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Attention: Business/Financial Editors

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

HDI Announces Annual and Fourth Quarter 2019 Results

Fourth quarter sales up 4.7%, profit per share increases 14.8%
Dividend of $0.085 per share declared

Langley, B.C., March 19, 2020/ CNW/ - Hardwoods Distribution Inc. ("HDI" or the "Company") today announced financial results for the three and twelve months ended December 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

- Grew Q4 2019 sales by 4.7% and full-year sales by 3.3% year-over-year
- Gross profit margin percentage increased to 18.3% in the fourth quarter and 18.1% on a full-year basis, up from 17.3% and 17.7%, respectively, in the same periods of 2018
- Increased Q4 2019 profit to $6.6 million, or $0.31 per share; achieved full-year 2019 profit of $29.6 million, or $1.38 per share
- Generated a record $92.8 million of cash flow from operating activities in 2019, an increase of $66.7 million from 2018
- Completed two acquisitions in 2019, adding six new locations and over $90 million in annualized sales
- Subsequent to the quarter-end on March 9, 2020, acquired Diamond Hardwoods ("Diamond"), adding two additional locations in California and another $8 million in annualized sales
- Returned $10.3 million of cash to shareholders in 2019 in the form of dividends and share re-purchases, while increasing dividend rate for the seventh consecutive year
- Achieved a net bank debt-to-Adjusted EBITDA after rent ratio of 2.0x and net bank debt-to-capital ratio of just 27%; $69.8 million of unused borrowing capacity as at December 31, 2019
- The Board of Directors approved a quarterly dividend to $0.085 per share, payable on April 30, 2020 to shareholders of record as at April 16, 2020

“We achieved our tenth consecutive year of growth in 2019, increasing sales to nearly $1.2 billion, while improving our gross profit margin to 18.1%, and generating record cash flow from operating activities,” said Rob Brown, HDI’s President and CEO. “Acquisitions played an important role in our top-line growth, with newly acquired businesses contributing $36.3 million of sales in 2019. Our bottom-line performance also reflects a strong finish to the year as our revitalized import program gained momentum and contributed to improved margins in the third and fourth quarters."

"Importantly, our results underscore the strength and stability of our business model," added Mr. Brown. "In a year that brought external challenges including lost sales days and a late start to the construction season as a result of severe weather, uneven market sentiment in some US construction markets, and significantly lower market prices in the hardwood lumber category, we maintained strong performance and generated very strong cash flow from operations. Our significant diversification across geographies, end-markets and product lines, our agility in responding to challenges, the cash flow efficiency of our business model and the efficient nature of our working capital all played a role in our success. Our performance enabled us to increase the dividend by 6% as announced in November, our seventh increase in seven years, and return $3.4 million of cash to shareholders through share buybacks in 2019.”

“Moving now into a rapidly changing economic environment, HDI’s size, strength and agility will prove more important than ever. We do not yet know what the full impact of the COVID-19 situation will be, but we are well prepared to respond to the challenge. Our balance sheet is in excellent shape and we maintain significant financial flexibility. Our business is larger, stronger and more diversified than ever. And we have a business model that has proved itself through over 60 years of changing economic conditions."

"As we move forward, we will prioritize the health and safety of our employees and customers, drawing on our increasing operational sophistication to adapt our ways of doing business as required. We will also continue to advance our growth strategy. We have already announced our first acquisition of 2020, the purchase of Diamond Hardwoods, which brings us two new locations in California and annualized sales of approximately US$6 million. Our acquisitions pipeline will remain active, and with our continued balance sheet strength, we intend to pursue additional transactions that complement our internal growth strategies," said Mr. Brown.

Outlook

While the outlook for US construction markets coming into 2020 was positive, the rapidly evolving COVID-19 situation is having a significant impact on global economies and could influence near-term demand levels and disrupt supply chains. The Company is monitoring this situation closely.

Over the longer term, HDI remains well positioned for success. As the only North American-wide distributor of architectural building products, the Company benefits from a large and diverse geographic network and a comprehensive suite of architectural building products, including proprietary offerings from a diverse global supply chain. In addition, HDI has a robust pipeline of accretive acquisition targets, maintains a strong balance sheet, and benefits from a business model that generates significant cash from operations with exceptional cash flow conversion efficiency.

