NEWS RELEASE: Via
The Canadian Custom Disclosure Network
FOR IMMEDIATE RELEASE
November 8, 2019

Attention: Business/Financial Editors

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

HDI Announces Third Quarter 2019 Results

Profit per share increases 13.5%, Cash flow from operations increases $21.6 million
Increases quarterly dividend for the seventh consecutive year

Langley, B.C., November 8, 2019/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three and nine months ended September 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 September 30, 2019 unless otherwise noted)*

- Achieved 0.7% growth in sales, 5.0% growth in EBITDA, and 11.2% growth in profit as compared to the third quarter of 2018.
- Generated $25.5 million of cash flow from operations in the third quarter, a year-over-year increase of $21.6 million.
- Third quarter gross profit percentage increased to 18.2% from 17.8% last year. This was the Company's best quarterly gross profit margin performance since Q3 2017.
- In the first nine months of 2019, HDI returned $8.3 million of cash to shareholders in the form of dividends and share re-purchases.
- Net bank debt-to-Adjusted EBITDA after rent ratio of 1.6x, net bank debt-to-capital ratio of just 23%, and $100.1 million of unused borrowing capacity as at September 30, 2019.
- Subsequent to the quarter-end, on October 28, 2019, closed the previously announced acquisition of Pacific Mutual Door Company ("Pacific") for a purchase price of US$34.5 million, subject to post-closing working capital adjustments.
- Concurrent with the close of Pacific the Company amended it's US credit facility to increase the revolving credit line to US$150 million, extend the term to October 2024, and lower the applicable borrowing rates.
- The Board of Directors approved an increase of the quarterly dividend to $0.085 per share, representing a 6% increase from the previous level, payable on January 31, 2020 to shareholders of record as at January 20, 2020.

“We turned in a strong third quarter with 5.0% EBITDA growth and 11.2% profit growth, supported by an increase in our gross profit margin to 18.2%, from 17.8% last year," said Rob Brown, President and CEO of HDI. “This was our best margin result in two years and it reflects the traction we are gaining with our revitalized import program. Our ability to provide customers with high-quality, proprietary import product solutions that complement our domestically sourced products has historically been a major strength for HDI, and we are once again demonstrating our competitive advantage in this area.”

“Our third quarter results were achieved despite continued headwinds in the domestic hardwood lumber segment, which have impacted sales in this category. Generally sales in our other product segments were up year-over-year, underscoring the benefits of our well-diversified product mix.”

“We also generated impressive cash flow results again this quarter, with cash from operations climbing to $25.5 million -- an increase of $21.6 million from the same quarter last year. Year-to-date our cash flow from operations increased $65.9 million as compared to the same period in the prior year. This strong cash generation is supporting our ability to provide value to shareholders in the form of dividends, which we increased by 6%, and share buybacks, while also underpinning our strategy of pursuing growth through acquisitions."

"Subsequent to the quarter end, on October 28, 2019, we executed our second acquisition of the year with our US$34.5M purchase of Pacific Mutual Door Company, a US-based wholesale distributor of interior and exterior doors, custom millwork and ancillary products. The acquisition, which is immediately accretive to shareholders, brings us five new locations, including a significant presence in the high-growth Tennessee market, a highly profitable business model, a complementary product and customer mix, and annual sales of approximately US$58 million."

“We are pleased with the direction of our business, our success in executing our strategies, and our continued track record of generating shareholder returns," concluded Mr. Brown.

Outlook

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

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 favorable demographic characteristics of US consumers. Numerous indicators, including recent data related to US housing starts and permits, suggest residential construction activity could begin to gain traction in the next year, supported in part by lower interest rates.

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 management of the balance sheet and meeting the Company's capital allocation priorities.

