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Attention: Business/Financial Editors

Hardwoods Distribution Inc.

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

HDI Announces Second Quarter 2020 Results

Record quarterly Adjusted EBITDA of $24.4 million, profit per share increases 26.3%
Cash flow from operating activities increases to $58.1 million
Dividend of $0.085 per share declared

Langley, B.C., August 7, 2020/ CNW/ - Hardwoods Distribution Inc. ("HDI" or the "Company") today announced financial results for the three and six months ended June 30, 2020. HDI is North America's largest wholesale distributor of architectural grade building products to the residential, repair and remodel, and commercial construction markets, with a comprehensive US and Canadian distribution network.

Second Quarter Highlights

- Second quarter sales of $296.0 million decreased just 2.8% year-over-year, despite significant COVID-19 related impacts on economic activity early in the quarter. Sales included a 7.0% increase related to the contribution of acquired businesses.

- Despite the decrease in sales, gross profit increased $2.7 million as the execution of our strategies yielded a record quarterly gross profit margin percentage of 19.5%, as compared to 18.1% in Q2 2019.

- Grew Q2 2020 profit by 25.2% to $10.2 million, from $8.2 million in Q2 2019. Profit per share climbed to $0.48 per share, from $0.38 in Q2 2019, an increase of $0.10 per share.

- Adjusted EBITDA increased 15.3% to a quarterly record of $24.4 million, from $21.2 million in Q2 2019.

- Cash flow from operating activities, before changes in working capital, increased 33.2% to $23.1 million. Decreases in working capital added an additional $34.2 million of cash flow.

- Reduced debt by $40.7 million, resulting in a net bank debt to Adjusted EBITDA after rents ratio of 1.3 times at quarter-end, as compared to 2.1 times at the end of Q1 2020. Liquidity at the end of the second quarter was $111.5 million.

- Returned cash to shareholders by repurchasing $1.4 million of common shares and paying dividends of $1.8 million. The Board of Directors approved a quarterly dividend of $0.085 per share, the Company's 33rd consecutive quarterly dividend.

"We achieved another record quarterly performance, generating significant gains in profitability and setting new highs for gross profit margin percentage and Adjusted EBITDA," said Rob Brown, President and CEO of HDI. "We achieved these results despite the significant early impacts of the COVID-19 pandemic. After an abrupt market slowdown in April, our sales began to recover in May and June and together with contribution from acquisitions and a positive foreign currency impact, our second quarter sales pace was close to what we achieved in Q2 2019."

"Our success in weathering the impacts of the pandemic reflects our early actions to provide a safe environment for employees and customers, to take significant costs out of the business without impacting productive capacity, and to continue to execute on our business strategies," said Mr. Brown. "Our 19.5% gross margin percentage was the best in our history and reflects our success in re-establishing our import supply lines, as well as the benefit of our Pacific Mutual Door Company acquisition, which has bolstered our product mix with higher-margin offerings. Together with a reduced cost structure, our strategies helped drive a 26.3% increase in profit per share and record quarterly Adjusted EBITDA of $24.4 million.

"Our strong bottom-line performance, together with a significant decrease in working capital as we managed the balance sheet to reflect current sales pace, contributed to cash flow from operations increasing to $58.1 million during the second quarter. This, in turn, enabled us to continue executing on our capital allocation priorities," added Mr. Brown. "During the quarter, we further strengthened our financial position, reducing net bank debt by $40.7 million, while still maintaining significant cash reserves to help us weather potential future economic challenges. We also continued to return value to shareholders in the form of our quarterly dividend and via share repurchases during the quarter."

"We are very proud of what the HDI team has achieved amidst difficult operating conditions. We are moving forward in strong financial shape, with a proven and well-diversified business model and a sharp focus on continuing to accelerate our business with organic and acquisition-based growth strategies," said Mr. Brown.

Outlook

The ultimate impact of the COVID-19 pandemic on HDI'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.

On a positive note, demand levels began to recover in May and June. In July organic sales were the same as in July 2019, and signals from the residential construction and repair and renovation markets have also been encouraging. Leading indicators, including housing permits and starts, mortgage interest rates, and demographic trends are favorable and HDI anticipates growth from these markets in the mid-term. Commercial and other construction end-markets include recreational vehicles, healthcare, education, furniture and fixtures. HDI expects certain of these commercial end-markets will perform better than others in the second half of 2020, with the diverse nature of the Company's participation reducing the impact of dynamics in any one geography or end-market.