Moving forward HDI will continue to pursue its business strategies, which include:

- capturing market growth and market share in the US, leveraging the platform and significant resources to create competitive advantages;
- capitalizing on its strong balance sheet and the significant opportunities in the fragmented distribution market to continue growing through acquisitions; and
- improving profitability as it enhances and leverages supply chain and partner management strengths, employs technology-enabled solutions, and optimizes strategic human resources capabilities.

Capital allocation priorities for 2020 include:

- Maintaining sufficient capital reserves to weather the impacts of a potential economic slowdown;
- executing on our acquisitions pipeline;
- continuing to return value to shareholders in the form of dividends and share re-purchases; and
- ensuring continued strong management of the balance sheet.

On January 8, 2020 HDI renewed its normal course issuer bid for the coming year. The Company believe that the underlying share value of HDI may not be reflected in the current market price of its shares and, as a result, will consider share repurchases depending upon future price movements, capital allocation priorities, and other factors.

Annual and Q4 2019 Investor Call

HDI will hold an investor call on Friday March 20, 2020 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. 1-888-664-6383 or (416) 764-8650 (GTA) at least five minutes before the call begins. A replay will be available through April 3, 2020 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 099306.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	Three months ended Dec 30 2019	Restated(1) Three months ended Dec 30 2018	Twelve months ended Dec 30 2019	Restated(1) Twelve months ended Dec 30 2018
Total sales	$ 287,830	274,986	$ 1,171,921	$ 1,134,267
Sales in the US (US$)	*193,260*	*182,933*	*779,203*	*766,662*
Sales in Canada	*32,845*	*33,231*	*138,100*	*140,903*
Gross profit	52,647	47,627	211,979	201,263
Gross profit %	*18.3%*	17.3%	*18.1%*	*17.7%*
Operating expenses	(42,167)	(38,041)	(163,721)	(150,931)
Profit from operating activities	10,480	9,586	48,258	50,332
Add: Depreciation and amortization	7,686	6,641	27,953	25,537
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 18,165	16,227	$ 76,211	$ 75,869
EBITDA as a % of revenue	*6.3%*	*5.9%*	*6.4%*	*6.7%*
Add (deduct):				
Depreciation and amortization	(7,686)	(6,641)	(27,953)	(25,537)
Net finance income (expense)	(2,756)	(1,877)	(9,158)	(7,979)
Income tax expense	(1,142)	(1,905)	(9,520)	(10,634)
Profit for the period	$ 6,582	$ 5,804	$ 29,581	$ 31,719
Basic profit per share	$ 0.31	$ 0.27	$ 1.38	$ 1.48
Diluted profit per share	$ 0.31	$ 0.27	$ 1.38	$ 1.47
Average Canadian dollar exchange rate for one US dollar	$ 1.320	$ 1.320	$ 1.327	$ 1.296

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)	Three months ended Dec 30 2019	Restated(1) Three months ended Dec 30 2018	Twelve months ended Dec 30 2019	Restated(1) Twelve months ended Dec 30 2018
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 18,175	$ 16,227	$ 76,221	$ 75,869
Non-cash LTIP expense	529	(261)	2,249	*2,096*
Transaction expenses	433	—	509	*89*
Allowance related to duty deposits receivable	$ —	$ —	$ —	$ 880
Adjusted EBITDA	$ 19,137	$ 15,966	$ 78,979	$ 78,934
Adjusted EBITDA as a % of revenue	*6.6%*	*5.8%*	*6.7%*	*7.0%*
Profit for the period, as reported	$ 6,582	$ 5,804	$ 29,581	$ 31,719
Adjustments, net of tax	780	(267)	2,360	2,623
Adjusted profit for the period	$ 7,362	$ 5,537	$ 31,941	$ 34,342
Basic profit per share, as reported	$ 0.31	$ 0.27	$ 1.38	$ 1.48
Net impact of above items per share	0.04	(0.01)	0.11	0.12
Adjusted basic profit per share	$ 0.35	$ 0.26	$ 1.49	$ 1.60
Diluted profit per share, as reported	$ 0.31	$ 0.27	$ 1.38	$ 1.47
Net impact of above items per share	0.04	(0.01)	0.11	0.12
Adjusted diluted profit per share	$ 0.35	$ 0.26	$ 1.49	$ 1.59

