

NEWS RELEASE: Via
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Attention: Business/Financial Editors
Hardwoods Distribution Inc.

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

HDI Announces Record First Quarter 2021 Results

Grows first quarter sales to a record C\$368.6 million, or US \$291.2 million

Achieves record quarterly profit per share of C\$0.77, or US\$0.61

Generates record quarterly Adjusted EBITDA of C\$32.5 million, or US\$25.8 million

Declares a dividend of C\$0.10 per Share

Langley, B.C., May 12, 2021/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three months ended March 31, 2021. 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.

First Quarter Highlights *(in US\$ unless otherwise noted)*

- To reduce volatility from exchange rates, effective January 1, 2021, HDI began reporting results in U.S. dollars. Given 90% of the Company's revenues come from the U.S., this is considered an appropriate currency for reporting purposes. Comparative numbers have been recast to conform with this presentation.
- First quarter sales grew 20.4% to \$291.2 million, a year-over-year increase of \$49.4 million.
- Gross profit climbed 24.4%, or \$11.3 million, to \$57.9 million, with gross profit margin percentage increasing to a record 19.9%, from 19.3% in the same period last year.
- Operating expenses as a percentage of sales were 13.4%, as compared to 14.6% in Q1 2020.
- Profit per share increased significantly to a record \$0.61, from \$0.33 in Q1 2020, an increase of 84.8%.
- Adjusted EBITDA climbed 52.1% to a record \$25.8 million, from \$16.9 million during the same period in 2020.
- Cash flow from operating activities, before changes in working capital, per share increased by \$0.42 in the first quarter to \$1.16, a 56.7% increase.
- The Board of Directors declared a quarterly dividend of C\$0.10 per share.

"After achieving record-setting performance in 2020, our 2021 year is off to an excellent start with the best quarterly financial performance in our history," said Rob Brown, HDI's President and CEO. "Our first quarter results, which include new records for sales, gross margin percentage, Adjusted EBITDA and profit, were achieved on a combination of favourable market conditions, highly efficient operational performance, and strong strategic execution."

"Our sales performance reflects both strong organic growth and contribution from acquisitions. On the market front, a strong construction environment in the US and Canada delivered robust demand and stronger pricing for our products, both of which benefited our business. Our business model's ability to benefit financially from strong market conditions is supported by our price pass-through model, which keeps our selling prices closely aligned with product prices, such that sales increases carry through to our bottom line."

"I am also pleased to report that our gross margin percentage increased to a record 19.9% in the first quarter, from 19.3% in the same period last year. At the same time we kept organic expenses stable despite the significant increase in sales, with expenses as percentage of sales decreasing to just 13.4%, from 14.6% last year. The result was profit per share increasing almost 85% and Adjusted EBITDA growing by over 50%."

"Overall, the business is in excellent shape, with powerful market tailwinds, a scale and service offering that differentiates us from our competition, and the ability to efficiently translate sales and margin gains to the bottom line. The year ahead looks very promising for HDI," said Mr. Brown.

Outlook

HDI's customers today are the busiest they have been since the onset of the COVID-19 pandemic in early 2020, and leading indicators for the US residential construction market are very positive. Housing starts have meaningfully lagged population growth this past decade, leading to pent-up demand for housing. Millennials represent the largest segment of the population and will further drive demand for homes. Record low mortgage rates and a trend, resulting from the pandemic, towards population shift from urban to suburban markets are contributing to a sharp increase in housing permits and starts. As most of HDI's products relate to the interior finishing of a building, there can be a six-to-nine-month lag between positive construction data and demand for the Company's products. Accordingly, the positive data seen in the latter half of 2020 should benefit HDI in 2021.

The repair and remodel market is benefiting from rising home equity and availability of low-cost consumer capital, the age of the current U.S. housing stock, and social trends such as individuals spending

more of their time and disposable income on their home. These factors are expected to drive multi-year demand for HDI's products.

Forecasts call for US commercial construction spending to grow as a whole in 2021, however the demand outlook for the commercial market remains mixed, with some sectors showing strength and others recovering at a slower pace. Commercial market participation is highly diverse for HDI and includes construction activity in healthcare, education, public buildings, hospitality, office, retail facilities and recreational vehicles. The expectation is that certain of these end-markets will perform better than others, with the broad nature of HDI's participation reducing the impact of dynamics in any one geography or end-market.

With an overall strong growth environment forecasted for 2021, there is potential for demand to continue to outpace supply, which in turn, could contribute to supply constraints and continued price inflation. Product prices appreciated in the first quarter of 2021 and this is expected to continue for the next several quarters. Management generally expects to have consistent and predictable access to supply given HDI is often the largest customer for its key suppliers. Additionally, the Company's price pass-through model and ability to adjust pricing in a relatively short period of time typically enable it to translate higher product costs into increased sales and gross margin dollars.

HDI remains very well positioned going forward, benefiting from a diversified business with no significant geographic, supplier, or customer concentration. The Company is also diversified from an end-market perspective, with more than half of its products used in residential and repair and remodel applications, and the remainder in a wide array of commercial and other applications.

The Company's financial position is also strong, supported by significant cash-generating capability, no term debt, and good liquidity. HDI remains well positioned to pursue its business strategies and to continue creating value for shareholders.

Q1 2021 Investor Call

HDI will hold an investor call on Thursday, May 13, 2021 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 27, 2021 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 986509.

