

NEWS RELEASE: Via  
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Attention: Business/Financial Editors

HARDWOODS DISTRIBUTION INC.

TRADING SYMBOL: **Toronto Stock Exchange – HWD**

## Hardwoods Announces First Quarter 2014 Results and Declares Quarterly Dividend

Langley, B.C., May 14, 2014/ CNW/ – Hardwoods Distribution Inc. (“Hardwoods” or “the Company”) today announced financial results for the three months ended March 31, 2014. Hardwoods is one of North America’s largest wholesale distributors of hardwood lumber and related sheet good products, operating from a network of 33 locations in the US and Canada.

### **Highlights**

*(For the three months ended March 31, 2014)*

- Sales increased 16.0% to \$100.9 million, up from \$87.0 million in the first quarter of 2013.
- First quarter gross profit increased 14.9% year-over-year to \$18.3 million.
- Hardwoods reported first quarter EBITDA of \$5.1 million and profit for the period of \$3.0 million.
- Subsequent to the quarter end, Hardwoods announced the US\$15.4 million acquisition of the business operations of Hardwoods of Michigan, Inc. (“HMI”), a fully integrated producer of high-quality, value-added hardwood lumber.
- Hardwoods’ Board of Directors declared a quarterly dividend of \$0.045 per share, payable July 31, 2014 to shareholders of record as of July 18, 2014.

“We achieved record sales results in the first quarter of 2014, breaking the \$100 million quarterly mark for the first time in our history,” said Lance Blanco, President and CEO of Hardwoods. “This achievement is all the more significant given it occurred in the first quarter which is traditionally a seasonally slower period for our business, and considering the severe weather challenges during the quarter that forced multi-day closures at a number of our US branches. That we were able to achieve our best-ever sales quarter against this backdrop underscores the momentum in our business.”

Hardwoods sales growth continues to be supported by the ongoing recovery in the US residential construction market. According to the US Census Bureau, in the twelve months ended March 31, 2014 construction started on new housing units was up 10% compared to the same period in the prior year. With approximately 75% of its business in the US, and approximately 60% of its sales focused on new residential construction, Hardwoods is benefiting from this recovery.

First quarter sales results were further supported by a decline in the value of the Canadian dollar relative to the US dollar. A weaker Canadian dollar benefits Hardwoods by: (i) increasing the value of sales and profits earned in its US operations when translated into Canadian dollars for financial reporting purposes; (ii) increasing the selling price of US dollar-denominated products sold to Canadian customers; and (iii) improving the export competitiveness of Hardwoods’ Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

To support existing strong sales levels and to prepare for future growth, Hardwoods increased its investment in personnel and premises during the first quarter of 2014. The Company also increased investment in strategic initiatives, including its “Leverage Imports” and “Strengthen Commercial” strategies discussed in the Company’s outlook below. First quarter operating expenses increased by \$2.5 million year-over-year, largely due to these investments. The higher expenses fully offset the \$2.4 million increase in first quarter 2014 gross profit, with the result that EBITDA remained consistent at \$5.1 million in both the 2013 and 2014 first quarter periods.

Subsequent to the quarter end, Hardwoods announced the acquisition of HMI, a fully integrated producer and exporter of high-quality, value-added hardwood lumber based in Clinton, Michigan.

“HMI represents an attractively priced acquisition that is well-timed to the ongoing recovery in the US housing market,” said Mr. Blanco. It broadens our customer base, is expected to generate approximately \$33 million in additional revenues per year, while also providing new cross-selling opportunities for our established lines of import products. HMI also strengthens the expertise in value-added manufacturing that we have developed since acquiring the Frank Paxton Lumber Company in 2011 and which has proved to be an attractive line of business.”

In conjunction with the HMI transaction, Hardwoods increased its US credit facility from US \$50.0 million to US \$79.1 million and extended the term of the facility to April 27, 2017. The amended facility enabled Hardwoods to finance the transaction, while still providing sufficient unused borrowing availability for the Company to pursue its growth strategy.

“We believe we are now better positioned than ever to continue capturing the potential in our markets. As we move forward, we will continue to implement our strategies, including pursuing select acquisition opportunities that support our objectives,” said Mr. Blanco. “Overall, we are optimistic about the business and pleased to announce another quarterly dividend of \$0.045 per share.”

## Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)					
	For the three months Ended March 31		For the three months Ended March 31		
	2014	2013	\$ Increase (Decrease)	% Increase (Decrease)	
Total sales	\$ 100,934	\$ 86,983	\$ 13,951	16.0%	
<i>Sales in the US (US\$)</i>	<i>69,541</i>	<i>63,912</i>	<i>5,629</i>	<i>8.8%</i>	
<i>Sales in Canada</i>	<i>24,189</i>	<i>22,560</i>	<i>1,629</i>	<i>7.2%</i>	
Gross profit	18,263	15,900	2,363	14.9%	
<i>Gross profit %</i>	<i>18.1%</i>	<i>18.3%</i>			
Operating expenses	(13,598)	(11,086)	2,512	22.7%	
Profit from operating activities	4,665	4,814	(149)	-3.1%	
Add: Depreciation and amortization	438	329	109	33.1%	
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 5,103	\$ 5,143	\$ (40)	-0.8%	
Add (deduct):					
Depreciation and amortization	(438)	(329)	(109)	-33.1%	
Net finance income	65	167	(102)	-61.1%	
Income tax expense	(1,765)	(1,801)	36	2.0%	
Profit for the period	\$ 2,965	\$ 3,180	\$ (215)	-6.8%	
Basic and fully diluted profit per share	\$ 0.18	\$ 0.19			
Average Canadian dollar exchange rate for one US dollar	1.104	1.008			

### Results from Operations – Three Months Ended March 31, 2013

For the three months ended March 31, 2014, total sales increased by 16.0% to \$100.9 million, from \$87.0 million during the same period in 2013. The year-over-year sales growth includes a 7.6% increase due to stronger underlying sales activity and higher product prices, together with an 8.4% increase due to the positive impact of a weaker Canadian dollar. Organic growth from existing operations accounted for approximately 92% of the sales increase, with the Leland import business, acquired on May 31, 2013, accounting for the balance.

Sales in the United States, as measured in US dollars, increased by 8.8%, despite severe weather conditions in the US Midwest and South which resulted in lost sales days at a number of Hardwoods' branches. In the US regions impacted by the severe weather, sales declined by 7.4% year over year. In the US regions not affected by severe weather, sales increased by 17.8%, reflecting continued strength in product prices and the ongoing recovery in the US housing market.

First quarter sales in Canada increased by 7.2% year-over-year. This increase was primarily due to higher product pricing and the positive impact of a weaker Canadian dollar.

First quarter gross profit increased 14.9% to \$18.3 million, from \$15.9 million during the same period last year. This improvement reflects the higher sales revenue for the period, partially offset by a slightly lower gross profit margin. At 18.1%, gross profit margin was well within Hardwoods' target level, but below the 18.3% achieved in the first quarter of 2013 when the Company experienced rapid product price escalation. Hardwoods' considers a gross margin percentage of approximately 18.0% to be a sustainable level for its operations under normal business conditions.

Operating expenses for the three-month period increased to \$13.6 million, from \$11.1 million during the same period in 2013. The \$2.5 million increase reflects investments in personnel, premises and strategic initiatives designed to support existing and future growth, a return to more typical bad debt levels following unusually low levels in the first quarter of 2013, the negative impact of a higher Canadian dollar on US operating expenses, and incremental expenses related to the Leland operations acquired in May 2013.

First quarter EBITDA was \$5.1 million, on par with the first quarter of 2013 results, reflecting the offsetting impact of higher operating expenses on increased gross profit.

Profit for the period was \$3.0 million, compared to \$3.2 million during the same period in 2013. The decrease reflects the flat EBITDA result, together with higher depreciation and a decrease in net finance income.

## **Outlook**

Hardwoods anticipates continued strength in sales in the second quarter of 2014, supported by momentum in US market demand and product pricing, implementation of the Company's business strategies, the positive foreign exchange impact of a weaker Canadian dollar, and the addition of the HMI business. Second quarter gross profit

margin is expected to be within the normal target range for the Company, but is not expected to match the unusually high 18.9% margin achieved in the second quarter of 2013 during a period of rapid product price escalation.

