HDI Announces Record First Quarter 2022 Results

Langley, B.C., May 12, 2022/ CNW/ - Hardwoods Distribution Inc. ("HDI" or the "Company") today announced financial results for the three months ended March 31, 2022. 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 86 distribution facilities in the United States and Canada. All amounts are shown in United States dollars ("U.S. $" or "$"), unless otherwise noted.

First Quarter Highlights

- First quarter sales grew 121.5% to $644.9 million, a year-over-year increase of $353.7 million. Organic sales growth in Q1 was 39.4% while acquisitions contributed an additional 84.3%.
- Gross profit climbed 155.3%, or $89.9 million, to $147.8 million, with gross profit margin percentage increasing to 22.9%, from 19.9% in the same period last year.
- Operating expenses were well controlled, and as a percentage of sales were 13.1%, as compared to 13.4% in Q1 2021.
- Profit per share increased significantly to a quarterly record of $1.83, from $0.61 in Q1 2021, an increase of 200.0%.
- Adjusted EBITDA climbed 209.8% to a record $79.8 million, from $25.8 million during the same period in 2021.
- Cash flow from operating activities, before changes in working capital, per share increased by $2.00 in the third quarter to $3.16, from $1.16 in the same period last year.
- The Board of Directors declared a quarterly dividend of $0.12 per share, payable on July 29, 2022 to shareholders of record as at July 18, 2022.
- HDI completed the purchase of Mid-Am Building Supply Inc. ("Mid-Am"), an acquisition which is expected to strengthen our access to customers and markets in the U.S. Midwest. The Mid-Am acquisition closed on February 7, 2022.

"We achieved significant new financial milestones in the first quarter as we took full advantage of our scale, superior product access, and strengthened market channels to deliver the best-ever quarterly sales and profitability in HDI's history," said Rob Brown, HDI's President and CEO.

"Our record Q1 results included contribution from Mid-Am and Novo operations, which we acquired on February 7, 2022 and July 30, 2021 respectively. Mid-Am and Novo are expected to deliver approximately $1 billion in pro forma sales in 2022. These acquisitions have provided valuable strategic benefits, including access to new geographies and a strong presence in the U.S. Pro Dealer and home center channels."

"We paired our record-setting pace for sales, gross profit and earnings with continued careful management of expenses and product pricing. This, in turn, resulted in healthy gross margins and EBITDA margins of 22.9% and 12.1%, respectively, and enabled us to deliver record profit per share. Our Q1 results clearly demonstrate the significant value we are achieving from our combined organic and accretive acquisition-based growth strategy."

"Going forward, activity levels remain strong in our end markets and across our customer base, driving continued robust demand for our products. Market fundamentals, including the significant shortage of housing stock relative to demand, are also expected to provide support for demand over the longer term. We will continue to closely monitor the economic conditions in North America and the impacts that price inflation, rising interest rates, and other factors can have on our business. Our skilled team has a long track record of successfully managing our operations and controlling costs during challenging times. We believe our business has developed the resilience needed to manage through these cycles, and we are better equipped than we have even been to deliver continued growth and value from our leading position in the North American building products space," said Mr. Brown.

Outlook

We expect **demand** for our products to remain strong 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. While interest rates have increased in recent weeks and are expected to rise further as central banks work to slow inflation, mortgage rates remain well below their historical trend and demand for housing continues to significantly outstrip supply in the markets we serve. Our customers today continue to be very busy, and anticipate being so well into 2022.

From a financial standpoint, we maintain a strong balance sheet which provides financial stability in the event an economic downturn were to emerge. Our business model converts a high proportion of EBITDA to operating cash flow before changes in working capital, and during periods of reduced activity our investment in working capital has historically decreased, resulting in an additional source of cash.

Supply is expected to remain tight for some of the products we distribute, which could 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. We are also carefully managing our exposure to the global freight disruptions and delays that are currently affecting multiple industries. As a significant and highly experienced importer with diverse supply and transport relationships, we are able to cost-effectively pursue multiple freight options. We also maintain dedicated internal resources to manage logistics daily and our strong balance sheet enables 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 approach.