Q3 2019 Investor Call

HDI will hold an investor call on Tuesday November 12, 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 November 26, 2019 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 462177.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)

	Three months ended Sept 30 2019	Restated Three months ended Sept 30 2018	Nine months ended Sept 30 2019	Restated Nine months ended Sept 30 2018
Total sales	$ 292,459	290,354	$ 884,091	$ 859,281
Sales in the US (US$)	*194,833*	*195,447*	*585,944*	*583,729*
Sales in Canada	*35,209*	*35,009*	*105,255*	*107,672*
Gross profit	53,281	51,593	159,332	153,636
Gross profit %	*18.2%*	17.8%	*18.0%*	*17.9%*
Operating expenses	(39,194)	(38,363)	(121,554)	(112,890)
Profit from operating activities	14,087	13,230	37,778	40,746
Add: Depreciation and amortization	6,636	6,504	20,267	18,896
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 20,723	19,734	$ 58,045	$ 59,642
EBITDA as a % of revenue	*7.1%*	*6.8%*	*6.6%*	*6.9%*
Add (deduct):				
Depreciation and amortization	(6,636)	(6,504)	(20,267)	(18,896)
Net finance income (expense)	(1,897)	(2,410)	(6,402)	(6,102)
Income tax expense	(3,336)	(2,858)	(8,377)	(8,729)
Profit for the period	$ 8,854	$ 7,962	$ 22,999	$ 25,915
Basic profit per share	$ 0.42	$ 0.37	$ 1.07	$ 1.21
Diluted profit per share	$ 0.41	$ 0.37	$ 1.06	$ 1.20
Average Canadian dollar exchange rate for one US dollar	$ 1.320	$ 1.307	$ 1.329	$ 1.288

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)	Three months ended Sept 30 2019	Restated Three months ended Sept 30 2018	Nine months ended Sept 30 2019	Restated Nine months ended Sept 30 2018
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 20,723	$ 19,734	$ 58,045	$ 59,642
Non-cash LTIP expense	574	1,113	1,719	*2,353*
Allowance related to duty deposits receivable	$ —	$ —	$ —	$ 880
Adjusted EBITDA	$ 21,297	$ 20,847	$ 59,764	$ 62,875
Adjusted EBITDA as a % of revenue	*7.3%*	*7.2%*	*6.8%*	*7.3%*
Profit for the period, as reported	$ 8,854	$ 7,962	$ 22,999	$ 25,915
Adjustments, net of tax	510	1,017	1,522	2,820
Adjusted profit for the period	$ 9,364	$ 8,980	$ 24,521	$ 28,735
Basic profit per share, as reported	$ 0.42	$ 0.37	$ 1.07	$ 1.21
Net impact of above items per share	0.02	0.05	0.07	0.13
Adjusted basic profit per share	$ 0.44	$ 0.42	$ 1.14	$ 1.34
Diluted profit per share, as reported	$ 0.41	$ 0.37	$ 1.06	$ 1.20
Net impact of above items per share	0.02	0.05	0.07	0.13
Adjusted diluted profit per share	$ 0.43	$ 0.42	$ 1.13	$ 1.33

Results from Operations - Three Months Ended September 30, 2019

For the three months ended September 30, 2019, total sales increased 0.7% to $292.5 million, from $290.4 million during the same period in 2018, a year-over-year increase of $2.1 million. The addition of Acquired Businesses contributed $4.1 million of this increase, representing a 1.4% increase in total sales, and $2.6 million was related to a favorable foreign exchange impact from a stronger US dollar when translating US sales to Canadian dollars for reporting purposes. These gains were partially offset by a $4.6 million year-over-year decrease in organic sales, which represents a 1.6% decrease in total sales.

Third quarter sales from US operations were US$194.8 million, as compared to US$195.4 million in the same period in 2018, a decrease of US$0.6 million, or 0.3%. While the Acquired Businesses contributed sales growth of US$3.1 million, these gains were offset by a US$3.7 million reduction in organic sales. Sales in Canada increased by $0.2 million, or 0.6%, year-over-year.

Gross profit for the three months ended September 30, 2019 increased 3.3% to $53.3 million, from $51.6 million during the same period in 2018. This $1.7 million improvement primarily reflects a higher gross profit margin. As a percentage of sales, third quarter gross profit margin increased to 18.2%, from 17.8% year-over-year as the Company benefited from re-established import supply lines.

