HDI Announces Annual and Fourth Quarter 2021 Results

Business transformation delivers HDI's best ever sales and profitability results with strong total returns for shareholders

Langley, B.C., March 14, 2022/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three and twelve months ended December 31, 2021. HDI is one of North America’s leading suppliers of specialty building products to fabricators, home centers and pro dealers servicing the new residential, repair and remodel, and commercial construction end markets. The Company currently operates a network of 88 distribution facilities in the United States and Canada. All amounts are shown in United States dollars ("U.S. $" or "$"), unless otherwise noted.

2021 Highlights

- Sales increased 74.1% to $1.6 billion. Organic sales growth in 2021 was 35.3% while acquisitions contributed an additional 39.7%
- Gross profit margin increased to 23.1%, from 19.2%
- Operating expenses as a percentage of sales were lower at 13.9%, as compared to 14.5%
- Profit per share increased significantly to $4.81, up 264.4% or $3.49 per share
- Adjusted EBITDA* increased 168.4% to $195.2 million, with Adjusted EBITDA margin* increasing to 12.1% from 7.8% in the comparative period. Profit grew 267.9% to $103.1 million
- Free Cash Flow per share* grew to $7.53, an increase of 159% or $4.62 per share
- Completed the purchase of Novo Building Products Holdings LLC ("Novo") for $306 million, a transformative acquisition which had a significant and positive impact on HDI, in the second half of 2021
- 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 quarterly dividend amount paid in the corresponding period in 2020.
- Subsequent to year-end, on February 7, 2022 HDI completed another significant transaction, acquiring Mid-Am Building Products for $270 million, strategically building on the Novo acquisition

*See "Non-GAAP Measures".

"HDI achieved outstanding growth and profitability in 2021, demonstrating both the magnitude and the success of the transformation we have achieved in our business," said Rob Brown, HDI's President and CEO. "Our results set new records across virtually every financial metric, and I am delighted to report that we translated this into a total return to investors of 79%, comprised of dividends and the lift in our share price to $44.80 at year-end. Our success in growing our cash flows and earnings also provided ample support for a 20% increase in our dividend effective with our January 2022 distribution. This marks our ninth dividend increase in as many years and resulted in HDI’s admittance into the S&P Dividend Aristocrats Index."

"Among the many significant milestones achieved in 2021, we boosted our sales to $1.6 billion on a combination of strong organic and acquisitions-based growth. This result not only met, but surpassed our long-term goal of doubling our sales and we delivered on our target two years ahead of schedule. Our bottom-line performance more than kept pace, with HDI’s product price pass-through model, our ability to successfully leverage our well-established global supply chain in a year of supply constraints, and the evolution in our product mix to higher-margin offerings delivering a record gross profit margin of 23.1%. Combined with our disciplined focus on expense management across our expanded organization, we more than doubled earnings per share to $4.81 year-over-year,” added Mr. Brown.

“These are exceptional results and they were underpinned by the ongoing transformation of our business platform. During 2021 we continued to reposition HDI with stronger channels to market, broader regional presence, and an expanded array of value-added products for our customers. Our Novo acquisition, which we completed in mid-2021 and which represents the largest transaction in HDI’s history, was a critical part of this strategy and provided us with a large and immediate new presence in the home center and pro dealer customer channels. Our more recent acquisition of Mid-Am Building Products in February 2022 further expanded our access to these customer channels in the U.S. Midwest.

Combined, the Novo and Mid-Am acquisitions are expected to add approximately $950 million of revenue on a pro forma annual basis, and both transactions are on track to be highly accretive to earnings per share. Additionally, our expansion into the pro dealer and customer center segments has more than doubled our addressable market and provided access to multiple new customer end-segments with related growth opportunities.”

“HDI is now moving forward as one of North America's largest suppliers of architectural building products to fabricators, home centers and builders servicing the new residential, repair and remodel, and commercial construction end-markets. Our diversified business platform and proven track-record of accretive growth through acquisitions is enabling us to bring new solutions to an expanded set of customers across more high growth markets, and we continue to support our growth with a strong and responsibly-managed balance sheet. We are tremendously excited about the opportunities available to us and confident that we have the expertise and proven experience to translate them into strategic and accretive growth,” concluded Mr. Brown.

Outlook

We expect the **demand** for our products to remain favorable in 2022, supported by strong fundamentals in our end markets. We continue to see a multi-year runway for growth in the residential, repair and remodel, and commercial end-markets that we participate in.

