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Attention: Business/Financial Editors

Hardwoods Distribution Inc.

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

HDI Announces Record Third Quarter 2020 Results and Increases Quarterly Dividend

Achieves record profit and profit per share of $10.5 million and $0.49 respectively
Generates Record Quarterly Adjusted EBITDA of $26.1 Million and Adjusted Profit per Share of $0.59
Increases Quarterly Dividend by 17.6% to $0.10 per Share

Langley, B.C., November 6, 2020/ CNW/ - Hardwoods Distribution Inc. ("HDI" or the "Company") today announced financial results for the three and nine months ended September 30, 2020. HDI is North America's largest distributor of architectural grade building products to the residential, repair and remodel, and commercial construction markets, with a comprehensive US and Canadian distribution network.

Third Quarter Highlights

- Third quarter sales grew 8.0% to $315.8 million, a year-over-year increase of $23.4 million.
- Gross profit climbed 12.6%, or $6.7 million, to $60.0 million, with gross profit margin percentage increasing to 19.0%, from 18.2% in the same period last year.
- The execution of HDI's strategies yielded record bottom line performance, with Adjusted profit of $12.5, Adjusted profit per share of $0.59, and Adjusted EBITDA of $26.1 representing increases of 33.5%, 34.1%, and 22.4% respectively.
- Cash flow from operating activities, before changes in working capital, per share increased by $0.50 in the third quarter, and to $2.94 in the first nine months of 2020 (a 20.5% increase).
- HDI ended the quarter with significant liquidity of over $106 million and net debt to Adjusted EBITDA after rents ratio of just 1.2x.
- The Board of Directors approved an increase to the quarterly dividend of 17.6% to $0.10 per share. This represents the Company's 34th consecutive quarterly dividend, and 8th dividend increase in the last eight years.

"We turned in our third consecutive record-setting quarter, with our strategies helping to boost profitability even as we continued to navigate the COVID-19 pandemic," said Rob Brown, HDI's President and CEO.

"Highlights of the third quarter included achieving Adjusted EBITDA of $26.1 million, Adjusted profit of $12.5 million and Adjusted profit per share of $0.59 — each representing the best quarterly results in HDI's history. On the topline, we generated strong 8% year-over-year sales growth as we benefited from our Pacific Mutual Door Company and Diamond Hardwoods acquisitions, a positive foreign exchange impact, and a return to stable organic sales following the COVID-19 related disruptions experienced in Q2. We also achieved a strong gross margin percentage of 19%, which continues to perform at the top end of our expected range. We are proud of our third quarter results and pleased to cap off an excellent quarter with a 17.6% increase in our quarterly dividend to $0.10 per share. This represents our eighth dividend increase in eight years."

"Going forward, we anticipate continued strong performance as we benefit from a positive multi-year outlook for the end-markets we participate in," added Mr. Brown. "A combination of low interest rates and favourable demographic and social trends are driving growth in US residential construction and repair and renovation markets. This sets the stage for follow-on demand for our products, which are primarily used in the latter stages of construction markets. We also operate in a fragmented market in which we are the largest distributor but hold a market share of just 10%. While our pace of acquisitions slowed during the COVID-19 pandemic, we have a strong pipeline of opportunities and will continue to pursue them. With a strong balance sheet, substantial liquidity, and a business model that readily converts EBITDA to operating cash flow, we are well positioned to capture growth both organically and via acquisitions."

Outlook

Leading indicators for the US residential construction and repair and remodel markets are positive. Record low mortgage rates, favorable demographic trends, and a population shift from urban to suburban markets, together with a lack of housing supply caused by years of reduced building activity, are driving a sharp increase in housing permits and starts. Other COVID-19 related social trends, such as individuals spending more of their time and disposable income on their home, are also having a long-term beneficial impact on repair and renovation markets. These trends are expected to drive growing demand for HDI's products.

The outlook for US commercial markets remains mixed. This is a diverse market for HDI, including manufacturers of recreational vehicles and furniture, as well as builders of healthcare, education, hospitality, and retail facilities, interiors and fixtures. Certain of these commercial end-markets will perform better than others, with the diverse nature of the Company's participation reducing the impact of dynamics in any one geography or end-market.

Overall, HDI is very well positioned going forward. The Company has a diversified business with no significant geographic, supplier, or customer concentration. As noted above, diversification exists from an end-market perspective as well. HDI estimates that more than half of the products it sells are used in residential and repair and remodel applications, and the remainder in a wide array of commercial and other applications.

HDI's financial position is also strong, supported by significant cash-generating capability, no term debt and good liquidity. The Company remains well positioned to pursue its business strategies and to continue creating value for shareholders. Capital allocation priorities will continue to include growth through acquisitions as management believes there are numerous accretive acquisition opportunities available. The Company also intends to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in the approach to share repurchases.

Q3 2020 Investor Call

HDI will hold an investor call on Monday, November 9, 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 November 23, 2020 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 276320.

