the first half of 2018 - a year-over-year increase of $22.7 million. The increase is comprised of $15.3 million, representing a 2.7% increase in sales, attributed to the addition of Acquired Businesses, and $21.1 million related to a favorable foreign exchange impact from a stronger Canadian dollar when translating our US sales to Canadian dollars for reporting purposes. These gains were partially offset by a year-over-year decrease of $13.7 million, or 2.4%, in organic sales.

Sales from our US operations increased by US$2.8 million, or 0.7%, to US$391.1 million, from US$388.3 million in the same period in 2018. The Acquired Businesses contributed sales of US$11.5 million, which was partially offset by a US$8.7 million reduction in organic sales. Organic sales were impacted by softer market conditions in the first half of the year. First half sales in Canada decreased by $2.6 million, or 3.6%, year-over-year.

Gross profit for the six months ended June 30, 2019 increased 3.9% to $106.1 million, from $102.0 million during the same period in 2018. This $4.0 million improvement reflects the higher sales. Gross profit margin remained stable year-over-year at 17.9%.

For the six months ended June 30, 2019, operating expenses were $82.4 million as compared to $74.5 million during the same period in 2018. The $7.8 million increase includes expenses related to the impact of a stronger US dollar on translation of US operating expenses, added costs to support HDI's growth strategy, operating expenses from the acquired businesses, and an increase in bad debt expense.

For the six months ended June 30, 2019, we reported Adjusted EBITDA of $38.5 million, as compared to $42.0 million during the same period in 2018. The $3.5 million reduction primarily reflects the $7.4 million increase in operating expenses (before changes in depreciation and amortization, and an allowance related to duty deposit in the prior year of $0.8 million), partially offset by the $4.0 million increase in gross profit.

For the six months ended June 30, 2019, net finance expense was $4.5 million compared to $3.7 million in the same period in 2018. The year-over-year increase primarily relates to higher interest expense on bank indebtedness.

Income tax expense decreased to $5.0 million for the six months ended June 30, 2019, from $5.9 million during the same period in 2018. The decrease was primarily driven by a lower taxable income in the first half of 2019 as compared to the same period in 2018.

Profit for the six months ended June 30, 2019 was $14.1 million, as compared to $18.0 million in the same period in 2018. The $3.9 million decrease primarily reflects the $7.8 million increase in operating expenses and $0.8 million increase in net finance expense, partially offset by the $4.0 million increase in gross profit and the $0.8 million decrease in income tax expense. First half diluted profit per share was $0.65 as compared to $0.83 in the same period in 2018.

Adjusted profit for the six months ended June 30, 2019 was $15.2 million, as compared to $19.8 million in 2018. First half Adjusted diluted profit per share was $0.70 as compared to $0.91 in the first half of 2018.

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: HDI'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 favorable demographic characteristics of US consumers; management continues to view the recent softness in US housing markets as a temporary pause and not a directional change.

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, HDI 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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