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 positive. Housing starts have meaningfully lagged population growth this past decade, leading to pent-up demand for housing. More recently, housing completions have not kept pace with starts, and we believe this dynamic will create an elongated demand curve for our products given they are typically installed during the finishing stages of home construction.

Demographically, millennials now represent the largest segment of the U.S. population and as they move into the home-buying phase of their lives, are expected to further drive demand for homes. Mortgage rates, although currently increasing, remain low by historical standards and the continuing trend of population shift from urban to suburban markets is adding to the sharp increase in housing permits and starts. These dynamics are expected to drive strong multi-year demand for our products.

The **repair and remodel market** is benefiting from rising home equity, 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 expected to be 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.

Q1 2022 Investor Call

HDI will hold an investor call on Friday, May 13, 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 May 20, 2022 by calling toll free 1-888-203-1112 or (647) 436-0148 (GTA), followed by passcode 1161093. 6712457.

Summary of Results

		Three months ended March 31 2022		Three months ended March 31 2021
Total sales	$	644,883	$	291,159
Sales in the US		591,222		252,296
Sales in Canada (CAD$)		68,067		49,316
Gross profit		147,781		57,895
Gross profit %		*22.9%*		*19.9%*
Operating expenses		(84,772)		(38,927)
Profit from operating activities	$	63,009	$	18,968
Add: Depreciation and amortization		15,205		6,113
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$	78,214	$	25,080
EBITDA as a % of revenue		*12.1%*		*8.6%*
Add (deduct):				
Depreciation and amortization		(15,205)		(6,113)
Net finance income (expense)		(5,382)		(1,507)
Income tax expense		(14,140)		(4,468)
Profit for the period	$	43,487	$	12,993
Basic profit per share	$	1.83	$	0.61
Diluted profit per share	$	1.82	$	0.61
Average Canadian dollar exchange rate for one US dollar	$	0.79	$	0.79

Summary of Results (continued)

		Three months ended March 31 2022		Three months ended March 31 2021
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$	78,214	$	25,080
Non-cash LTIP expense		695		676
Transaction expenses		892		—
Adjusted EBITDA	$	79,801	$	25,756
Adjusted EBITDA as a % of revenue		*12.4%*		*8.8%*
Profit for the period, as reported	$	43,487	$	12,993
Adjustments, net of tax		1,250		615
Adjusted profit for the period	$	44,737	$	13,608
Basic profit per share, as reported	$	1.83	$	0.61
Net impact of above items per share		0.05		0.03
Adjusted basic profit per share	$	1.88	$	0.64
Diluted profit per share, as reported	$	1.82	$	0.61
Net impact of above items per share		0.05		0.03
Adjusted diluted profit per share	$	1.87	$	0.64

Results from Operations - Three Months Ended March 31, 2022

For the three months ended March 31, 2022, consolidated sales climbed to a record $644.9 million, an increase of $353.7 million, or 121.5%, from $291.2 million in the same period in 2021. Organic sales growth accounted for $114.7 million of this gain, representing a 39.4% increase in consolidated sales. The newly acquired Novo and Mid-Am businesses contributed an additional $192.9 million and $52.5 million of sales growth respectively, representing a combined 84.3% increase in sales from the Acquired Businesses. These gains were partially offset by the first quarter 2021 divestiture of our Hardwoods of Michigan ("HMI") business, which resulted in $6.4 million of sales from Q1 2021 not recurring in the current quarter.

First quarter sales from our U.S. operations grew to $591.2 million, an increase of $338.9 million, or 134.3%, from $252.3 million in the same period in 2021. Organic sales growth accounted for $99.9 million of this improvement, representing a 39.6% increase in U.S. sales. The strong organic growth was supported by robust market demand, which in turn contributed to improved product prices and higher sales volumes year-over-year. The new Novo and Mid-Am operations contributed an additional $245.4 million to first quarter U.S. sales growth, representing a 97.2% increase in U.S. sales. This was partially offset by a $6.4 million year-over-year reduction in sales related to the divestiture of the HMI operations in the first quarter of 2021.