Summary of Results

	Three months ended March 31 2021	Three months ended March 31 2020
Total sales	\$ 291,159	\$ 241,726
<i>Sales in the US (US\$)</i>	252,296	214,420
<i>Sales in Canada</i>	49,316	36,771
Gross profit	57,895	46,555
<i>Gross profit %</i>	19.9%	19.3%
Operating expenses	(38,927)	(35,391)
Profit from operating activities	\$ 18,968	\$ 11,164
Add: Depreciation and amortization	6,113	5,766
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 25,080	\$ 16,930
<i>EBITDA as a % of revenue</i>	8.6%	7.0%
Add (deduct):		
Depreciation and amortization	(6,113)	(5,766)
Net finance income (expense)	(1,507)	(1,720)
Income tax expense	(4,468)	(2,458)
Profit for the period	\$ 12,993	\$ 6,986
Basic profit per share	\$ 0.61	\$ 0.33
Diluted profit per share	\$ 0.61	\$ 0.33
Average Canadian dollar exchange rate for one US dollar	\$ 0.79	\$ 0.74

	Three months ended March 31 2021	Three months ended March 31 2020
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$ 25,080	\$ 16,930
Non-cash LTIP expense	676	—
Adjusted EBITDA	\$ 25,756	\$ 16,930
<i>Adjusted EBITDA as a % of revenue</i>	8.8%	7.0%
Profit for the period, as reported	\$ 12,993	\$ 6,986
Adjustments, net of tax	615	—
Adjusted profit for the period	\$ 13,608	\$ 6,986
Basic profit per share, as reported	\$ 0.61	\$ 0.33
Net impact of above items per share	0.03	—
Adjusted basic profit per share	\$ 0.64	\$ 0.33
Diluted profit per share, as reported	\$ 0.61	\$ 0.33
Net impact of above items per share	0.03	—
Adjusted diluted profit per share	\$ 0.64	\$ 0.33

Results from Operations - Three Months Ended March 31, 2021

For the three months ended March 31, 2021, consolidated sales grew to \$291.2 million, an increase of \$49.4 million, or 20.4%, from \$241.7 million in the first quarter of 2020. Organic sales grew by \$24.2 million, representing a 10.0% increase in consolidated sales. Acquired Businesses contributed an additional \$22.9 million of sales growth, representing a 9.5% increase in sales. HDI also benefited from a \$2.3 million sales increase related to the favorable foreign exchange impact of a stronger Canadian dollar when translating Canadian sales to US dollars for reporting purposes.

First quarter sales from US operations grew 17.7% to \$252.3 million, from \$214.4 million in Q1 2020. This \$37.9 million improvement consisted of \$15.0 million of organic sales growth, representing a 7.0% increase in US sales, and \$22.9 million of acquisitions-fueled growth. The organic sales growth reflects higher market prices for products and an increase in volumes in Q1 2021, as compared to Q1 2020.

First quarter sales in Canada increased by \$12.5 million, or 34.1%, compared to the same period in 2020. The sales growth in Canada was entirely organic and relates to an increase in the market price of HDI's products and higher volumes in Q1 2021, as compared to Q1 2020.

Gross profit for the first quarter grew 24.4% to \$57.9 million, from \$46.6 million in the same quarter last year. This \$11.3 million improvement reflects the increase in sales, together with a higher gross profit margin. Our gross profit margin of 19.9% was the best in HDI's history and was up from 19.3% in the same period last year, primarily reflecting an increase in the selling prices of our products without a corresponding increase in costs.

For the three months ended March 31, 2021, operating expenses increased to \$38.9 million, from \$35.4 million in Q1 2020. The \$3.5 million increase reflects \$3.4 million of added operating expenses related to acquired businesses and \$0.2 million of expenses related to the impact of a stronger Canadian dollar when translating operating expenses to US dollars for reporting purposes. As a percentage of sales, operating expenses were lower at 13.4%, as compared to 14.6% in the same period last year.

For the three months ended March 31, 2021, income tax expense increased to \$4.5 million, from \$2.5 million, primarily driven by higher taxable income.

First quarter Adjusted EBITDA climbed 52.1% to a record \$25.8 million, from \$16.9 million during the same period in 2020. The \$8.8 million year-over-year improvement reflects the \$11.3 million increase in

gross profit, partially offset by the \$2.5 million increase in operating expenses (before changes in depreciation and amortization and non-cash LTIP expense).

Profit for the first quarter grew 86.0% to \$13.0 million, from \$7.0 million in Q1 2020. The \$6.0 million improvement primarily reflects the \$8.2 million increase in EBITDA, partially offset by the \$2.0 million higher income tax expense.

For the three months ended March 31, 2021, profit per share climbed 84.8% year-over-year to \$0.61, from \$0.33. Adjusted profit increased 94.8% to \$13.6 million, from \$7.0 million and Adjusted diluted profit per share grew 94.0% to \$0.64, from \$0.33 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for the Company.

About HDI

HDI is North America's largest wholesale distributor of architectural grade building products to the residential, repair and remodel and commercial construction sectors. The Company operates a North American network of 70 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 year ahead looks very promising for HDI; millennials will further drive demand for homes; there can be a six-to-nine-month lag between positive construction data and demand for our products, accordingly, the positive data we saw in the latter half of 2020 should benefit us in 2021; the trends in repair and remodel are also expected to drive multi-year demand for our products; we expect certain of these commercial end-markets will perform better than others, with the broad nature of our participation reducing the impact of dynamics in any one geography or end-market; forecasts call for commercial construction spending as a whole to grow in 2021 compared to 2020; with a strong growth environment forecasted for 2021, there is a potential for demand to continue to outpace supply, which in turn could create supply constraints and continued price inflation; we saw product prices appreciate in the first quarter of 2021 and anticipate this will continue for the next several quarters; we generally expect to have consistent and predictable access to supply given we are often the largest customer for our key suppliers; additionally, our price pass-through model and ability to adjust pricing in a relatively short period of time typically enable us to translate higher product costs into increased sales and gross margin dollars; we believe HDI is very well positioned going forward; and we remain well positioned to pursue our business strategies and to continue creating value for our shareholders.

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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