

HDI Announces US\$303 Million Acquisition of Novo Building Products Holdings, LLC and New Credit Facility

Expected to be over 30% accretive to earnings per share on a pro forma basis

Acquisition provides HDI turnkey entry into the home center and home builder distribution customer channels, with high value architectural building products, established brands, a national footprint, and leading market positions

Langley, B.C., June 23, 2021 - Hardwoods Distribution Inc. (“HDI” or the “Company”) (TSX: HDI) today announced that it has, through its subsidiary, entered into an agreement (the “**Equity Purchase Agreement**”) to purchase Novo Building Products Holdings, LLC (“Novo”) from an affiliate of Blue Wolf Capital Partners for a total price of US\$303 million (the “**Purchase Price**”) (the “**Acquisition**”). Novo is being acquired on a cash-free and debt-free basis other than the assumption of an estimated US\$40 million in lease obligations. The Acquisition will be financed by a new credit facility.

Novo is a leading U.S. distributor of architectural grade building products to home centers and to home builder distribution yards (“**Pro Dealers**”) across the U.S.. Novo’s product suite includes moulding and millwork, stair systems, decorative boards, and doors which are complementary to the Company’s own offering.

“We are very excited to be adding Novo to HDI. This highly strategic acquisition provides a symbiotic fit with our existing operations as a distributor of high value, specialty, non-commodity building materials with a national footprint and leading market position,” commented Rob Brown, HDI’s President and CEO. “The acquisition advances our strategy of growing market share and expanding our product offering and customer channel participation in the architectural building products industry. In addition, Novo deepens our presence in the attractive residential and repair and remodel markets where we expect a multi-year runway for growth. We look forward to welcoming the talented Novo team to HDI and working together to ensure a smooth integration planning process.”

Acquisition Highlights

1. ***Turnkey entry into the home center customer segment.*** Approximately half of Novo’s revenue is derived from being a primary supplier to national and regional home improvement retailers. Novo is a critical product category manager for its home center customers in both physical and digital store aisles. Services provided include individual store planning, logistics and supply chain management, marketing and merchandising, e-commerce, and in-store stocking and material handling. Novo’s relationships with key home center customers span decades.
2. ***Turnkey entry into the Pro Dealer customer segment.*** Approximately half of Novo’s revenue is derived from the Pro Dealer segment. Novo has achieved preferred vendor status with many Pro Dealers and believes there is a significant opportunity to increase Novo’s market share in this attractive segment.
3. ***Significantly enhances the size and scale of the Company, with no overlap.*** With more than 1,400 employees and operating 14 locations with a strong eastern U.S. presence, Novo’s footprint complements that of HDI. Novo anticipates generating annual revenues of over US\$640 million and annual EBITDA of over US\$55 million in 2021.
4. ***Skilled operational leadership team.*** Novo has a committed and strong management team. Key management have significant industry experience and will continue to lead the Novo business as part of HDI, further adding to the Company’s bench strength.
5. ***Accretive with further upside from expected synergies.*** The Acquisition, if completed, is expected to be over 30% accretive to earnings per share before accounting for any synergies. Management has identified potential synergies, including supply chain, information technology, tax and logistics that are expected to provide further upside to the accretion.

6. **Efficient use of the Company's debt capacity.** The Purchase Price will be funded through an increase in borrowing, which in turn, is expected to improve the efficiency of the Company's balance sheet. The Company expects to have a pro forma bank debt to Adjusted EBITDA after rents ratio (or "Leverage Ratio") of less than 3.0x by the end of the year, and further expects to have significant unused borrowing capacity available to it on close of the Acquisition.

"Novo represents our tenth acquisition in the last five years, and on a pro forma basis we have acquired over US\$1.1 billion in annual revenues during this time period. We continue to see significant opportunities to complement our strong organic growth with acquisitions, and will continue to apply our proven formula for identifying, assessing, and integrating targeted opportunities," comment Mr. Brown.

Novo Purchase Agreement

The Company, through its subsidiary Hardwoods Specialty Products US LP, has agreed to purchase Novo for the Purchase Price, subject to a working capital adjustment.

The obligation of the parties to complete the Acquisition is subject to various conditions typical of those contained in equity purchase agreements negotiated between parties dealing at arm's length, including that the applicable waiting period relating to the Acquisition under the *Hart-Scott-Rodino Antitrust Improvement Act of 1976* (including all extensions thereof) has expired or been terminated.

The Equity Purchase Agreement contains various termination provisions typical of those contained in equity purchase agreements negotiated between parties dealing at arm's length, including a provision that either party may terminate the agreement in the event that, subject to certain conditions, the closing of the Acquisition has not occurred by August 22, 2021.

