

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

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

HDI Announces Record Second Quarter 2021 Results

Grows second quarter sales to a quarterly record US\$338.0 million
Achieves record quarterly profit per share of US\$1.14
Generates record quarterly Adjusted EBITDA of US\$44.0 million
Declares a dividend of C\$0.10 per Share

Langley, B.C., August 9, 2021/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three and six months ended June 30, 2021. HDI is one of North America’s largest distributors of architectural grade building and millwork products to the residential, repair and remodel, and commercial construction industries. The Company currently operates a network in North America of 84 distribution facilities.

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

- 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 restated to conform with this presentation.
- First quarter sales grew 58.5% to \$338.0 million, a year-over-year increase of \$124.7 million.
- Gross profit climbed 82.3%, or \$34.3 million, to \$75.9 million, with gross profit margin percentage increasing to a record 22.5%, from 19.5% in the same period last year.
- Operating expenses as a percentage of sales were 12.4%, as compared to 14.2% in Q2 2020.
- Profit per share increased significantly to a record \$1.14, from \$0.35 in Q2 2020, an increase of 225.7%.
- Adjusted EBITDA climbed 149.5% to a record \$44.0 million, from \$17.6 million during the same period in 2020.
- Cash flow from operating activities, before changes in working capital, per share increased by \$0.76 in the second quarter to \$1.54, a 97.4% increase.
- The Board of Directors declared a quarterly dividend of C\$0.10 per share.

- HDI announced the purchase of Novo Building Products Holdings LLC ("Novo"), a transformative acquisition which furthers the Company's trajectory as a rapidly growing, highly diversified architectural building products distributor. The Novo acquisition closed subsequent to the end of the second quarter, on August 2, 2021.

"We accelerated our record-setting pace in the second quarter of 2021, eclipsing our previous best-ever results achieved in the first quarter of this year with new all-time records for sales, gross margin percentage, Adjusted EBITDA and profit. This included outstanding Adjusted EBITDA performance of \$44.0 million and profit of \$24.3 million, or \$1.14 per share," said Rob Brown, HDI's President and CEO. "Additionally, we announced the transformative and highly accretive Novo acquisition during the period, creating significant new opportunities to continue building on HDI's momentum going forward."

"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. The ability to source product in tight supply conditions also helped us win new business in the quarter. 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 22.5% in the second quarter, from 19.5% in the same period last year. At the same time the efficiency of our business model enabled us to respond to increased demand without a corresponding increase in operating expenses, resulting in stronger profitability. Operating expenses in the quarter were just 12.4% of sales, compared to 14.2% in Q2 2020, contributing to the significant 229.0% year-over-year growth in Adjusted EBITDA and the 249.1% increase in Adjusted profit per share."

"We are very proud of our second quarter performance and moving forward, we are better positioned than ever to capitalize on opportunities in our markets," added Mr. Brown. "Our business is larger, stronger and more diversified as a result of the Novo acquisition, market conditions remain highly favorable and we continue to benefit from a business model that efficiently translates sales and margin gains to the bottom line. The outlook for our business is excellent."

Outlook

The acquisition of Novo will change HDI's end-market participation. On a pro forma basis, the Company estimates that its exposure to the robust residential and repair and remodel markets will increase to approximately two-thirds of total sales, while one-third will be into commercial and other markets. This compares to a previous end-market mix of approximately 50% residential and repair and remodel, and 50% commercial and other.

The current outlook for each of these end-markets markets is as follows:

Leading indicators for the US **residential construction market** remain 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 as they move into the home-buying phase of their lives, are expected to 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 also contributing to a sharp increase in housing permits and starts. These trends are expected to drive multi-year demand for HDI's products.

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 trends are also expected to drive multi-year demand for HDI's products.

