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Attention: Business/Financial Editors

Hardwoods Distribution Inc.

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

HDI Announces First Quarter 2020 Results and Provides COVID-19 Business Update

Record quarterly sales of \$325.1 million, profit per share increases 57.1%

Dividend of \$0.085 per share declared

Langley, B.C., May 5, 2020/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three months ended March 31, 2020 and provided an update on how it is navigating through the ongoing COVID-19 pandemic. 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.

First Quarter Highlights

- Increased first quarter sales by 13.2% year-over-year to a new quarterly record of \$325.1 million. First quarter 2020 sales performance included growth of 6.8% from acquired businesses, 5.4% from organic sales and an additional 1.0% from a favorable foreign exchange translation.
- Generated record quarterly gross profit margin percentage of 19.3%, as compared to 17.8% in Q1 2019.
- Grew Q1 2020 profit by 57.1% to \$9.4 million, an increase of \$3.4 million from \$6.0 million in Q1 2019. Profit per share climbed to \$0.44 per share, from \$0.28 in Q1 2019, an increase of \$0.16.
- Adjusted EBITDA grew 31.7% to \$22.8 million, from \$17.3 million in Q1 2018, an increase of \$5.5 million.
- Cash flow from operating activities before changes in working capital increased 30.5% to \$21.4 million, from \$16.4 million in Q1 2019. Returned \$4.5 million of cash to shareholders in the first quarter in the form of dividends and share re-purchases
- Achieved a net bank debt-to-Adjusted EBITDA after rent ratio of 2.1x and net bank debt-to-capital ratio of just 29%; maintaining liquidity as at the end of March of \$101.9 million (cash and cash equivalents, and unused credit facilities).
- The Board of Directors approved a quarterly dividend to \$0.085 per share, payable on July 31, 2020 to shareholders of record as at July 20, 2020

"We entered the 2020 fiscal year with strong momentum as our strategies contributed to all-time quarterly records for revenue and gross margin percentage, and significant year-over-year gains in profit, Adjusted EBITDA and cash flow," said Rob Brown, President and CEO of HDI. "Our operational performance resulted in a 57% increase in earnings per share and enabled us to return cash to investors of \$4.5 million by way of dividends and share buybacks. This was double the \$2.2 million we returned to shareholders in the same period in 2019."

"Our record results were achieved largely prior to the emergence of COVID-19 related market impacts, and reflect what our business is capable of under normal circumstances," added Mr. Brown. "Our successful efforts to rebuild our import advantage contributed both to organic growth and to our record gross profit margin results, while our acquisition strategy continued to boost our top-and-bottom-line performance with the addition of accretive businesses. This included our first quarter purchase of Diamond Hardwoods, which has brought us two additional locations in California and another \$8 million in annualized sales."

"I want to congratulate all the members of the HDI team for an outstanding first quarter and sincerely thank them, along with our suppliers and customers, for working through these unprecedented times to fulfill our important role as an essential service in the building products supply chain. We have remained open for business and working hard every day, while also taking strategic steps to ensure we emerge from the global COVID-19 crisis strongly positioned to continue delivering performances like we achieved in the first quarter of 2020."

COVID-19 Update

In March, as the COVID-19 pandemic spread globally, HDI took immediate actions to protect its employees, operations and financial position:

Employees: The health and safety of HDI's over 1,200 employees is of primary concern and a number of policies and procedures were instituted to ensure a safe work environment. These include detailed cleaning and disinfecting procedures, social distancing protocols, suspension of air travel, continuing education for employees designed to minimize the chances of infection and spread of the virus, increased work-from-home procedures, and contingency plans to address the emergence of a COVID-19 diagnosis in the operations. Actions taken comply with, and in many cases exceed, those recommended by health authorities.

Operations: The Company's operations generally meet the definitions of an essential business as it provides services that are essential to the support and maintenance of critical infrastructure. As a result, HDI continues

to operate, as do the majority of its suppliers and customers. The Company's distribution locations are open for business and continue to deliver products to customers in its end-markets.

Financial Position: HDI maintains a strong balance sheet which provides financial stability in uncertain times. There is no term debt and the Company maintains revolver facilities with springing covenants, secured against high-quality working capital. The balance sheet is characterized by \$101.9 million of liquidity and as at March 31, 2020, comprised of \$59.8 million cash on hand and borrowing capacity of \$42.1 million. Net debt-to-Adjusted EBITDA after rents ratio was 2.1 times and the debt-to-capital ratio was 29%.