Credit Facility

HDI has received a commitment letter from its existing lender Bank of America, N.A. (the "**Lender**") for a new senior secured credit facility (the "**New Credit Facility**") of up to US\$525 million. The New Credit Facility will replace the existing credit facility for HDI's Canadian subsidiary and the existing facility for HDI's U.S. subsidiary. The New Credit Facility is expected to consist of (i) a revolving credit facility of US\$225 million which can be drawn upon in U.S. dollars and Canadian dollars, (ii) a term loan of up to US\$225 million, and (iii) a term loan of up to US\$75 million. HDI will need to enter into the New Credit Facility before it will be in a position to consummate the Acquisition.

The New Credit Facility is expected to bear interest at a rate equal to LIBOR plus up to 2.25% or the base rate of interest charged by the Lender from time to time ("**Base Rate**") plus 1.0%. The LIBOR and Base Rate margins for the New Credit Facility are expected to be subject to performance pricing adjustments, from time to time, based on the Company's then applicable leverage ratio.

The financial covenants under the New Credit Facility are expected to include, among others: (i) a consolidated interest coverage ratio (a ratio of adjusted EBITDA to total interest expense, determined on a consolidated basis of the Company, with the specific definitions to be agreed upon) and (ii) a consolidated leverage ratio (a ratio of total funded debt to adjusted EBITDA, determined on a consolidated basis of the Company, with the specific definitions to be agreed upon).

The commitment letter and advance of the loan facilities are subject to usual conditions including, among others, execution of documents satisfactory to the Lender, completion of the related transactions on terms satisfactory to the Lender, no material adverse change in the business of the Company and its subsidiaries or the sellers of Novo having occurred, delivery of certain interim financial statements, pro forma financial statements and a pro forma compliance certificate confirming compliance with financial covenants and borrowing base on a pro forma basis, receipt of all necessary consents for the Acquisition and completion of the Lender's due diligence.

Conditions to Complete the Acquisition

Completion of the Acquisition is subject to a number of conditions, including U.S. antitrust approval, as well as other conditions customary for a transaction of this nature.

The Acquisition is expected to close in late July or early August 2021.

Advisors

Cormark Securities Inc. is acting as financial advisors to HDI and provided a fairness opinion to the board of directors. Osler, Hoskin & Harcourt LLP is acting as Canadian counsel to the Company and Stoel Rives LLP is acting as U.S. counsel to the Company.

About Novo

Novo is a value-added distributor and manufacturer of specialty building products. Novo supplies mouldings, stair parts, doors, and other specialty millwork products to customers throughout the United States and in parts of Canada and Mexico. Novo operates out of 14 facilities, primarily in the Eastern and Midwestern U.S., Florida and Texas. The company's divisions include Empire Moulding & Millwork, Southwest Moulding & Millwork, Ornamental Decorative Millwork, LJ Smith Stair Systems and Novo Direct.

About HDI

HDI is currently one of North America's largest distributors of non-structural architectural grade building products to the residential, repair and remodel, and commercial construction industries. The Company currently operates a network in North America of 70 distribution facilities.

Forward-Looking Statements

Certain statements in this news release may constitute "forward-looking information" or "financial outlook" within the meaning of applicable securities laws that 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 or industry results expressed or implied by such forward-looking information and financial outlook. Forward-looking information and financial outlook are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information may involve, but is not limited to, comments with respect to strategies, expectations, planned operations or future actions. Forward-looking information in this news release includes, without limitation, statements with respect to: the anticipated closing of the Acquisition, the terms thereof and the timing therefor; the expected multi-year runway for growth in the residential and repair and remodel markets; HDI belief there is a significant opportunity to increase Novo's market share in the Pro Dealer segment; Novo's expected annual revenues and annual EBITDA; key management of Novo will remain in place, further adding to the Company's bench strength; the expected accretion to cash flows and earnings resulting from the Acquisition; management has identified potential synergies, including supply chain, information technology, tax and logistics that are expected to provide further upside to the accretion; the increase in borrowing is expected to improve the efficiency of the Company's balance sheet; management's expectations for pro forma Leverage Ratio and further expects to have significant unused borrowing capacity available to it on close of the Acquisition; and, the anticipated entering into of the New Credit Facility and the terms thereof and timing therefor. Actual events or results may differ materially.

The forecasts and projections that make up the forward-looking information and financial outlook in this news release are based on assumptions which include, but are not limited to: the satisfactory timing and receipt of regulatory approval with respect to the Acquisition; the completion of the Acquisition; the Company realizing the expected benefits and synergies of the Acquisition; no undisclosed liabilities associated with the Acquisition; no material adverse changes occur in respect of the acquired assets before the completion of the Acquisition; the Company completes the New Credit Facility in accordance with the terms currently contemplated; the Company can comply with the restrictive conditions required by the New Credit Facility; the financial impact of the Acquisition is as currently expected by management; the Company and Novo do not lose any key personnel; there are no decreases in the supply of, demand for, or market

values of products that harm the Company or Novo's business; the Company does not incur material losses related to credit provided to its customers; the Company is able to sustain its level of sales and earnings margins; the Company is able to grow its business long term and to manage its growth; the Company is able to integrate acquired businesses, including Novo; there is no new competition in the markets in which the Company operates that lead to reduced sales and profitability; the Company can comply with existing regulations and will not become subject to more stringent regulations; no material product liability claims; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; the Company's management information systems upon which it is dependent are not impaired; the Company is not adversely impacted by disruptive technologies; an outbreak or escalation of a contagious disease does not adversely affect the Company's business; and, the Company's insurance is sufficient to cover losses that may occur as a result of its operations.