In Canada, first quarter sales increased by $18.8 million, or 38.0%, compared to the same period in 2021. The Canadian sales growth was entirely organic and reflects continued robust market demand, which has resulted in improved market prices for our products year-over-year and higher volumes.

Gross profit for the first quarter grew 155.3% to $147.8 million, from $57.9 million in the same quarter last year. This $89.9 million improvement reflects significant sales growth paired with a stronger gross profit margin. At 22.9%, our gross profit margin increased sharply from 19.9% in the same period last year, reflecting increased selling prices for our products without a corresponding increase in costs, changes in sales mix, and inclusion of Novo's higher-margin product mix.

For the three months ended March 31, 2022, operating expenses increased by $45.8 million to $84.8 million, from $38.9 million in Q1 2021. As a percentage of sales, operating expenses were lower at 13.1%, as compared to 13.4% in the same period last year.

The $45.8 million increase in operating expenses includes $6.6 million to support organic growth, $35.3 million to operate our new Novo and Mid Am businesses, $0.9 million of transaction costs related to the Mid-Am acquisition, and amortization on intangible assets acquired in connection with the Novo and Mid-Am acquisitions of $2.4 million and $1.7 million, respectively. These increases were partially offset by a $1.1 million decrease in operating expenses as a result of our divestiture of the HMI business.

For the three months ended March 31, 2022, depreciation and amortization increased by $9.1 million to $15.2 million, from $6.1 million in Q1 2021. This increase primarily relates to the acquisition and operations of the acquired Novo and Mid-Am businesses and is comprised of $2.4 million and $1.7 million of amortization on acquired intangible assets, and $4.2 million and $0.9 million, respectively, from depreciation related to operations.

For the three months ended March 31, 2022, net finance expense increased to $5.4 million, from $1.5 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the acquisitions of Mid-Am and Novo.

For the three months ended March 31, 2022, income tax expense increased to $14.1 million, from $4.5 million last year. This increase was primarily driven by a higher taxable income.

First quarter Adjusted EBITDA climbed 209.8% to a record $79.8 million, from $25.8 million during the same period in 2021. The $54.0 million year-over-year improvement reflects the $89.9 million increase in gross profit, partially offset by the $35.8 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and transaction expenses).

Profit for the first quarter grew 234.7% to $43.5 million, from $13.0 million in Q1 2021. The $30.5 million improvement primarily reflects the $53.1 million increase in EBITDA, partially offset by a $9.1 million increase in depreciation and amortization, a $3.9 million increase in net finance expense, and the $9.7 million increase in income tax expense.

For the three months ended March 31, 2022, profit per share climbed 200.0% to $1.83, from $0.61 in Q1 2021. Adjusted profit increased 228.8% to $44.7 million, from $13.6 million in Q1 2021 and Adjusted diluted profit per share grew 192.2% to $1.87, from $0.64 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for HDI.

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 86 distribution and manufacturing 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:

it is difficult to reliably measure the potential impact of this uncertainty caused by the COVID-19 pandemic on our future financial results and the impacts to our Company are not determinable at the date of these financial statements, however they could be material and include impairments of receivables, inventory and reduction in available liquidity; given the uncertainty around the potential impact of COVID-19, this may impact our estimates disclosed in the consolidated financial statements given that there is significant judgment and estimation uncertainty; our results are dependent upon the general state of the economy and downturns in the economy, natural disasters, disease outbreaks, terrorist activities, or threats or acts of armed conflict (including the conflict between Russia and Ukraine), could have a negative impact on our business, financial condition, and results of operations; decreases in the supply of, demand for, or market values of our products could harm our business; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; and, other risks described in our Annual Information Form our Information Circular and in the MD&A.

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.

For further information:

Ian Tharp - Investor Relations
Phone: (416) 567-2563
Email: investors@hdidist.com
Website: www.hdidist.com