Overall, management believes HDI is well positioned to weather market uncertainty related to COVID-19 with a diversified business with no significant geographic, supplier, or customer concentration. As noted above, the Company is also diversified from an end-market perspective, with more than half of the products it sells used in residential and repair and remodel applications, and the remainder in a wide array of commercial and other applications.

Additionally, HDI is moving forward with a very strong financial position, including significant cash-generating ability, no term debt, and over $111 million of liquidity. The Company remains well positioned to create value for shareholders by pursuing its business strategies and capital allocation priorities, which 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.

Q2 2020 Investor Call

HDI will hold an investor call on Monday, August 10, 2020 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 August 24, 2020 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 164430.

Summary of Results

	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Total sales	$ 296,005	$ 304,544	$ 621,105	$ 591,632
Sales in the US (US$)	*190,819*	*200,748*	*405,239*	*391,111*
Sales in Canada	*31,258*	*36,046*	*68,029*	*70,046*
Gross profit	57,802	55,018	120,414	106,051
Gross profit %	*19.5%*	*18.1%*	*19.4%*	*17.9%*
Operating expenses	(42,032)	(41,194)	(89,630)	(82,360)
Profit from operating activities	$ 15,770	$ 13,824	30,784	23,691
Add: Depreciation and amortization	7,926	6,801	15,681	13,631
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 23,696	$ 20,626	$ 46,465	$ 37,322
EBITDA as a % of revenue	*8.0%*	*6.8%*	*7.5%*	*6.3%*
Add (deduct):				
Depreciation and amortization	(7,926)	(6,801)	(15,681)	(13,631)
Net finance income (expense)	(1,997)	(2,208)	(4,311)	(4,505)
Income tax expense	(3,546)	(3,452)	(6,852)	(5,041)
Profit for the period	$ 10,227	$ 8,165	$ 19,621	$ 14,145
Basic profit per share	$ 0.48	$ 0.38	$ 0.93	$ 0.66
Diluted profit per share	$ 0.48	$ 0.38	$ 0.92	$ 0.65
Average Canadian dollar exchange rate for one US dollar	$ 1.385	$ 1.338	$ 1.365	$ 1.334

	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 23,696	$ 20,626	$ 46,465	$ 37,322
Non-cash LTIP expense	731	559	725	1,144
Adjusted EBITDA	$ 24,427	$ 21,185	$ 47,190	$ 38,466
Adjusted EBITDA as a % of revenue	*8.3%*	*7.0%*	*7.6%*	*6.5%*
Profit for the period, as reported	$ 10,227	$ 8,165	$ 19,621	$ 14,145
Adjustments, net of tax	653	496	702	1,011
Adjusted profit for the period	$ 10,880	$ 8,661	$ 20,322	$ 15,156
Basic profit per share, as reported	$ 0.48	$ 0.38	$ 0.93	$ 0.66
Net impact of above items per share	0.03	0.02	0.03	0.05
Adjusted basic profit per share	$ 0.51	$ 0.40	$ 0.96	$ 0.71
Diluted profit per share, as reported	$ 0.48	$ 0.38	$ 0.92	$ 0.65
Net impact of above items per share	0.03	0.02	0.03	0.05
Adjusted diluted profit per share	$ 0.51	$ 0.40	$ 0.95	$ 0.70

Results from Operations - Three Months Ended June 30, 2020

For the three months ended June 30, 2020, HDI generated consolidated sales of $296.0 million, a decrease of $8.5 million, or 2.8%, from $304.5 million in the same period in 2019. Second quarter organic sales were negatively impacted by the COVID-19 related reduction in economic activity and decreased by $38.1 million, or 12.5% year-over-year. This was partially offset by $21.3 million, or 7.0%, increase in sales related to the contribution of acquired businesses, and an $8.4 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 US operations decreased by US$9.9 million, or 4.9%, to US$190.8 million, from US$200.7 million in Q2 2019. Organic sales in the US decreased US$25.3 million, representing a 12.6% decrease in sales, partially offset by a US$15.3 million contribution from acquired businesses. Sales in Canada decreased $4.8 million, or 13.3%, year-over-year.

Gross profit for the second quarter increased 5.1% to $57.8 million, from $55.0 million in the same quarter in 2019. This $2.8 million improvement reflects a higher gross profit margin of 19.5%, as compared to 18.1% in the same period last year, partially offset by slightly lower sales. The significant improvement in gross margin percentage reflects the benefit of the Company's 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 June 30, 2020, operating expenses increased modestly to $42.0 million, from $41.2 million in Q2 2019. The $0.8 million increase reflects $4.0 million of added operating expenses related to the acquired businesses and $1.2 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. These increases were partially offset by a $4.4 million decrease in organic expenses, primarily attributable to the cost management and cost reduction measures taken in response to the COVID-19 related reduction in economic activity. As a percentage of sales, operating expenses were 14.2%, as compared to 13.5% in the same period last year.

