Hardwoods Announces 2011 Third Quarter Results and Declares Quarterly Dividend

TRADING SYMBOL: Toronto Stock Exchange - HWD

A conference call to discuss third quarter 2011 financial results will be held on November 8, 2011, at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-888-231-8191 or 647-427-7450. A replay will be available until November 22, 2011 at 1-855-859-2056 or 416-849-0833 (Passcode 23344698).

LANGLEY, BC, Nov. 7, 2011 /CNW/ - This press release discusses financial results for Hardwoods Distribution Inc. ("Hardwoods" or the "Company") for the three and nine-month periods ended September 30, 2011.

Hardwoods is one of North America's largest wholesale distributors of hardwood lumber and related sheet good products, operating a network of 31 distribution centres in the US and Canada.

Third Quarter Highlights

(For the three months ended September 30, 2011)

- Third quarter revenue increased 13.5% to $57.4 million compared to the third quarter of 2010.
- EBITDA increased 37.8% to $1.9 million compared to the third quarter of 2010.
- Third quarter profit increased to $5.6 million, which included a $3.8 million future income tax recovery arising from various restructuring activities that occurred during the quarter, compared to a loss of $0.1 million in the same period last year.
- On July 1, 2011 Hardwoods successfully completed its conversion from an income trust to a publicly traded corporation.
- On September 19, 2011 Hardwoods completed the acquisition of Frank Paxton Lumber Company ("Paxton") for $13.7 million, adding five new branch locations in the US.
- Concurrent with the Paxton acquisition, Hardwoods amended its US credit facility to increase borrowing capability from US$25 million to US$30 million.
- The Board of Directors announced a quarterly dividend of $0.02 per share, payable on January 31, 2012 to shareholders of record on January 20, 2012.

"The third quarter brought a number of achievements for Hardwoods, including a significant acquisition, the continued strengthening of our financial performance and our successful conversion to a corporation," said Lance Blanco, President and CEO of Hardwoods.

"The acquisition of Frank Paxton Lumber Company for $13.7 million represents a significant step in our market expansion strategy. Paxton is a leading remanufacturer and distributor of premium hardwood lumber, millwork and architectural sheet goods, with five branches located in Chicago, Cincinnati, Denver, Kansas City and San Antonio. This acquisition is highly consistent with our market expansion strategy in that it provides us with an attractive entry point into new high-potential geographic markets, while also increasing our access to commercial and institutional markets through Paxton's expertise in architectural millwork. In addition, we have gained an expanded customer base for our existing lines of high-quality import products," said Mr. Blanco.

"Going forward, our new Paxton operations are expected to provide approximately $45 million of profitable annual sales to our business, although their impact on third quarter results was minimal giving the timing of the transaction. While we benefited from two weeks of added revenue, EBITDA on those sales was largely offset by one-time transactions costs incurred and expensed during the period," said Mr. Blanco.

"I am pleased to report that our financial performance continued to improve in the third quarter even without the benefit of Paxton. We achieved our sixth consecutive quarter of revenue growth, with sales up 13.5% year-over-year, despite ongoing weakness in US residential construction markets and the negative impact of a stronger Canadian dollar. We also strengthened our margins, EBITDA and profit results. These gains reflect the successful expansion of our import product line, our growing base of commercial and institutional customer accounts, and the addition of experienced sales personnel."

"Our top-line results for the first nine months of 2011 also improved as a result of our strategies, with sales increasing 9.8% compared to the same period last year. Despite this sales growth our nine-month EBITDA was flat however, as a result of one-time costs related to our conversion to a corporation and the absence of a recovery from a lawsuit in the prior-year period. Excluding these items, nine-month adjusted EBITDA increased 19.0% year-over-year."

"We are encouraged by the improvements in our performance, and confident in our ability to continue making gains. While we do not anticipate any significant improvement in market conditions in the near term, our emphasis on profitable market expansion is expected to continue delivering results for our shareholders. In the third quarter we declared a quarterly dividend of $0.02 per share to shareholders, which was paid on October 31, 2011. Based on our strong performance and positive outlook, today our Board of Directors declared a quarterly dividend of $0.02 per share, payable on January 31, 2012 to shareholders of record on January 20, 2012," said Mr. Blanco.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars except where noted)

<table>
<thead>
<tr>
<th></th>
<th>3 months ended September 30, 2011</th>
<th>3 months ended September 30, 2010</th>
<th>9 months ended September 30, 2011</th>
<th>9 months ended September 30, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>$ 57,372</td>
<td>$ 50,599</td>
<td>$ 166,120</td>
<td>$ 151,263</td>
</tr>
<tr>
<td>Sales in the US (US$)</td>
<td>37,187</td>
<td>29,246</td>
<td>104,477</td>
<td>87,302</td>
</tr>
<tr>
<td>Sales in Canada</td>
<td>20,998</td>
<td>20,164</td>
<td>63,921</td>
<td>60,827</td>
</tr>
<tr>
<td>Gross profit</td>
<td>10,121</td>
<td>8,716</td>
<td>29,305</td>
<td>26,668</td>
</tr>
<tr>
<td>Gross profit %</td>
<td>17.6%</td>
<td>17.2%</td>
<td>17.6%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(8,412)</td>
<td>(7,572)</td>
<td>(24,946)</td>
<td>(22,543)</td>
</tr>
<tr>
<td>Profit from operating activities</td>
<td>1,709</td>
<td>1,144</td>
<td>4,359</td>
<td>4,125</td>
</tr>
<tr>
<td>Add: Depreciation</td>
<td>219</td>
<td>255</td>
<td>669</td>
<td>901</td>
</tr>
<tr>
<td>Earnings before interest, taxes, depreciation and amortization and non-controlling interest (&quot;EBITDA&quot;)</td>
<td>$ 1,928</td>
<td>$ 1,399</td>
<td>$ 5,028</td>
<td>$ 5,026</td>
</tr>
<tr>
<td>Add (deduct):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(219)</td>
<td>(255)</td>
<td>(669)</td>
<td>(901)</td>
</tr>
<tr>
<td>Net finance income (cost)</td>
<td>725</td>
<td>(757)</td>
<td>(57)</td>
<td>(586)</td>
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</table>
While the Canadian economy is generally faring better than the US, this recovery is slow. The pace of new housing starts remains at historically low levels. Industrial and commercial construction markets are generally healthier, but here too, the pace of recovery is slow.