Summary of Results

		Three months ended September 30 2020		Three months ended September 30 2019		Nine months ended September 30 2020		Nine months ended September 30 2019
Total sales	$	315,813	$	292,459	$	936,918	$	884,091
Sales in the US (US$)		*209,500*		*194,833*		*614,739*		*585,944*
Sales in Canada		*36,609*		*35,209*		*104,638*		*105,255*
Gross profit		60,016		53,281		180,430		159,332
Gross profit %		*19.0%*		*18.2%*		*19.3%*		*18.0%*
Operating expenses		(44,837)		(39,194)		(134,467)		(121,554)
Profit from operating activities	$	15,179	$	14,087		45,963		37,778
Add: Depreciation and amortization		7,777		6,636		23,458		20,267
Earnings before interest, taxes, depreciation and								
amortization ("EBITDA")	$	22,956	$	20,724	$	69,421	$	58,045
EBITDA as a % of revenue		*7.3%*		*7.1%*		*7.4%*		*6.6%*
Add (deduct):								
Depreciation and amortization		(7,777)		(6,636)		(23,458)		(20,267)
Net finance income (expense)		(1,486)		(1,897)		(5,796)		(6,402)
Income tax expense		(3,242)		(3,336)		(10,094)		(8,377)
Profit for the period	$	10,450	$	8,854	$	30,072	$	22,999
Basic profit per share	$	0.49	$	0.42	$	1.42	$	1.07
Diluted profit per share	$	0.49	$	0.41	$	1.41	$	1.06
Average Canadian dollar exchange rate for one US dollar	$	1.332	$	1.320	$	1.354	$	1.329

		Three months ended June 30 2020		Three months ended June 30 2019		Nine months ended September 30 2020		Nine months ended September 30 2019
Earnings before interest, taxes, depreciation and								
amortization ("EBITDA"), per table above	$	22,956	$	20,724	$	69,421	$	58,045
Non-cash LTIP expense		2,210		574		2,944		1,719
Adjusted EBITDA	$	26,072	$	21,298	$	73,285	$	59,764
Adjusted EBITDA as a % of revenue		*8.3%*		*7.3%*		*7.8%*		*6.8%*
Profit for the period, as reported	$	10,450	$	8,854	$	30,072	$	22,999
Adjustments, net of tax		2,054		510		2,762		1,522
Adjusted profit for the period	$	12,504	$	9,364	$	32,834	$	24,521
Basic profit per share, as reported	$	0.49	$	0.42	$	1.42	$	1.07
Net impact of above items per share		0.10		0.02		0.13		0.07
Adjusted basic profit per share	$	0.59	$	0.44	$	1.55	$	1.14
Diluted profit per share, as reported	$	0.49	$	0.41	$	1.41	$	1.06
Net impact of above items per share		0.10		0.02		0.13		0.07
Adjusted diluted profit per share	$	0.59	$	0.43	$	1.54	$	1.13

Results from Operations - Three Months Ended September 30, 2020

For the three months ended September 30, 2020, HDI generated consolidated sales of $315.8 million, an increase of $23.4 million, or 8.0%, from $292.5 million in the same period in 2019. Acquired businesses contributed $20.9 million of this growth, representing a 7.2% increase in sales. An additional $2.3 million of the sales gain was driven by the favorable foreign exchange impact of a stronger US dollar when translating US sales to Canadian dollars for reporting purposes. Third quarter organic sales were stable year-over-year, reflecting a return to more typical demand levels, following the COVID-19 related disruptions experienced in the second quarter.

Sales from HDI's US operations increased by US$14.7 million, or 7.5%, to US$209.5 million, from US$194.8 million in Q3 2019. Organic sales in the US decreased US$1.0 million, partially offset by a US$15.7 million contribution from acquired businesses. Sales in Canada increased $1.4 million, or 4.0%, year-over-year.

Gross profit for the third quarter increased 12.6% to $60.0 million, from $53.3 million in the same quarter last year. This $6.7 million improvement was driven by the increase in sales, together with a higher gross profit margin. Gross profit margin of 19.0% was up from 18.2% in the same period last year, reflecting the benefit of the Company's re-established import supply lines and the inclusion of the Pacific Mutual Door sales, which carry a higher gross profit margin percentage relative to the rest of the business.

For the three months ended September 30, 2020, operating expenses increased to $44.8 million, from $39.2 million in Q3 2019. The $5.6 million increase reflects $3.9 million of added operating expenses related to the acquired businesses, a $1.4 million increase in organic expenses, including $0.9 million related to duties payable which are expected to be one-time, and $0.3 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 14.2%, as compared to 13.4% in the same period last year.

For the three months ended September 30, 2020, depreciation and amortization expense increased $1.1 million to $7.8 million, from $6.6 million in the same period in 2019. The increase is primarily attributable to higher right-of-use assets and the intangible assets acquired in connection with the purchase of Pacific.

Third quarter Adjusted EBITDA climbed 22.4% to a record $26.1 million, from $21.3 million during the same period in 2019. The $4.8 million year-over-year improvement reflects the $6.7 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 the allowance for duty deposits paid).