The demand outlook for US **commercial markets** is mixed, with some sectors showing strength and others recovering at a slower pace. Commercial market participation is highly diverse for HDI, including construction activity in healthcare, education, public buildings, hospitality, office, retail facilities and recreational vehicles. Certain of these commercial end-markets are expected to perform better than others, with the broad nature of HDI's 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 the remainder of 2021, there is a potential for demand to continue to outpace supply, which in turn could create supply constraints and continued price inflation. Product price appreciation in the first half of 2021 contributed to very strong sales and gross margin percentage performance, and product price appreciation is expected to remain a factor in HDI's

performance into the third quarter. The Company generally expects to have consistent and predictable access to supply given it is often the largest customer for its key suppliers.

Going forward, HDI is very well positioned as a distributor of higher-margin architectural building products. The Novo acquisition significantly increases the Company's size and scale, and diversifies it from a supply chain, product category, geography, and customer segment perspective.

Over the last five years HDI has more than tripled the size of its business from revenues of under \$0.5 billion, to pro forma annual revenues of over \$1.7 billion, and management anticipates a multi-year runway for growth in the residential, repair and remodel, and commercial end-markets. Furthermore the North American architectural building products distribution market is large and remains highly fragmented. The Company's platform positions it to capture market share going forward through both organic and acquisitions-based growth. As it has done in the past, HDI intends to continue achieving this growth on an accretive basis for shareholders.

Q2 2021 Investor Call

HDI will hold an investor call on Monday, August 9, 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 August 23, 2021 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 301772.

Summary of Results

	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Total sales	\$ 338,014	\$ 213,267	\$ 629,173	\$ 454,993
<i>Sales in the US (US\$)</i>	291,358	190,819	543,654	405,239
<i>Sales in Canada</i>	57,559	31,258	106,875	68,029
Gross profit	75,934	41,655	133,830	88,210
<i>Gross profit %</i>	22.5%	19.5%	21.3%	19.4%
Operating expenses	(41,930)	(30,267)	(80,857)	(65,658)
Profit from operating activities	\$ 34,004	\$ 11,388	\$ 52,973	\$ 22,552
Add: Depreciation and amortization	6,202	5,721	12,315	11,487
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 40,206	\$ 17,109	\$ 65,287	\$ 34,039
<i>EBITDA as a % of revenue</i>	11.9%	8.0%	10.4%	7.5%
Add (deduct):				
Depreciation and amortization	(6,202)	(5,721)	(12,315)	(11,487)
Net finance income (expense)	(1,355)	(1,438)	(2,861)	(3,158)
Income tax expense	(8,341)	(2,561)	(12,808)	(5,019)
Profit for the period	\$ 24,310	\$ 7,389	\$ 37,303	\$ 14,374
Basic profit per share	\$ 1.14	\$ 0.35	\$ 1.75	\$ 0.68
Diluted profit per share	\$ 1.13	\$ 0.35	\$ 1.73	\$ 0.67
Average Canadian dollar exchange rate for one US dollar	\$ 0.81	\$ 0.72	\$ 0.80	\$ 0.73

	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$ 40,206	\$ 17,109	\$ 65,287	\$ 34,039
Non-cash LTIP expense	1,622	522	2,288	531
Transaction expenses	2,168	—	2,168	—
Adjusted EBITDA	\$ 43,996	\$ 17,631	\$ 69,743	\$ 34,570
<i>Adjusted EBITDA as a % of revenue</i>	13.0%	8.3%	11.1%	7.6%
Profit for the period, as reported	\$ 24,310	\$ 7,389	\$ 37,303	\$ 14,374
Adjustments, net of tax	3,127	471	3,732	478
Adjusted profit for the period	\$ 27,437	\$ 7,860	\$ 41,035	\$ 14,852
Basic profit per share, as reported	\$ 1.14	\$ 0.35	\$ 1.75	\$ 0.68
Net impact of above items per share	0.15	0.02	0.18	0.02
Adjusted basic profit per share	\$ 1.29	\$ 0.37	\$ 1.93	\$ 0.70
Diluted profit per share, as reported	\$ 1.13	\$ 0.35	\$ 1.73	\$ 0.67
Net impact of above items per share	0.15	0.02	0.17	0.02
Adjusted diluted profit per share	\$ 1.28	\$ 0.37	\$ 1.90	\$ 0.69