Outlook

The ultimate impact of the COVID-19 pandemic on the Company's second quarter and full-year 2020 results is difficult to quantify as it will depend on the duration of the contagion, the impact of government policies, and the subsequent pace of economic recovery. However, following a very strong first quarter, sales were approximately 23% lower in April than in March as a result of the COVID-19 related reduction in economic activity and its impact on the pace of construction activity in the market.

In response to the change in demand experienced in April, the Company took swift and decisive actions, including reducing its workforce by 10%, lowering variable compensation, and heightening organizational focus on tightly managing all expenses. Non-essential operating expenses have been curtailed and capital expenditures deferred.

The cost reduction measures taken so far are not expected to impact the productive capacity of the business, but with these measures the Company expects to achieve cash flow break-even in April, even before considering changes in working capital. As it relates to working capital, HDI typically decreases investments in working capital during periods of reduced activity, resulting in a source of cash for the Company.

There continues to be uncertainty with respect to the ultimate impact of the COVID-19 pandemic on the broader economy and on HDI's business. Should demand experience further downturns, the Company has identified additional cost-reduction measures that can be implemented as needed. At present, management believes HDI is well positioned to weather this uncertainty with a diversified business and no significant geographic, supplier, or customer concentration, \$101.9 million in liquidity as at the end of the first quarter, and as noted above, a business model that generates cash flow from working capital when demand is lower.

The Company will continue to adapt quickly to the current environment, led by a tenured management team with significant practical experience gained in the 2008 global financial crisis and supported by a business model that is well positioned to absorb impacts. As it relates to capital allocation priorities moving forward, these will include:

- maintaining sufficient capital reserves to weather the impacts of a potential economic slowdown;
- executing on the acquisitions pipeline;
- continuing to return value to shareholders in the form of dividends and remaining opportunistic as it relates to share repurchases; and
- ensuring continued strong management of the balance sheet.

Q1 2020 Investor Call

HDI will hold an investor call on Wednesday, May 6 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 May 20, 2020 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 722829.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)			
	Three months		Three months
	ended Mar 31		ended Mar 31
	2020		2019
Total sales	\$	325,100	\$ 287,087
<i>Sales in the US (US\$)</i>		214,420	190,363
<i>Sales in Canada</i>		36,771	34,000
Gross profit		62,612	51,032
<i>Gross profit %</i>		19.3%	17.8%
Operating expenses		(47,598)	(41,166)
Profit from operating activities		15,014	9,866
Add: Depreciation and amortization		7,755	6,830
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	22,769	\$ 16,696
<i>EBITDA as a % of revenue</i>		6.4%	6.7%
Add (deduct):			
Depreciation and amortization		(7,755)	(6,830)
Net finance income (expense)		(2,313)	(2,297)
Income tax expense		(3,306)	(1,589)
Profit for the period	\$	9,395	\$ 5,980
Basic profit per share	\$	0.44	\$ 0.28
Diluted profit per share	\$	0.44	\$ 0.28
Average Canadian dollar exchange rate for one US dollar	\$	1.345	\$ 1.330

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)			
	Three months		Three months
	ended Mar 31		ended Mar 31
	2020		2019
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$	22,769	\$ 16,696
Non-cash LTIP expense		—	586
Adjusted EBITDA	\$	22,769	\$ 17,282
<i>Adjusted EBITDA as a % of revenue</i>		7.0%	6.0%
Profit for the period, as reported	\$	9,395	\$ 5,980
Adjustments, net of tax		—	514
Adjusted profit for the period	\$	9,395	\$ 6,494
Basic profit per share, as reported	\$	0.44	\$ 0.28
Net impact of above items per share		—	0.02
Adjusted basic profit per share	\$	0.44	\$ 0.30
Diluted profit per share, as reported	\$	0.44	\$ 0.28
Net impact of above items per share		—	0.02
Adjusted diluted profit per share	\$	0.44	\$ 0.30

Results from Operations - Three Months Ended March 31, 2020

For the three months ended March 31, 2020, total sales increased 13.2% to \$325.1 million, from \$287.1 million in the same period in 2019. Of the \$38.0 million year-over-year increase, \$15.5 million, representing a 5.4% increase in sales, was due to organic growth and \$19.4 million, representing a 6.8% increase in sales, reflects the addition of acquired businesses. First quarter sales also benefited from a \$3.1 million gain related to a favorable foreign exchange impact from a stronger US dollar when translating US sales to Canadian dollars for reporting purposes.