Profit for third quarter grew 18.0% to $10.5 million, from $8.9 million in Q3 2019. The $1.6 million improvement primarily reflects the $2.2 million increase in EBITDA and a $0.5 million decrease in finance expense, partially offset by the $1.1 million increase in depreciation and amortization and $0.1 million increase in tax expense.

For the three months ended September 30, 2020, diluted profit per share climbed 18.1% to $0.49, from $0.41 in Q3 2019. Adjusted profit increased 33.5% to a record $12.5 million, from $9.4 million in Q3 2019 and Adjusted diluted profit per share grew 37.2% to a record $0.59, from $0.43 in the same period last year. The profit and Adjusted profit performance represent quarterly records for the Company.

Results from Operations - Nine Months Ended September 30, 2020

For the nine months ended September 30, 2020, total sales increased 6.0% to $936.9 million, from $884.1 million in the same period in 2019. Of the $52.8 million year-over-year increase, $61.6 million, representing a 7.0% increase in sales, was generated by acquired businesses, and $14.3 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 $23.0 million decrease in organic sales, representing a 2.6% decrease in total sales. The change in organic sales year-to-date primarily reflects business disruptions experienced in the second quarter as a result of the COVID-19 pandemic.

In HDI's US operations, sales increased by US$28.8 million, or 4.9%, to US$614.7 million, from US$585.9 million in the first nine months of 2019. Growth from acquired businesses contributed US$45.5 million to sales, representing a 7.8% increase in US sales. This was partially offset by a $16.7 million decrease in organic sales, representing a 2.8% decrease in US sales. Sales in Canada decreased $0.6 million, or 0.6%, year-over-year.

Gross profit for the first nine months of 2020 increased 13.2% to $180.4 million, from $159.3 million in the same period in 2019. This $21.1 million improvement primarily reflects the increased sales and a higher gross profit margin of 19.3%, as compared to 18.0% in the same period last year. The increase in gross margin percentage includes the benefit of our re-established import supply lines, as well as the inclusion of sales from the Pacific Mutual Door operations, which carry a higher gross profit margin percentage relative to the rest of the business.

For the nine months ended September 30, 2020, operating expenses were $134.5 million, as compared to $121.6 million in the same period in 2019. The $12.9 million increase includes the addition of $11.8 million of operating expenses from acquired businesses and $2.0 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 $0.9 million expense savings 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% in the first nine months of 2020, as compared to 13.7% in the same period last year.

For the nine months ended September 30, 2020, depreciation and amortization expense increased $3.2 million to $23.5, from $20.3 million in 2019. The increase is primarily attributable to higher right-of-use assets and the intangible assets acquired in connection with the purchase of Pacific.

Adjusted EBITDA for the first nine months of 2020 climbed 22.6% to $73.3 million, from $59.8 million during the same period in 2019. The $13.5 million increase was driven by the $21.1 million growth in gross profit, partially offset by the $7.6 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and the allowance for duty deposits paid).

Income tax expense increased to $10.1 million for the nine months ended September 30, 2020, from $8.4 million during the same period in 2019. This primarily reflects higher taxable income as compared to the same period in 2019.

Profit for the nine months ended September 30, 2020 grew 30.8% to $30.1 million, from $23.0 million in the same period in 2019. The $7.1 million improvement primarily reflects the $11.4 million gain in EBITDA, partially offset by the $3.2 million year-over-year increase in depreciation and amortization and the $1.7 million increase in income tax expense. Diluted profit per share climbed to $1.41, from $1.06 in the same period in 2019, an increase of 33.0%.

Adjusted profit for the nine months ended September 30, 2020 increased to $32.8 million, from $24.5 million in the same period in 2019. Adjusted diluted profit per share grew to $1.54, from $1.13 year-over-year, an increase of 36.3%.

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 65 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: Going forward, we anticipate continued strong performance as we benefit from a positive multi-year outlook for the end-markets we participate in; a combination of low interest rates and favourable demographic and social trends are driving growth in US residential construction and repair and renovation markets; this sets the stage for follow-on demand for our products, which are primarily used in the latter stages of construction markets; while our pace of acquisitions slowed during the COVID-19 pandemic, we have a strong pipeline of opportunities and will continue to pursue them; we are well positioned to capture growth both organically and via acquisitions; leading indicators for the US residential construction and repair and remodel markets are positive; record low mortgage rates, favorable demographic trends, and a population shift from urban to suburban markets, together with a lack of housing supply caused by years of reduced building activity, are driving a sharp increase in housing permits and starts; other COVID-19 related social trends, such as individuals spending more of their time and disposable income on their home, are also having a long-term beneficial impact on repair and renovation markets; these trends are expected to drive growing demand for HDI's products; the outlook for US commercial markets remains mixed; certain of these commercial end-markets will perform better than others; overall, HDI is very well positioned going forward; the Company remains well positioned to pursue its business strategies and to continue creating value for shareholders; capital allocation priorities will continue to include growth through acquisitions and management believes there are numerous accretive acquisition opportunities available; and the Company also intends to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in the approach to share repurchases.

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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