Results from Operations - Three Months Ended June 30, 2021

HDI's sales trajectory and performance in Q2 2021 were exceptionally strong, even after taking into account the very different operating conditions in the current period as compared to Q2 last year, when the pandemic significantly disrupted the global economy. For the three months ended June 30, 2021, consolidated sales climbed to a record \$338.0 million, an increase of \$124.7 million, or 58.5%, from \$213.3 million in the same period in 2020. Organic sales grew by \$105.8 million, representing a 49.6% increase in consolidated sales. Acquired Businesses contributed an additional \$19.5 million of sales growth, representing a 9.1% increase in sales. Results also benefited from a \$5.3 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. These gains were partially offset by the first quarter 2021 divestiture of the HMI business, which resulted in \$5.9 million of sales from Q2 2020 not recurring in the current quarter.

Second quarter sales from HDI's U.S. operations increased by 52.7% to \$291.4 million, from \$190.8 million in the same period in 2020. This \$100.5 million increase consisted of \$86.9 million of organic sales growth, representing a 45.5% increase in U.S. sales. The very strong organic sales growth reflects robust market demand, which has resulted in higher volumes and improved market prices for the Company's products year-over-year. Acquired businesses contributed an additional \$19.5 million of second quarter U.S. sales growth, even after accounting for the \$5.9 million year-over-year sales impact of the HMI divestiture.

In Canada, second quarter sales increased by \$26.3 million, or 84.1%, compared to the same period in 2020. The Canadian sales growth was entirely organic and reflects HDI's ability to source product in tight supply conditions, which in turn, helped to win new business. Results also benefited from market demand-related increases in sales volumes and higher market prices for its products.

Gross profit for the second quarter grew 82.3% to \$75.9 million, from \$41.7 million in the same quarter last year. This \$34.3 million improvement reflects the strong sales growth, paired with a record gross profit margin. At 22.5%, gross profit margin was the best in HDI's history and was up from 19.5% in the same period last year, reflecting an increase in the selling prices of our products without a corresponding increase in costs. Management anticipates continued gross profit percentage strength into the third quarter.

For the three months ended June 30, 2021, operating expenses increased by \$11.7 million to \$41.9 million, from \$30.3 million in Q2 2020. However as a percentage of sales, operating expenses were lower at 12.4%, as compared to 14.2% in the same period last year.

Of the \$11.7 million operating expense increase, \$6.8 million reflects a return to more normal business operations following a sharp reduction in expenses in the same period last year as the Company responded to the COVID-19 pandemic. The increase also includes \$2.7 million of expenses related to the operation of Acquired Businesses, \$2.2 million of costs related to the Novo transaction, and \$0.5 million of expenses related to the impact of a stronger Canadian dollar when translating operating expenses to U.S. dollars for reporting purposes. These increases were partially offset by a \$0.6 million decrease in operating expenses as a result of the divestiture of the HMI business.

For the three months ended June 30, 2021, income tax expense increased to \$8.3 million, from \$2.6 million last year. This increase was primarily driven by a higher taxable income.

Second quarter Adjusted EBITDA climbed 149.5% to a record \$44.0 million, from \$17.6 million during the same period in 2020. The \$26.4 million year-over-year improvement reflects the \$34.3 million increase in gross profit, partially offset by the \$7.8 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and transaction expenses).

Profit for the second quarter grew 229.0% to \$24.3 million, from \$7.4 million in Q2 2020. The \$16.9 million improvement primarily reflects the \$23.1 million increase in EBITDA, partially offset by a \$0.5 million increase in depreciation and amortization, and the \$5.8 million increase in income tax expense.

For the three months ended June 30, 2021, profit per share climbed 225.7% to \$1.14, from \$0.35 in Q2 2020. Adjusted profit increased 249.1% to \$27.4 million, from \$7.9 million in Q2 2020 and Adjusted diluted profit per share grew 245.9% to \$1.28, from \$0.37 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for HDI.