Sales from our US operations increased by US\$24.1 million, or 12.6%, to US\$214.4 million, from US\$190.4 million in Q1 2019. Our US operations achieved organic sales growth of \$9.6 million, representing a 5.1% increase in sales, primarily due to increase volumes. Growth from acquired businesses contributed an additional US\$14.4 million to sales in the quarter, representing a 7.5% increase in total sales. Sales in Canada increased by \$2.8 million, or 8.1%, year-over-year. The increase in Canadian sales was entirely organic and reflects our success in winning new business.

Gross profit for the first quarter increased 22.7% to \$62.6 million, from \$51.0 million in the same quarter in 2019. This \$11.6 million improvement primarily reflects the increased sales and a higher first quarter gross profit margin of 19.3%, as compared to 17.8% in the same period last year. The improvement in gross margin percentage includes the benefit of our re-established import supply lines and the inclusion of the Pacific

Mutual Door operations, which carry a higher gross profit margin percentage relative to the rest of the business.

For the three months ended March 31, 2020, operating expenses were \$47.6 million, as compared to \$41.2 million in Q1 2019. The \$6.4 million increase includes \$3.8 million of operating expenses from the acquired businesses, \$2.2 million of added costs to support our growth strategy, 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, operating expenses were 14.6%, as compared to 14.3% in the same period last year.

First quarter Adjusted EBITDA climbed 31.7% to a record \$22.8 million, from \$17.3 million during the same period in 2019. The \$5.5 million year-over-year increase reflects the \$11.6 million increase in gross profit, partially offset by the \$6.1 million increase in operating expenses (before changes in depreciation and amortization, and non-cash LTIP expense).

Income tax expense increased to \$3.3 million for the three months ended March 31, 2020, from \$1.6 million during the same period in 2019. This increase was primarily driven by a higher taxable income as compared to the same period in 2019.

Profit for first quarter grew 57.1% to \$9.4 million, from \$6.0 million in Q1 2019. The \$3.4 million improvement primarily reflects the \$6.1 million increase in EBITDA, partially offset by year-over-year increases in depreciation and amortization of \$0.9 million and income tax expense of \$1.7 million, respectively. Diluted profit per share climbed to \$0.44, from \$0.28 in Q1 2019, an increase of 57.1%.

Adjusted profit for the three months ended March 31, 2020 increased to \$9.4 million, from \$6.5 million in Q1 2019. Adjusted diluted profit per share grew to \$0.44, from \$0.30 in the same period in the prior year, an increase of 46.7%.

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 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: Our record results were achieved largely prior to the emergence of COVID-19 related market impacts, and reflect what our business is capable of under normal circumstances; we have remained open for business and working hard every day, while also taking strategic steps to ensure we emerge from the global COVID-19 crisis strongly

positioned to continue delivering performances like we achieved in the first quarter of 2020; the ultimate impact of the COVID-19 pandemic on the Company's second quarter and full-year 2020 results is difficult to quantify as it will depend on the duration and impact of government policies and the subsequent pace of economic recovery; the cost reduction measures taken so far are not expected to impact the productive capacity of the business, and with these measures the Company anticipates being cash flow break in April before considering changes in working capital; as it relates to changes in working capital, in periods of reduced activity investments in working capital generally decrease over time resulting in a source of cash for the Company; There continues to be uncertainty with respect to the ultimate impact of the COVID-19 pandemic; should the operating environment be further impacted, the Company has plans relating to additional cost reduction measures and will act on those if needed; at present however the Company is well positioned to weather this uncertainty with a diversified business and no significant geographic, supplier, or customer concentration, \$101.9 million in liquidity as at the end of the first quarter, and a business model generates cash flow from working capital in periods of reduced activity; the Company will continue to adapt quickly to the current environment, led by a tenured management team with significant practical experience gained in the 2008 global financial crisis and supported by a business model that is well positioned to absorb impacts; and as it relates to capital allocation priorities moving forward these will include maintaining sufficient capital reserves to weather the impacts of a potential economic slowdown, executing on the acquisitions pipeline, continuing to return value to shareholders in the form of dividends and remaining opportunistic as it relates to share repurchases, and ensuring continued strong management of the balance sheet.

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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