(1) Restated for the adoption of IFRS 16 - leases. See Section 7.2

Results from Operations - Twelve Months Ended December 31, 2019

For the year ended December 31, 2019, total sales increased 3.3% to $1,171.9 million, from $1,134.3 million in 2018, a year-over-year improvement of $37.7 million. The addition of Acquired Businesses contributed $36.3 million of this growth, representing a 3.2% increase in total sales, and $23.4 million of the increase 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 organic sales decrease of $22.1 million, which represents a 1.9% decrease in total sales.

Sales from US operations increased by US$12.5 million, or 1.6%, to US$779.2 million, from US$766.7 million in 2018. The Acquired Businesses contributed sales growth of US$27.4 million, which was partially offset by a US$14.8 million reduction in organic sales. Organic sales were impacted by softer market conditions in 2019 and lower prices for hardwood lumber products. Sales in Canada decreased by $2.8 million, or 2.0%, year-over-year. Demand-supply dynamics and government policy aimed at cooling the housing market continued to moderate Canadian construction markets.

Gross profit for the year ended December 31, 2019 increased 5.3% to $212.0 million, from $201.3 million in 2018. This $10.7 million improvement primarily reflects the increased sales and a higher gross profit margin, which improved year-over-year to 18.1%, from 17.7%. The gross margin percentage improvement includes the benefit realized in the second half of the year relating to the Company's re-established import supply lines.

For the year ended December 31, 2019, operating expenses were $163.7 million as compared to $150.9 in 2018. The $12.8 million increase includes $7.1 million of operating expenses from the Acquired Businesses net of transaction costs, $3.3 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses, $2.2 million of increased expense related to a return to a more typical level of bad debt expense, and $0.2 million of added costs to support HDI's growth strategy. As a percentage of sales, operating expenses were 14.0%, compared to 13.3% in the same period last year.

For the year ended December 31, 2019, HDI reported Adjusted EBITDA of $79.0 million, as compared to $78.9 million in 2018. Contributing to the 2019 results was a $10.7 million increase in gross profit, offset by a $10.6 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, allowance related to duty deposits receivable, and transaction expenses)

For the year ended December 31, 2019, net finance expense increased to $9.2 million, from $8.0 million in 2018. The year-over-year increase primarily relates to higher interest expense on bank indebtedness.

Income tax expense decreased to $9.5 million for the year ended December 31, 2019, from $10.6 million during the same period in 2018. The decrease was primarily driven by a lower taxable income as compared to 2018.

Profit for the year ended December 31, 2019 was $29.6 million, as compared to $31.7 million in 2018. The $2.1 million decrease primarily reflects the $12.8 million increase in operating expenses and a $1.2 million increase in net finance expense, partially offset by the $10.7 million increase in gross profit and the $1.1 million decrease in income tax expense. Diluted profit per share was $1.38 as compared to $1.47 in 2018.

Adjusted profit for the year ended December 31, 2019 was $31.9 million, as compared to $34.3 million in 2018. Adjusted diluted profit per share was $1.49, as compared to $1.60 in 2018.

Results from Operations - Three Months Ended December 31, 2019

For the three months ended December 31, 2019, total sales increased 4.7% to $287.8 million, from $275.0 million during the same period in 2018, a year-over-year increase of $12.8 million. The addition of Acquired Businesses contributed $16.8 million of this increase, representing a 6.1% increase in total sales. These gains were partially offset by a year-over-year organic sales decrease of $3.9 million, which represents a 1.4% decrease in total sales.

Fourth quarter sales from US operations increased to US$193.3 million, from US$182.9 million in the same period in 2018, an increase of US10.3 million, or 5.6%. The Acquired Businesses contributed sales growth of US$12.7 million, partially offset by a US$2.4 million reduction in organic sales. Fourth quarter sales in Canada decreased by $0.4 million, or 1.2%, year-over-year. Demand-supply dynamics and government policy aimed at cooling the housing market continued to moderate Canadian construction markets.