Supply is expected to continue to be tight, which may result in disruptions to product availability. However we generally expect to have ongoing access to supply from our vendors given we are often the largest customer for our key suppliers. As it relates to the availability and predictability of freight, global shipping routes and equipment have been disrupted resulting in supply constraints across multiple industries. We believe we are well positioned as a significant importer and this allows us to cost-effectively employ multiple freight options. In addition, we maintain dedicated internal resources that manage logistics daily and our strong balance sheet allows us to invest working capital to secure product and pursue creative freight options to meet our customers' needs. To date we have not experienced significant adverse effects from global freight challenges, which we believe demonstrates the resilience of our business.

Going forward, we remain uniquely positioned to pursue strategic **acquisitions** in our core markets. The North American specialty building products distribution market is large in size and scope, and it remains fragmented. We believe our platform positions us to capture market share through both organic and acquisitions-based growth. As we have done in the past, we intend to continue achieving this growth on an accretive basis for our shareholders.

Outlook for our end-markets

Leading indicators for the U.S. **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. 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 U.S. **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. 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.

Q4 and Year-end 2021 Investor Call

HDI will hold an investor call on Monday, March 14, 2022 at 8:00 am Pacific (11:00 am Eastern). Participants should dial 1-888-204-4368 or (647) 794-4605 (GTA) at least five minutes before the call begins. A replay will be available through March 21, 2022 by calling toll free 1-888-203-1112 or (647) 436-0148 (GTA), followed by passcode 1829067.

Summary of Results

	Three months ended December 31 2021		Three months ended December 31 2020		For the year ended December 31 2021		For the year ended December 31 2020	
Total sales	$	515,353	$	236,515	$	1,616,199	$	928,438
Sales in the US		470,727		206,295		1,441,119		821,034
Sales in Canada ($CAD)		56,268		39,439		219,803		144,077
Gross profit		122,890		45,297		372,910		178,546
Gross profit %		*23.8%*		*19.2%*		*23.1%*		*19.2%*
Operating expenses		(76,419)		(35,590)		(224,579)		(134,895)
Profit from operating activities	$	46,471	$	9,707	$	148,331	$	43,651
Add: Depreciation and amortization		12,516		5,959		36,579		23,283
Earnings before interest, taxes, depreciation and amortization ("EBITDA")*	$	58,987	$	15,666	$	184,910	$	66,934
EBITDA as a % of revenue		*11.4%*		*6.6%*		*11.5%*		*7.2%*
Add (deduct):								
Depreciation and amortization		(12,516)		(5,959)		(36,579)		(23,283)
Net finance income (expense)		(4,016)		(1,381)		(10,680)		(5,661)
Income tax expense		(10,310)		(2,501)		(34,506)		(9,956)
Profit for the period	$	32,145	$	5,825	$	103,145	$	28,034
Basic profit per share	$	1.47	$	0.28	$	4.81	$	1.32
Diluted profit per share	$	1.46	$	0.27	$	4.77	$	1.31
Average Canadian dollar exchange rate for one US dollar	$	0.79	$	0.77	$	0.80	$	0.75

	Three months ended December 31 2021		Three months ended December 31 2020		For the year ended December 31 2021		For the year ended December 31 2020	
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$	58,987	$	15,666	$	184,910	$	66,934
Non-cash LTIP expense		1,960		472		5,537		2,647
Transaction expenses		711		—		4,782		163
Adjusted EBITDA	$	61,658	$	18,601	$	195,229	$	72,725
Adjusted EBITDA as a % of revenue		*12.0%*		*7.9%*		*12.1%*		*7.8%*
Profit for the period, as reported	$	32,145	$	5,825	$	103,145	$	28,034
Adjustments, net of tax		2,246		2,315		8,558		4,826
Adjusted profit for the period*	$	34,391	$	8,140	$	111,703	$	32,860
Basic profit per share, as reported	$	1.47	$	0.28	$	4.81	$	1.32
Net impact of above items per share		0.10		0.11		0.40		0.22
Adjusted basic profit per share*	$	1.57	$	0.39	$	5.21	$	1.54
Diluted profit per share, as reported	$	1.46	$	0.27	$	4.77	$	1.31
Net impact of above items per share		0.10		0.11		0.40		0.22
Adjusted diluted profit per share*	$	1.56	$	0.38	$	5.17	$	1.53

* See "Non-GAAP Measures".

Results from Operations - Year Ended December 31, 2021

For the year ended December 31, 2021, total sales increased 74.1% to $1.6 billion, from $928.4 million in 2020. Of the $687.8 million year-over-year improvement, organic growth accounted for a $327.6 million, or 35.3%, increase in sales. Acquired Businesses accounted for the remaining $368.8 million or 39.7% of the increase in sales, with $287.2 million of contribution from the new Novo operations representing the majority of this increase. We also benefited from an $11.5 million sales increase related to a favorable foreign exchange impact from a stronger Canadian dollar when translating Canadian sales to U.S. dollars for reporting purposes. These gains were partially offset by a $20.1 million year-over-year decrease in sales resulting from the HMI divestiture.