While the Canadian economy is generally faring better than the US, this market is significantly smaller than the US market. The Company will continue to rely on its market expansion strategy to achieve growth and enhance profits. The strategy focuses on:

1. Increasing end-market diversification with a stronger focus on the commercial and institutional construction markets. To date, Hardwoods has created a dedicated sales force and an expanded roster of products focused on these markets, and will continue working to build and expand its account base. The Paxton acquisition expands the range of products Hardwoods can make available to commercial and institutional customers and the Company will work to leverage this opportunity going forward.

2. Leveraging Hardwoods’ successful import program to grow sales and build market share. The Company has been successful in increasing sales volumes of its high-quality imported sheet goods and higher-margin specialty products, including EchoWood™ and Q2 Bamboo™ brands. It will continue to seek out attractive new products, while also introducing its import line to Paxton’s base of customers.

3. Achieving increased market share in larger, high-potential geographic markets. The Paxton acquisition has given Hardwoods’ access to three major markets.
Operating expenses are expected to continue trending higher in 2011 as the Company implements these market expansion strategies and supports increased sales activity, as well as incorporates Paxton's business costs.

Overall, Hardwoods’ priorities for the balance of the year will be to achieve a successful integration of the newly acquired Paxton operations, and to continue executing the Company's business strategy while tightly managing the business.

A more detailed discussion of the Company’s financial performance can be found in its Management's Discussion and Analysis (MD&A) for the three and nine months ended September 30, 2011. The MD&A will be posted, along with the Company's condensed consolidated interim financial statements on SEDAR (www.sedar.com) and on the Fund’s website http://www.hardwoods-inc.com.

About Hardwoods Distribution Inc.

Hardwoods Distribution Inc. (“HDI” or the “Company”) is a publicly traded company that holds, indirectly, a 100% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, “Hardwoods” or the “Business”). Formerly the Hardwoods Distribution Income Fund (the “Fund”), HDI was formed by the Fund in order to convert from an income trust structure to a corporation. The Fund was converted to a corporation by way of a plan of arrangement effective July 1, 2011.

Pursuant to the conversion, all outstanding units of the Fund held by unitholders were exchanged for common shares of Hardwoods Distribution Inc. on a one-for-one basis. All of the Class B limited partner units in the Fund's operating subsidiaries, which represented a 20% equity interest in Hardwoods and were held by the former owners of the Business, were exchanged for common shares of Hardwoods Distribution Inc. on the basis of 0.3793 common shares per Class B limited partner unit. As a result of these arrangements, Hardwoods Distribution Inc. owns 100% of Hardwoods, whereas previously the Fund owned 80% of the Business, and the Fund has been wound up into HDI. Hardwoods Distribution Inc. is listed on the Toronto Stock Exchange and trades under the symbol HWD.

HDI’s results are based upon the performance of Hardwoods.

About Hardwoods

Hardwoods is one of North America’s largest distributors of high-grade hardwood lumber, sheet goods and architectural millwork to the cabinet, moulding, millwork, furniture and specialty wood products industries. The Company currently operates a network of 31 distribution centers in the U.S. and Canada.

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. In addition to profit or loss, the Company considers EBITDA to be a useful supplemental measure of a company's ability to meet debt service and capital expenditure requirements, and the Company interprets trends in EBITDA as an indicator of relative operating performance.

EBITDA is not an earnings measure recognized by International Financial Reporting Standards (“IFRS”) and does not have a standardized meaning prescribed by IFRS. Investors are cautioned that EBITDA should not replace profit or loss or cash flows (as determined in accordance with IFRS) as an indicator of our performance. The Company’s method of calculating EBITDA may differ from the methods used by other issuers. Therefore, the Company’s EBITDA may not be comparable to similar measures presented by other issuers. For a reconciliation between EBITDA and profit or loss as determined in accordance with IFRS, please refer to the discussion of Results of Operations described in section 3.0 of Management's Discussion and Analysis (MD&A) for the three and nine months ended September 30, 2011.

Forward-Looking Statements

CAUTIOUS 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. Such statements may involve, but are not limited to: our expectation that Paxton operations will provide approximately $45 million of profitable annual sales to our business; our perspective that while we do not anticipate any significant improvement in market conditions in the near term, our emphasis on profitable market expansion is expected to continue delivering results for our shareholders; our expectation the Company will continue to rely on its market expansion strategy to achieve growth and enhance profits; our expectation that operating expenses will continue trending higher in 2011 as the Company implements its market expansion strategies, supports increased sales activity and incorporates Paxton's business costs; our intentions for the balance of the year to be to achieve a successful integration of the newly acquired Paxton operations, and to continue executing the Company's business strategy while tightly managing the business.

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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