HDI Announces Record Third Quarter 2021 Results

Langley, B.C., November 8, 2021/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three and nine months ended September 30, 2021. HDI is one of North America’s largest suppliers of specialty building products to fabricators, home centers and builders servicing the new residential, repair and remodel, and commercial construction end-markets. The Company currently operates a network of 83 distribution facilities in the United States and Canada. All amounts are shown in United States dollars ("U.S. $" or "$"), unless otherwise noted.

Third Quarter Highlights

- Third quarter sales grew 99.1% to $471.7 million, a year-over-year increase of $234.7 million. Organic sales growth in Q3 was 42.6% while acquisitions contributed an additional 58.1%.
- Gross profit climbed 158.0%, or $71.2 million, to $116.2 million, with gross profit margin percentage increasing to 24.6%, from 19.0% in the same period last year.
- Operating expenses were well controlled, and as a percentage of sales were 14.3%, as compared to 14.2% in Q2 2020.
- Profit per share increased significantly to a record $1.58, from $0.37 in Q2 2020, an increase of 327.0%.
- Adjusted EBITDA climbed 226.2% to a record $63.8 million, from $19.6 million during the same period in 2020.
- Cash flow from operating activities, before changes in working capital, per share increased by $1.78 in the third quarter to $2.42, from $0.64 in the same period last year.
- The Board of Directors declared a quarterly dividend of $0.12 per share, payable on January 28, 2022 to shareholders of record as at January 17, 2022. This represents a 20% increase to the previous quarterly dividend amount.
- HDI completed the purchase of Novo Building Products Holdings LLC ("Novo"), a transformative acquisition which is expected to have a significant and positive impact on the Company going forward. The Novo acquisition closed on July 30, 2021.
- Effective January 1, 2021, HDI began reporting results in U.S. dollars. Given over 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.

"Our third quarter financial performance was exceptionally strong even after taking into account the more favorable operating conditions in the current period, as compared to the significant pandemic-related business disruptions that impacted sales in the same period last year," said Rob Brown, HDI's President and CEO. "We are also pleased that our Board of Directors has approved a 20% increase in our dividend, a decision that is supported by strong execution of our strategic plan and growth of our earnings and cash flows."

"Following on an excellent first half of 2021, we maintained a record-setting pace for sales, gross margins, and profitability for Q3. We continue to execute on the operating and strategic fronts, while capitalizing on strong demand in our end-markets. Our record third quarter gross margin percentage of 24.7% is a result of rising product prices being efficiently passed through to benefit the bottom line, as well as the inclusion of Novo which carries a higher gross margin percentage. In addition to the top line and gross margin gains, we are managing expenses tightly across the organization and this further translated through to strong growth in our profit performance."

“The Novo acquisition, which we closed during the quarter, plays an important role in HDI’s growth trajectory as one of North America's largest suppliers of specialty building products to fabricators, home centers and builders servicing the new residential, repair and remodel, and commercial construction end-markets. Based on our first few months of combined operations with Novo, we have now increased our expectation for Novo-related annualized 2021 revenues and EBITDA to over $670 million and $60 million respectively. Through our strategic focus on acquisitions since 2015, we now bring new solutions to an expanded set of customers across more high growth markets, and we've built these capabilities while maintaining a conservative capital structure. As we pursue organic growth across our larger base of operations, we remain focused on extending our track record of securing new, accretive acquisition opportunities."

Outlook

The Company expects the **demand** for and **selling prices** of its products to remain strong for the remainder of 2021 and into 2022, supported by strong fundamentals in its end markets. The Company continues to see a multi-year runway for growth in the residential, repair and remodel, and commercial end-markets that it participates in.

Supply is expected to continue to be tight, which may result in disruptions to product availability. However the Company generally expects to have ongoing access to supply from vendors given it is often the largest customer for its key suppliers. As it relates to the availability of freight, global shipping routes and equipment have been disrupted resulting in supply constraints across multiple industries. HDI believes it is well positioned as a significant importer and this allows it to cost-effectively pursue multiple freight options. In addition, the Company maintains dedicated internal resources that manage logistics daily and its strong balance sheet allows it to secure product and creative freight options in advance. To date HDI has not experienced significant adverse effects from global freight challenges, which demonstrates the resilience of the business.