Second quarter Adjusted EBITDA climbed 15.3% to a record $24.4 million, from $21.2 million during the same period in 2019. The $3.2 million year-over-year improvement reflects the $2.8 million increase in gross profit, and a $0.5 million decrease in operating expenses (before changes in depreciation and amortization, and non-cash LTIP expense).

Profit for second quarter grew 25.2% to $10.2 million, from $8.2 million in Q2 2019. The $2.0 million improvement primarily reflects the $3.1 million increase in EBITDA, partially offset by the $1.1 million increase in depreciation and amortization.

Results from Operations - Six Months Ended June 30, 2020

For the six months ended June 30, 2020, total sales increased 5.0% to $621.1 million, from $591.6 million in the same period in 2019. Of the $29.5 million year-over-year increase, $40.6 million, representing a 6.9% increase in sales, reflects the addition of acquired businesses, and $11.8 million relates 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 decrease in organic sales of $23.0 million, representing a 3.9% decrease in sales.

Sales from HDI's US operations increased by US$14.1 million, or 3.6%, to US$405.2 million, from US $391.1 million in the first half of 2019. Growth from acquired businesses contributed US$29.8 million to sales, representing a 7.6% increase in total sales. This was partially offset by a decrease in organic sales of $15.6 million, representing a 4.0% decrease in sales. Sales in Canada decreased $2.0 million, or 2.9% year-over-year.

In the first quarter of 2020, organic sales increased primarily on the strength of higher volumes. In the second quarter, organic growth was negatively impacted by the COVID-19 related reduction in economic activity and its impact on the pace of construction activity in HDI's markets.

Gross profit for the first six months of 2020 increased 13.5% to $120.4 million, from $106.1 million in the same period in 2019. This $14.4 million improvement primarily reflects the increased sales and a higher gross profit margin of 19.4%, as compared to 17.9% in the same period last year. The improvement in gross margin percentage includes the benefit of the Company's 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 six months ended June 30, 2020, operating expenses were $89.6 million, as compared to $82.4 million in the same period in 2019. The $7.3 million increase includes $7.9 million of operating expenses from the acquired businesses and $1.7 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. These increases were partially offset by a $2.3 million decrease primarily attributable to the cost management and cost reduction measures taken in April in response to the COVID-19 related reduction in economic activity. As a percentage of sales, operating expenses were 14.4%, as compared to 13.9% in the same period last year.

Adjusted EBITDA for the first half of 2020 climbed 22.7% to $47.2 million, from $38.5 million during the same period in 2019. The $8.7 million year-over-year improvement reflects the $14.4 million increase in gross profit, partially offset by the $5.6 million increase in operating expenses (before changes in depreciation and amortization, and non-cash LTIP expense).

Income tax expense increased to $6.9 million for the six months ended June 30, 2020, from $5.0 million during the same period in 2019. This was primarily driven by a higher taxable income as compared to the same period in 2019.

Profit for the six months ended June 30, 2020 grew 38.7% to $19.6 million, from $14.1 million in the same period 2019. The $5.5 million improvement primarily reflects the $9.1 million increase in EBITDA, partially offset by a $2.1 million year-over-year increase in depreciation and amortization, and an increase in income tax expense of $1.8 million. Diluted profit per share climbed to $0.92, from $0.65 in the first half of 2019, an increase of 41.5%.

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: The ultimate impact of the COVID-19 pandemic on HDI'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; signals from the residential construction and repair and renovation markets have also been encouraging; leading indicators, including housing permits and starts, mortgage interest rates, and demographic trends are favorable and HDI anticipates growth from these markets in the mid-term; HDI expects certain of these commercial end-markets will perform better than others in the second half of 2020, with the diverse nature of the Company's participation reducing the impact of dynamics in any one geography or end-market; overall, management believes HDI is well positioned to weather market uncertainty related to COVID-19; HDI is moving forward with a very strong financial position, including significant cash-generating ability; and the Company remains well positioned to create value for shareholders by pursuing its business strategies and capital allocation priorities, which 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.

For further information:

Faiz Karmally

Chief Financial Officer

Phone: (604) 881-1982

Email: fkarmally@hdidist.com

Website: http://www.hdidist.com