Gross profit for the three months ended December 31, 2019 increased 10.5% to $52.6 million, from $47.6 million during the same period in 2018. This $5.0 million improvement primarily reflects the higher sales and a higher gross profit margin. As a percentage of sales, fourth quarter gross profit margin increased to 18.3%, from 17.3% year-over-year as HDI benefited from re-established import supply lines and the inclusion of sales from the newly acquired Pacific Mutual Door operations, which carry a higher gross profit margin relative to the rest of the business.

For the three months ended December 31, 2019, operating expenses were $42.2 million as compared to $38.0 million during the same period in 2018. The $4.2 million increase includes $3.9 million of operating expenses from the Acquired Business, transaction costs of $0.4 million, and $1.1 million of added costs to support the Company's growth strategy. As a percentage of sales, fourth quarter operating expenses were 14.6%, compared to 13.8% in Q4 2018.

For the three months ended December 31, 2019, Adjusted EBITDA increased to $19.1 million, from $16.0 million during the same period in 2018. The $3.1 million improvement primarily reflects the $5.0 million increase in gross profit, partially offset by the $1.9 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and transaction expenses). Included in EBITDA results for the quarter is a $0.6 million reversal of bad debt expense, and a $0.6 million contribution from the Pacific Mutual Door business.

Profit for the three months ended December 31, 2019 was $6.6 million, as compared to $5.8 million in the same period in 2018. The $0.8 million or 13.4% increase primarily reflects the $5.0 million increase in gross profit, partially offset by the $4.2 million increase in operating expenses. Fourth quarter diluted profit per share was $0.31, as compared to $0.27 in Q4 2018.

Adjusted profit for the three months ended December 31, 2019 increased 33.0% to $7.4 million, from $5.5 million in the same period in 2018. Fourth quarter Adjusted diluted profit per share was $0.35 as compared to $0.26 in Q4 2018.

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 64 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: Moving now into a rapidly changing economic environment, HDI's size, strength and agility will prove more important than ever; we do not yet know what the full impact of the COVID-19 situation will be, but we are well prepared to face challenges; our balance sheet is in excellent shape and we maintain significant financial flexibility; our business is larger, stronger and more diversified than ever; we have a business model that has proved itself through over 60 years of changing economic conditions; as we move forward, we will prioritize the health and safety of our employees and customers, drawing on our increasing operational sophistication to adapt our ways of doing business as required; we will also continue to advance our growth strategy; our acquisitions pipeline will remain active, and with our continued balance sheet strength, we intend to pursue additional transactions that complement our internal growth strategies; while the outlook for US construction markets coming into 2020 was positive, the rapidly evolving COVID-19 situation is having a significant impact on global economies and could influence near-term demand levels and disrupt supply chains; over the longer term, HDI remains well positioned for success as the only North American-wide distributor in the industry; the Company benefits from a large and diverse geographic network and a comprehensive suite of architectural building products, including proprietary offerings from a diverse global supply chain; HDI has a robust pipeline of accretive acquisition targets, maintains a strong balance sheet, and benefits from a business model that generates significant cash from operations with exceptional cash flow conversion efficiency; moving forward HDI will continue to pursue its business strategies, which include capturing market growth and market share, leveraging the platform and significant resources to create competitive advantages, capitalizing on its strong balance sheet and the significant opportunities in the fragmented distribution market to continue growing through acquisitions, and improving profitability as it enhances and leverages supply chain and partner management strengths, employs technology-enabled solutions, and optimizes strategic human resources capabilities; Capital allocation priorities for 2020 include include maintaining sufficient capital reserves to weather the impacts of a potential economic slowdown, executing on our acquisitions pipeline, continuing to return value to shareholders in the form of dividends and share re-purchases, and ensuring continued strong management of the balance sheet; the Company believes that the underlying share value of HDI may not be reflected in the current market price of its shares and, as a result, will consider share repurchases depending upon future price movements, capital allocation priorities, and other factors.

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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