The Company believes it is uniquely positioned to continue its strategic focus on **acquisitions** in core markets. The North American specialty building products distribution market is large in size and scope, and it remains fragmented. The Company believes its platform positions it to capture market share going forward through both organic and acquisitions-based growth. As HDI has done in the past, it intends to continue achieving this growth on an accretive basis for shareholders.

Outlook for our end-markets

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, toward 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 strong multi-year demand for our products.

The **repair and remodel market** is benefiting from rising home equity and availability of low-cost consumer capital, the advancing age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their homes. These trends are also expected to an important driver of multi-year demand for our 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. The Company expects certain of these commercial end markets will perform better than others, with the broad nature of its participation reducing the impact of dynamics in any one geography or end market.

Q3 2021 Investor Call

HDI will hold an investor call on Monday, November 8, 2021 at 8:00 am Pacific (11:00 am Eastern). Participants should dial 1-800-437-2398 or (647) 792-1240 (GTA) at least five minutes before the call begins. A replay will be available through November 22, 2021 by calling toll free 1-888-203-1112 or (647) 436-0148 (GTA), followed by passcode 6712457.

Summary of Results

	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Total sales	$ 471,673	$ 236,930	$ 1,100,846	$ 691,923
Sales in the US (US$)	426,738	209,500	970,392	614,739
Sales in Canada	56,660	36,609	163,535	104,638
Gross profit	116,190	45,039	250,020	133,249
Gross profit %	*24.6%*	*19.0%*	*22.7%*	*19.3%*
Operating expenses	(67,303)	(33,646)	(148,160)	(99,305)
Profit from operating activities	$ 48,886	$ 11,393	$ 101,860	$ 33,944
Add: Depreciation and amortization	11,749	5,837	24,063	17,324
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 60,635	$ 17,230	$ 125,923	$ 51,268
EBITDA as a % of revenue	*12.9%*	*7.3%*	*11.4%*	*7.4%*
Add (deduct):				
Depreciation and amortization	(11,749)	(5,837)	(24,063)	(17,324)
Net finance income (expense)	(3,803)	(1,122)	(6,664)	(4,280)
Income tax expense	(11,387)	(2,436)	(24,196)	(7,455)
Profit for the period	$ 33,696	$ 7,835	$ 71,000	$ 22,209
Basic profit per share	$ 1.58	$ 0.37	$ 3.34	$ 1.05
Diluted profit per share	$ 1.56	$ 0.36	$ 3.29	$ 1.04
Average Canadian dollar exchange rate for one US dollar	$ 0.79	$ 0.75	$ 0.80	$ 0.74

	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 60,635	$ 17,230	$ 125,923	$ 51,268
Non-cash LTIP expense	1,288	1,659	3,576	2,175
Transaction expenses	1,903	—	4,071	—
Adjusted EBITDA	$ 63,826	$ 19,569	$ 133,570	$ 54,123
Adjusted EBITDA as a % of revenue	*13.5%*	*8.3%*	*12.1%*	*7.8%*
Profit for the period, as reported	$ 33,696	$ 7,835	$ 71,000	$ 22,209
Adjustments, net of tax	2,579	1,540	6,310	2,041
Adjusted profit for the period	$ 36,275	$ 9,375	$ 77,310	$ 24,250
Basic profit per share, as reported	$ 1.58	$ 0.37	$ 3.34	$ 1.05
Net impact of above items per share	0.12	0.07	0.30	0.10
Adjusted basic profit per share	$ 1.70	$ 0.44	$ 3.64	$ 1.15
Diluted profit per share, as reported	$ 1.56	$ 0.36	$ 3.29	$ 1.04
Net impact of above items per share	0.12	0.07	0.29	0.10
Adjusted diluted profit per share	$ 1.68	$ 0.43	$ 3.58	$ 1.14