Sales from our U.S. operations increased 75.5% to $1.4 billion, from $821.0 million in 2020. This $620.1 million increase consisted of $271.4 million of organic sales growth, representing a 33.1% increase in U.S. sales. This 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. Acquired Businesses contributed an additional $368.8 million of sales growth in the U.S., with Novo accounting for $287.2 million of this growth. These gains were partially offset by the $20.1 million year-over-year reduction in sales resulting from the HMI divestiture.

Sales in Canada increased by $75.7 million, or 52.6%, compared to 2020. The Canadian sales growth was entirely organic and reflects robust market demand, which has resulted in higher volumes and improved market prices for our products year-over-year.

Gross profit for the year ended December 31, 2021 grew 108.9% to $372.9 million, from $178.5 million last year. This $194.4 million increase reflects the higher sales, together with a significantly stronger gross profit margin. Our gross profit margin percentage grew to 23.1%, from 19.2% in 2020, reflecting favorable market dynamics as described in our outlook (Section 1.3), favorable changes in product mix, and successful execution of internal strategies designed to improve gross margin percentage over time.

For the year ended December 31, 2021, operating expenses increased to $224.6 million, from $134.9 million in 2020, but were lower as percentage of sales at 13.9%, as compared to 14.5% last year.

Of the $89.7 million of operating expense increase, $19.0 million reflects a return to more normal business operations following a sharp reduction in expenses last year as we responded to the COVID-19 pandemic. The increase also includes $64.9 million of expenses related to the operation of Acquired Businesses, $4.8 million of transaction-related costs, $3.9 million of amortization related to intangible assets acquired in connection with the Novo acquisition, and $1.2 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 $4.0 million decrease in operating expenses following the divestiture of the HMI business.

For the year ended December 31, 2021, depreciation and amortization increased $13.3 million to $36.6 million, as compared to $23.3 million in 2020. This change primarily reflects our acquisition of the Novo business and the related increase in operations in the third and fourth quarters of the year. The $13.3 million increase was comprised of $3.9 million of amortization on acquired intangible assets and $7.9 million of depreciation from operational activity of the acquired Novo business.

For the year ended December 31, 2021, net finance expense increased to $10.7 million, from $5.7 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the Novo acquisition in the second half of the year.

Income tax expense increased to $34.5 million for the year ended December 31, 2021, from $10.0 million in 2020. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA for 2021 climbed 168.4% to $195.2 million, from $72.7 million last year. The $122.5 million improvement reflects the $194.4 million increase in gross profit, partially offset by the $76.7 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, impairment loss relating to HMI, allowance for duty deposits paid, and transaction expenses).

Profit for the year ended December 31, 2021 grew 267.9% to $103.1 million, from $28.0 million in 2020. The $75.1 million improvement primarily reflects the $118.0 million increase in EBITDA, partially offset by increases of $13.3 million, $5.0 million, and $24.5 million in depreciation and amortization, net finance expense, and income tax expense, respectively.

For the year ended December 31, 2021, profit per share climbed 264.4% to $4.81, from $1.32 in 2020. Adjusted profit increased 239.9% to $111.7 million, from $32.9 million, and adjusted diluted profit per share grew 237.9% to $5.17, from $1.53 last year.

Results from Operations - Three Months Ended December 31, 2021

We achieved a very strong finish to the 2021 year, with fourth quarter consolidated sales climbing to a record $515.4 million. This was $278.8 million, or 117.9%, higher than the $236.5 million generated in the same period of 2020. Organic sales grew by $95.5 million, representing a 40.4% increase in consolidated sales. Acquired Businesses contributed $188.6 million or 79.8% of the sales growth, with our new Novo operations representing $169.2 million of this increase. We also benefited from a $1.5 million sales increase related to the favorable foreign exchange impact of a stronger Canadian dollar when translating Canadian sales to U.S. dollars for reporting purposes. These gains were partially offset by the first quarter 2021 divestiture of our HMI business, which resulted in $6.7 million of sales from Q4 2020 not recurring in the current quarter.

Fourth quarter sales from our U.S. operations increased by 128.2% to $470.7 million, from $206.3 million in the same period in 2020. This $264.4 million increase consisted of $82.6 million of organic sales growth, representing a 40.0% 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. Acquired businesses, including Novo, contributed an additional $188.6 million of fourth quarter U.S. sales growth. The HMI divestiture partially offset these gains with a $6.7 million year-over-year reduction in sales.