For the three months ended September 30, 2019, operating expenses were $39.2 million as compared to $38.4 million during the same period in 2018. The $0.8 million increase includes $0.5 million of operating expenses from the Acquired Businesses and $0.4 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. As a percentage of sales, third quarter operating expenses were 13.4%, compared to 13.2% in Q3 2018.

For the three months ended September 30, 2019, Adjusted EBITDA increased to $21.3 million, from $20.8 million during the same period in 2018. The $0.4 million improvement primarily reflects the $1.7 million increase in gross profit, offset by the $1.3 million increase in operating expenses (before changes in depreciation and amortization, and non-cash LTIP expense).

Profit for the three months ended September 30, 2019 increased to $8.9 million, from $8.0 million in the same period in 2018. The $0.9 million or 11.2% improvement primarily reflects the $1.7 million increase in gross profit and a $0.5 million decrease in net finance expense, partially offset by a $0.8 million increase in operating expenses and a $0.6 million increase in income tax expense. Third quarter diluted profit per share increased to $0.41, from $0.37 in Q3 2018.

Adjusted profit for the three months ended September 30, 2019 increased 4.3% to $9.4 million, from $9.0 million in the same period in 2018. Third quarter Adjusted diluted profit per share was $0.43, the same as in Q3 2018.

Results from Operations - Nine Months Ended September 30, 2019

For the nine months ended September 30, 2019, total sales increased 2.9% to $884.1 million, from $859.3 million during the first nine months of 2018, a year-over-year increase of $24.8 million. The addition of Acquired Businesses contributed $19.4 million of this growth, representing a 2.3% increase in total sales, and $23.8 million of the growth related to a favorable foreign exchange impact from a stronger Canadian 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 $18.4 million, which represents a 2.1% decrease in total sales.

Sales from US operations increased by US$2.2 million, or 0.4%, to US$585.9 million, from US$583.7 million in the same period in 2018. The Acquired Businesses contributed sales growth of US$14.6 million, which was partially offset by a US$12.4 million reduction in organic sales. Sales in Canada decreased by $2.4 million, or 2.2%, year-over-year.

Gross profit for the nine months ended September 30, 2019 increased 3.7% to $159.3 million, from $153.6 million during the same period in 2018. This $5.7 million improvement primarily reflects the higher sales. Gross profit margin also improved year-over-year to 18.0%, from 17.9% in the first nine months of 2018.

For the nine months ended September 30, 2019, operating expenses were $121.6 million as compared to $112.9 million during the same period in 2018. The $8.7 million increase includes $3.3 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses, $2.8 million of operating expenses from the Acquired Businesses, a $2.1 increase in bad debt expense, and $0.5 million of added costs to support the Company's growth strategy. As a percentage of sales, operating expenses were 13.7%, compared to 13.1% in the same period last year.

For the nine months ended September 30, 2019, HDI reported Adjusted EBITDA of $59.8 million, as compared to $62.9 million during the same period in 2018. The $3.2 million reduction primarily reflects the $8.9 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and an allowance related to duty deposits receivable), partially offset by the $5.7 million increase in gross profit.

Profit for the nine months ended September 30, 2019 was $23.0 million, as compared to $25.9 million in the same period in 2018. The $3.1 million decrease primarily reflects the $8.7 million increase in operating expenses and a $0.3 million increase in net finance expense, partially offset by the $5.7 million increase in gross profit and the $0.2 million decrease in income tax expense. Diluted profit per share was $1.06 as compared to $1.20 in the same period in 2018.

Adjusted profit for the nine months ended September 30, 2019 was $24.5 million, as compared to $28.7 million in 2018. Nine month Adjusted diluted profit per share was $1.13, as compared to $1.33 in the same period last year.

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 66 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 is well positioned for success going forward as the only North American-wide distributor in this industry; 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 favorable demographic characteristics of US consumers; numerous indicators, including recent data related to US housing starts and permits, suggest residential construction activity could begin to gain traction in the next year, supported in part by lower interest rates.

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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