Results from Operations - Three Months Ended September 30, 2021

Sales performance this quarter continued to be exceptionally strong, even after taking into account the very different operating conditions in the current period as compared to Q3 last year, when the pandemic significantly disrupted the global economy. For the three months ended September 30, 2021, consolidated sales climbed to a record $471.7 million, an increase of $234.7 million, or 99.1%, from $236.9 million in the same period in 2020. Organic sales grew by $101.0 million, representing a 42.6% increase in consolidated sales. Novo contributed $118.0 million of sales growth, while Acquired Businesses contributed an additional $19.8 million of sales growth. Novo together with the Acquired Businesses represented a 58.1% increase in sales. We also benefited from a $2.4 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 our HMI business, which resulted in $6.4 million of sales from Q3 2020 not recurring in the current quarter.

Third quarter sales from our U.S. operations increased by 103.7% to $426.7 million, from $209.5 million in the same period in 2020. This $217.2 million increase consisted of $85.9 million of organic sales growth, representing a 41.0% increase in U.S. sales. The very strong organic sales growth reflects continued robust market demand which has resulted in higher volumes and improved market prices for our products year-over-year. Novo and the Acquired businesses contributed an additional $137.7 million of second quarter U.S. sales growth. The divestiture of HMI in the first quarter resulted in a $6.4 million year-over-year reduction in sales.

In Canada, third quarter sales increased by $20.1 million, or 54.8%, compared to the same period in 2020. The Canadian sales growth was entirely organic and reflects continued robust market demand, which has resulted in higher volumes and improved market prices for our products year-over-year.

Gross profit for the third quarter grew 158.0% to $116.2 million, from $45.0 million in the same quarter last year. This $71.2 million improvement reflects the strong sales growth paired with a record gross profit margin. At 24.6%, our gross profit margin was the best in HDI's history and was up from 19.0% in the same period last year. This exceptional result reflects an increase in the selling prices of our products without a corresponding increase in costs and inclusion of the Novo business that carries a higher gross profit margin percentage. We anticipate continued gross profit percentage strength into the fourth quarter.

For the three months ended September 30, 2021, operating expenses increased by $33.7 million to $67.3 million, from $33.6 million in Q3 2020. As a percentage of sales, operating expenses were consistent at 14.3%, as compared to 14.2% in the same period last year.

Of the $33.7 million operating expense increase, $6.0 million reflects a return to more normal business operations following a sharp reduction in expenses in the same period last year as we responded to the COVID-19 pandemic. The increase also includes $24.4 million of expenses related to the operation of Novo and the Acquired Businesses, $1.9 million of costs related to the Novo transaction, $1.6 million of amortization related to customer relationships acquired in connection with the Novo acquisition, and $0.3 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 $0.5 million decrease in operating expenses as a result of our divestiture of the HMI business.

For the three months ended September 30, 2021, depreciation and amortization increased by $5.9 million to $11.7 million, from $5.8 million in Q3 2020. Included in the increase is depreciation related to the operations of the acquired Novo business, and amortization of $1.5 million related to customer relationships acquired in the transaction.

For the three months ended September 30, 2021, net finance expense increased to $3.6 million, from $1.1 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the acquisition of Novo.

For the three months ended September 30, 2021, income tax expense increased to $11.4 million, from $2.4 million last year. This increase was primarily driven by a higher taxable income.

Third quarter Adjusted EBITDA climbed 226.2% to a record $63.8 million, from $19.6 million during the same period in 2020. The $44.3 million year-over-year improvement reflects the $71.2 million increase in gross profit partially offset by the $27.0 million increase in operating expenses (before changes in depreciation and amortization, allowance for duty deposits paid, non-cash LTIP expense, and transaction expenses).

Profit for the third quarter grew 330.0% to $33.7 million, from $7.8 million in Q3 2020. The $25.9 million improvement primarily reflects the $43.4 million increase in EBITDA, partially offset by a $5.9 million increase in depreciation and amortization, a $2.5 increase in net finance expense, and the $9.0 million increase in income tax expense.

For the three months ended September 30, 2021, profit per share climbed 327.0% to $1.58, from $0.37 in Q3 2020. Adjusted profit increased 286.9% to $36.3 million, from $9.4 million in Q3 2020 and Adjusted diluted profit per share grew 290.7% to $1.68, from $0.43 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for HDI.