In Canada, fourth quarter sales increased by $16.8 million, or 42.7%, 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 fourth quarter grew 171.3% to $122.9 million, from $45.3 million in the same quarter last year. This $77.6 million improvement reflects the strong sales growth and gross profit margin in the fourth quarter. At 23.8%, our gross profit margin percentage continues to perform very well and was close to our third quarter record of 24.7%. The continued strength in gross profit margin percentage reflects a number of factors, including favorable market dynamics as described in our outlook, favorable changes in product mix, and the inclusion of the Novo business, which carries a slightly higher gross profit margin percentage.

For the three months ended December 31, 2021, operating expenses increased by $40.8 million to $76.4 million, from $35.6 million in Q4 2020. As a percentage of sales, operating expenses decreased to 14.8%, as compared to 15.0% in the same period last year.

Of the $40.8 million increase, $34.3 million reflects operating expenses related to our Acquired Businesses (primarily Novo) and $6.3 million reflects operational investments to support our growth. The balance includes $0.7 million of transaction costs related to the Novo and Mid-Am acquisitions that were incurred in the fourth quarter, $2.2 million of amortization related to intangible assets acquired in connection with the Novo acquisition, and $0.2 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 $2.9 million decrease in operating expenses as a result of our divestiture of the HMI business.

For the three months ended December 31, 2021, depreciation and amortization increased by $6.6 million to $12.5 million, from $6.0 million in Q4 2020. This increase primarily relates to the acquisition and operations of the acquired Novo business and is comprised of $2.2 million of amortization on acquired intangible assets and $4.0 million from depreciation of operational activities.

For the three months ended December 31, 2021, net finance expense increased to $4.0 million, from $1.4 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 December 31, 2021, income tax expense increased to $10.3 million, from $2.5 million last year. This increase was primarily driven by a higher taxable income.

Fourth quarter Adjusted EBITDA climbed 231.5% to a record $61.7 million, from $18.6 million during the same period in 2020. The $43.1 million year-over-year improvement reflects the $77.6 million increase in gross profit, partially offset by the $29.7 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, impairment loss relating to HMI, allowance for duty deposits paid, and transaction expenses).

Profit for the fourth quarter grew 451.9% to $32.1 million, from $5.8 million in Q4 2020. The $26.3 million improvement primarily reflects the $43.3 million increase in EBITDA, partially offset by a $6.6 million increase in depreciation and amortization, a $2.5 increase in net finance expense, and the $7.8 million increase in income tax expense.

For the three months ended December 31, 2021, profit per share climbed 424.8% to $1.47, from $0.28 in Q4 2020. Adjusted profit increased 322.5% to $34.4 million, from $8.1 million in Q4 2020, and Adjusted diluted profit per share grew 310.5% to $1.56, from $0.38 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 88 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

In this news release, reference is made to the following non-GAAP financial measures:

- “Adjusted EBITDA” is EBITDA before non-cash long term incentive plan (“LTIP”) expense, impairment loss relating to HMI, allowance for duty deposits paid and transaction expenses. We believe Adjusted EBITDA is a useful supplemental measures for investors, and is used by management for evaluating our ability to meet debt service requirements and fund organic and inorganic growth, and as an indicator of relative operating performance.

- "adjusted profit" is profit before non-cash LTIP expense, impairment loss relating to HMI, allowance for duty deposits paid and transaction expenses. We believe adjusted profit is a useful supplemental measures for investors, and is used by management for evaluating our profitability, our ability to meet debt service and capital expenditure requirements, our ability to generate cash flow from operations, and as an indicator of relative operating performance.

- "EBITDA" is earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance income (expense) as per the consolidated statement of comprehensive income. We believe EBITDA is a useful supplemental measures for investors, and is used by management for evaluating our ability to meet debt service requirements and fund organic and inorganic growth, and as an indicator of relative operating performance.

In this news release, reference is also made to the following non-GAAP ratios: "adjusted basic profit per share", "adjusted diluted profit per share", "Adjusted EBITDA margin" and "Free Cash Flow per share". For a description of the composition of each non-GAAP ratio and how each non-GAAP ratio provides useful information to investors and is used by management, see "Non-GAAP and Other Financial Measures" in HDI's management's discussion and analysis for the year ended December 31, 2021 (which is incorporated by reference herein).

Such non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. For a reconciliation between non-GAAP measures and the most directly comparable financial measure in HDI's financial statements, please refer to "Summary of Results" above.

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 "2021 Highlights", "Outlook", "Results of Operations - Three Months Ended December 31, 2021", and "Results of Operations - Year Ended December 31, 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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