Results from Operations - Six Months Ended June 30, 2021

For the six months ended June 30, 2021, total sales increased 38.3% to \$629.2 million, from \$455.0 million in the same period in 2020. Of the \$174.2 million year-over-year improvement, organic growth accounted for a \$131.3 million, or 28.9%, increase in sales, while Acquired Businesses drove \$42.4 million of the growth, representing a 9.3% increase in sales. HDI also benefited from a \$7.4 million sales increase related to a favorable foreign exchange impact from a stronger Canadian dollar when translating Canadian sales to US dollars for reporting purposes. These gains were partially offset by a \$7.0 million year-over-year decrease in sales resulting from the HMI divestiture.

Sales from U.S. operations increased 34.2% to \$543.7 million, from \$405.2 million in the first half of 2020. This \$138.4 million increase consisted of \$103.0 million of organic sales growth, representing a

25.4% increase in U.S. sales. The very strong organic sales growth reflects robust market demand, which has resulted in higher volumes and increased market prices for HDI's products year-over-year. Acquired Businesses contributed an additional \$42.4 million of first-half sales growth in the U.S. These gains were partially offset by the \$7.0 million year-over-year reduction in sales resulting from the HMI divestiture.

Sales in Canada increased by \$38.8 million, or 57.1%, compared to the first half of 2020. The Canadian sales growth was entirely organic and reflects HDI's ability to source product in tight supply conditions, resulting in the winning of new business. It also reflects market demand-related increases in sales volumes and higher market prices for HDI's products.

Gross profit for the first six months of 2021 grew 51.7% to \$133.8 million, from \$88.2 million in the period last year. This \$45.6 million improvement was driven by the increase in sales, together with a higher gross profit margin. Second quarter gross profit margin of 21.3% was up from 19.4% 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 six months ended June 30, 2021, operating expenses increased to \$80.9 million, from \$65.7 million in the same period in 2020. However as a percentage of sales, operating expenses were lower at 12.9%, as compared to 14.4% in the same period last year.

Of the \$15.2 million of operating expense increase, \$6.8 million reflects a return to more normal business operations following a sharp reduction in expenses in Q2 of last year as the Company responded to the COVID-19 pandemic. The increase also includes \$6.2 million of expenses related to the operation of Acquired Businesses, \$2.2 million of transaction-related costs, and \$0.8 million of expenses related to the impact of a stronger Canadian dollar when translating operating expenses to U.S. dollars for reporting purposes. These increases were partially offset by a \$0.7 million decrease in operating expenses following the divestiture of the HMI business.

Income tax expense increased to \$12.8 million for the six months ended June 30, 2021, from \$5.0 million in the same period in 2020. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA for the first half of 2021 climbed 101.7% to \$69.7 million, from \$34.6 million during the same period in 2020. The \$35.2 million year-over-year increase reflects the \$45.6 million increase in

gross profit, partially offset by the \$10.4 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and transaction expenses).

Profit for the six months ended June 30, 2021 grew 159.5% to \$37.3 million, from \$14.4 million in the same period in 2020. The \$22.9 million improvement primarily reflects the \$31.2 million increase in EBITDA, partially offset by the \$7.8 million increase in income tax expense.

For the six months ended June 30, 2021, profit per share climbed 157.4% to \$1.75, from \$0.68 in the first half of 2020. Adjusted profit increased 176.3% to \$41.0 million, from \$14.9 million, and adjusted diluted profit per share grew 175.4% to \$1.90, from \$0.69 in the same period last year. The first-half profit and Adjusted profit results represent new records for HDI.

About HDI

HDI is one of North America's largest distributors of architectural grade building and millwork products to the residential, repair and remodel, and commercial construction industries. The Company currently operates a network in North America of 84 distribution facilities.

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. Forward-looking information is included, but not limited to, information included under the headings "Second Quarter Highlights", "Outlook", "Results of Operations for the Three Months Ended June 30, 2021", and "Results of Operations for the Six Months Ended June 30, 2021."

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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