Results from Operations - Nine Months Ended September 30, 2021

For the nine months ended September 30, 2021, total sales increased 59.1% to $1.1 billion, from $691.9 million in the same period in 2020. Of the $408.9 million year-over-year improvement, organic growth accounted for a $232.2 million, or 33.6%, increase in sales. Novo contributed $118.0 million of sales growth while Acquired Businesses contributed an additional $62.2 million of sales growth. Novo together with the Acquired Businesses represented a 26.0% increase in sales. We also benefited from a $9.9 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 $13.4 million year-over-year decrease in sales resulting from the HMI divestiture.

Sales from our U.S. operations increased 57.9% to $970.4 million, from $614.7 million in the nine-month period of 2020. This $355.7 million increase consisted of $188.9 million of organic sales growth, representing a 30.7% 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 our products year-over-year. Novo and the Acquired Businesses contributed an additional $180.2 million of sales growth in the U.S. These gains were partially offset by the $13.4 million year-over-year reduction in sales resulting from the HMI divestiture.

Sales in Canada increased by $58.9 million, or 56.3%, compared to the first nine months of 2020. The Canadian sales growth was entirely organic and reflects continued robust market demand, which has resulted in higher volumes and improved market prices for our products year-over-year.

Gross profit for the nine-month period ended September 30, 2021 grew 87.6% to $250.0 million, from $133.2 million in the period last year. This $116.8 million improvement reflects the increase in sales, together with a higher gross profit margin. Our gross profit margin of 22.7% 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 nine months ended September 30, 2021, operating expenses increased to $148.2 million, from $99.3 million in the same period in 2020. However as a percentage of sales, operating expenses were lower at 13.5%, as compared to 14.4% in the same period last year.

Of the $48.9 million of operating expense increase, $12.7 million reflects a return to more normal business operations following a sharp reduction in expenses in Q3 of last year as we responded to the COVID-19 pandemic. The increase also includes $30.5 million of expenses related to the operation of Acquired Businesses, $4.1 million of transaction-related costs, $1.6 million of amortization related to customer relationships acquired in connection with the Novo acquisition, and $1.0 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 $1.2 million decrease in operating expenses following the divestiture of the HMI business.

For the nine months ended September 30, 2021, depreciation and amortization increased $6.7 million to $24.1, as compared to $17.3 million in the same period in 2020. The change primarily arises from an increase in depreciation and amortization in third quarter. See section 2.1 for further details.

For the nine months ended September 30, 2021, net finance expense increased to $6.5 million, from $4.3 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the acquisition of Novo in the third quarter.

Income tax expense increased to $24.2 million for the nine months ended September 30, 2021, from $7.5 million in the same period in 2020. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA for the first nine months of 2021 climbed 146.8% to $133.6 million, from $54.1 million during the same period in 2020. The $79.4 million year-over-year increase reflects the $116.8 million increase in gross profit, partially offset by the $37.3 million increase in operating expenses (before changes in depreciation and amortization, allowance for duty deposits paid, non-cash LTIP expense, and transaction expenses).

Profit for the nine months ended September 30, 2021 grew 219.7% to $71.0 million, from $22.2 million in the same period in 2020. The $48.8 million improvement primarily reflects the $74.7 million increase in EBITDA, partially offset by increases of $6.7 million, $2.4 million, and $16.7 million in depreciation and amortization, net finance expense, and income tax expense respectively.

For the nine months ended September 30, 2021, profit per share climbed 218.1% to $3.34, from $1.05 in the first nine months of 2020. Adjusted profit increased 218.8% to $77.3 million, from $24.3 million, and adjusted diluted profit per share grew 214.0% to $3.58, from $1.14 in the same period last year.

About HDI

HDI is one of North America’s largest suppliers of specialty building products to fabricators, home centers and builders servicing the new residential, repair and remodel, and commercial construction end-markets. The Company currently operates a network in North America of 83 distribution facilities in the United States and Canada. HDI's common shares are listed on the Toronto Stock Exchange under the symbol HDI.

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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