Market forecasters indicate continued recovery in the US residential construction market, with US housing starts expected to increase from 0.924 million starts in 2013 to 1.145 million starts in 2014 (+24%) according to the National Association of Homebuilders. Hardwoods is well positioned to capitalize on this growth with approximately 75% of its business in the US, and approximately 60% of its products used in the residential construction market. The outlook for the US repair and remodeling market remains positive with growth of over 10% forecast for 2014 by Harvard's Joint Center for Housing Studies. Indicators for commercial construction are for steady mid-single digit growth in 2014.

In the Canadian market, 2014 housing starts are expected to remain unchanged from 2013 levels, while growth in the renovation and commercial construction markets is expected to be in line with inflation.

Hardwoods' goal in 2014 continues to be to capture the growth potential in the US market, both in terms of sales volume and product pricing. Hardwoods will also focus on successfully integrating the newly acquired HMI business. In addition, the Company is actively pursuing its "Leverage Imports" and "Strengthen Commercial" strategies which focus on:

- Growing sales of Hardwoods' high-quality proprietary import lines, supported both by the established quality assurance team located in Asia and new international sourcing initiatives designed to bring world-wide product solutions to Hardwoods' customers.
- Capitalizing on significant opportunities in the commercial market. In particular, Hardwoods is actively growing its supply of first-tier product supply for commercial customers, and capitalizing on its import capabilities to offer off-

shore product solutions to the commercial sector to supplement domestic product solutions.

Hardwoods' Board of Directors will continue to review the Company's financial performance and assess dividend levels on a regular basis. However in terms of cash utilization, the Company's primary focus in 2014 will remain on retaining the cash necessary to finance the significant market opportunity in the US and to keep the Company's balance sheet strong to support strategic acquisitions.

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 months ended March 31, 2014. The MD&A will be posted, along with the Company's condensed consolidated interim financial statements on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.hardwoods-inc.com](http://www.hardwoods-inc.com)).

### **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, 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 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 Hardwoods' 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 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 months ended March 31, 2014 available at [www.sedar.com](http://www.sedar.com) and the Summary of Results section of this news release.

## **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. Such statements may involve, but are not limited to: that Hardwoods anticipates continued strength in sales in the second quarter of 2014, supported by momentum in US market demand and product pricing, implementation of the Company’s business strategies, the positive foreign exchange impact of a weaker Canadian dollar, and the addition of the HMI business; that second quarter gross profit margin is expected to be within the normal target range for the Company, but is not expected to match the unusually high 18.9% margin achieved in the second quarter of 2013 during a period of rapid product price escalation; that market forecasters indicate continued recovery in the US residential construction market, with US housing starts expected to increase from 0.924 million starts in 2013 to 1.145 million starts in 2014 (+24%) according to the National Association of Homebuilders; that Hardwoods is well positioned to capitalize on this growth with approximately 75% of its business in the US, and approximately 60% of its products used in the residential construction market; that the outlook for the US repair and remodeling market remains positive with growth of over 10% forecast for 2014 by Harvard’s Joint Center for Housing Studies; that indicators for commercial construction are for steady mid-single digit growth in 2014; that in the Canadian market, 2014

housing starts are expected to remain unchanged from 2013 levels, while growth in the renovation and commercial construction markets is expected to be in line with inflation; that Hardwoods' goal in 2014 continues to be to capture the growth potential in the US market, both in terms of sales volume and product pricing, and to successfully integrate the newly acquired HMI business; that the Company is actively pursuing its "Leverage Imports" and "Strengthen Commercial" strategies which focus on growing sales of Hardwoods' high-quality proprietary import lines, and capitalizing on significant opportunities in the commercial market; that Hardwoods' Board of Directors will continue to review the Company's financial performance and assess dividend levels on a regular basis; and that in terms of cash utilization, the Company's primary focus in 2014 will remain on retaining the cash necessary to finance the significant market opportunity in the US and to keep the Company's balance sheet strong to support strategic acquisitions.

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 (including trade outcomes that impact upon the Company's business); 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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