The forward-looking information and financial outlook in this news release is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: failure to close the Acquisition; the actual impacts of the Acquisition on the Company's earnings per share, free cash flow and Leverage Ratio may not be in line with management's expectations; the Company may not be able to reduce its leverage levels by the amount or at the time desired, or at all; the Acquisition may not be immediately accretive to earnings per share; potential undisclosed liabilities associated with the Acquisition; no control by the Company over Novo until completion of the Acquisition; the Company may not be able to obtain the New Credit Facility on the terms currently expected, or at all; the New Credit Facility will be subject to certain restrictive conditions that limit the discretion of management; exchange rate fluctuations between the Canadian and US dollar could affect the Company's performance; the Company's results are dependent upon the general state of the economy; the Company depends on key personnel, the loss of which could harm its business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm the Company's business; the Company may incur losses related to credit provided to the Company's customers; the Company's products may be subject to negative trade outcomes; the Company may not be able to sustain its current level of sales or earnings margins; the Company may be unable to grow its business long term or to manage any growth; the Company may be unable to integrate acquired businesses; competition in the Company's markets may lead to reduced sales and profitability; the Company may fail to comply with existing regulations or become subject to more stringent regulations; product liability claims could affect the Company's sales, profitability and reputation; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; disruptive technologies could lead to reduced revenues or a change in our business model; the Company is dependent upon its management information systems; the Company's insurance may be insufficient to cover losses that may occur as a result of the Company's operations; an outbreak or escalation of a contagious disease may adversely affect the Company's business; and, the Company's credit facilities affect its liquidity, contain restrictions on the Company's ability to borrow funds, and impose restrictions on distributions that can be made by certain subsidiaries of the Company. More information about the risks and uncertainties affecting HDI's business can be found in the "Risk Factors" section of its Annual Information Form dated March 11, 2021 which is available under the HDI's profile on SEDAR at www.sedar.com.

To the extent any forward-looking information or statements in this news release constitute a "financial outlook" within the meaning of securities laws, such information is being provided to demonstrate the potential benefits of the Acquisition and management's estimate of the future financial performance of Novo, and readers are cautioned that this information may not be appropriate for any other purpose and that they should not place undue reliance on such information.

Although HDI has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements or information or financial outlook in this news release, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Also, many of the factors are beyond the control of HDI. Accordingly, readers should not place undue reliance on forward-looking statements or information in this news release. The forward-looking information is made as of the date of this news release, and HDI assumes no obligation to publicly update or revise such forward-looking information to reflect new information, subsequent or otherwise, except as may be required by applicable securities law. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement.

Non-IFRS and Non-U.S. GAAP Financial Measures

This news release makes reference to certain non-IFRS financial measures, in the case of the Company, or non-U.S. GAAP financial measures, in the case of Novo. These non-IFRS and non-U.S. GAAP financial measures are not recognized measures under IFRS and U.S. GAAP, as applicable, do not have a standardized meaning prescribed by IFRS or U.S. GAAP, as applicable, and are therefore unlikely to be comparable to similar measures presented by other publicly traded companies, and should not be construed as an alternative to other financial measures determined in accordance with IFRS and U.S. GAAP, as applicable. Rather, these financial measures are provided as additional information to complement IFRS and U.S. GAAP financial measures by providing further understanding of operations from management's perspective. Accordingly, non-IFRS and non-U.S. GAAP financial measures should never be considered in isolation nor as a substitute to using net income as a measure of profitability or as an alternative to the IFRS consolidated statements of income or other IFRS or U.S. GAAP statements. Management presents non-IFRS and non-U.S. GAAP financial measures, specifically EBITDA and Adjusted EBITDA as it believes these supplementary disclosures provide useful additional information related to the operating results and financial condition of the Company and Novo and uses these measures of financial performance and financial condition as a supplement to the consolidated statements of income and statements of financial position of the Company and Novo.

The definitions of the non-IFRS and non-U.S. GAAP measures contained in this news release are as follows: (i) "EBITDA", as it relates to Novo, means earnings before interest, taxes, depreciation and amortization; and (ii) "Adjusted EBITDA", as it relates to HDI, means earnings before interest, taxes, depreciation and amortization with adjustments for transaction expenses and non-cash long term incentive compensation.

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