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Attention: Business/Financial Editors

Hardwoods Distribution Inc.
TRADING SYMBOL: **Toronto Stock Exchange - HDI**

HDI Announces Third Quarter 2018 Results

Sales and Profit Increase 11.9% and 11.4% respectively
Announces Quarterly Dividend of $0.08 per Share

Langley, B.C., November 5, 2018/ CNW/ - Hardwoods Distribution Inc. (“HDI” or the “Company”) today announced financial results for the three and nine months ended September 30, 2018. HDI is North America’s largest wholesale distributor of architectural grade building products to the residential and commercial construction markets, with a comprehensive US and Canadian distribution network.

Highlights *(For the three months ended September 30, 2018)*

- Third quarter consolidated sales increased 11.9% to $290.4 million year-over-year.
    - Sales from US operations increased 9.2% year-over-year. Organic growth accounted for 7.0% of this increase, with acquisitions-based growth contributing 2.2%.
    - Sales from Canada remained steady with a modest 0.6% year-over-year improvement.
- Gross profit increased $3.9 million to $51.4 million; gross profit margin of 17.7%.
- Operating expenses as a percentage of sales improved to 13.5% from 13.8% in the comparative quarter.
- Third quarter profit increased 11.4%, and diluted profit per share increased 11.7% year-over-year, primarily reflecting the positive impact of a lower US corporate tax rate.
- EBITDA improved to $14.0 million from $13.4 million in Q3 2017. Adjusted EBITDA was stable year-over-year at $15.2 million.
- The Board of Directors approved a quarterly dividend of $0.08 per share. The dividend will be paid on January 25, 2019 to shareholders of record as at January 14, 2019.

"As we have throughout 2018, in the third quarter we continued to grow both our top and bottom line. Third quarter sales increased by 11.9% and profit by 11.4% year-over-year as we executed our business strategies, responded to strong demand in US markets, and benefited from US corporate tax cuts," said Rob Brown, President and CEO of HDI.

"Our double-digit profit growth was achieved despite trade barrier-induced market imbalances that continued to affect the hardwood plywood product category, and reduced our overall gross margin to 17.7%. Our gross margins historically are in the 18%-19% range."

"Market conditions in the hardwood plywood product category have been slower to rebalance than expected, but should improve gradually in the next several quarters. We have made significant strides in developing new supply in this product category, which should assist in increasing our overall gross margins to more typical levels in 2019 and contribute to a further strengthening of our results."

"Our view going forward remains positive with our diversified customer base and growing US market presence providing momentum for our business. While US housing market outlooks have become more cautious in recent months, we continue to see considerable room for growth in commercial and other end-use markets that we serve. Our business strategy has delivered significant organic and acquisition-based growth over many years, and we will continue to pursue it."

Outlook

In US end-markets, the Company anticipates a continuation of mid-to-high single digit organic market growth through the balance of 2018, and low single digit organic growth in Canada.

Fourth quarter sales and profit are expected to increase compared to the same period of 2017. Gross profit percentage is expected to remain slightly below the 18-19% target range through year-end, but to gradually strengthen as market-related impacts continue to diminish and new product programs gain traction.

Recent US housing indicators and economic data have been uneven, and this has affected market sentiment as it relates to certain US construction sectors and commodity prices for softwood lumber. The Company's view is that this is a temporary pause in housing demand rather than a directional change. Housing fundamentals remain supportive and experts continue to forecast new home construction growth for next year.

In terms of HDI's exposure to US construction markets, the Company is well diversified with approximately 50% of its products used in residential construction, both new home construction and repair and remodel sectors; approximately 30% used in non-residential construction; and approximately 20% used in other diversified end-markets. HDI participates in a wide range of architectural building product categories including high-value hardwood lumber, fancy hardwood plywood, decorative laminates, composite panels, hardware, coatings, doors and countertops. Higher value decorative products generally benefit from stable pricing. HDI does not participate in structural wood product categories such as softwood lumber, softwood plywood, or OSB, which can be subject to significant commodity price swings.

Moving forward, the Company continues to pursue its successful strategies of capturing market share in the US market, gaining additional market share in strategic product categories, optimizing the platform, and capitalizing on opportunities in the fragmented US distribution market to grow through acquisition.

"We benefit from a strong balance sheet, which positions us to pursue our business strategies and seek out attractive acquisitions," said Mr. Brown. "We also remain committed to the disciplined and strategic business approach that has translated into a long track record of improving operating performance at HDI, and which in turn, has enabled us to provide investors with seven dividend increases in the past seven years, including the 10% dividend increase we announced on August 9, 2018," added Mr. Brown.

Q3 2018 Investor Call

The Company will host a conference call on Tuesday, November 6, 2018 at 8:00 am Pacific (11:00 am Eastern). Participants should dial 1-888-390-0546 or (416) 764-8688 (GTA) at least five minutes before the call begins. A replay will be available through November 20, 2018 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 384943.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	Three months ended Sept 30 2018	Three months ended Sept 30 2017	Nine months ended Sept 30 2018	Nine months ended Sept 30 2017
Total sales	$ 290,354	259,483	$ 859,281	$ 796,304
Sales in the US (US$)	*195,447*	*179,056*	*583,729*	*528,710*
Sales in Canada	*35,008*	*34,790*	*107,672*	*105,069*
Gross profit	51,409	47,552	153,108	147,372
Gross profit %	*17.7%*	18.3%	*17.8%*	*18.5%*
Operating expenses	(39,130)	(35,700)	(115,293)	(107,678)
Profit from operating activities	12,278	11,852	37,816	39,694
Add: Depreciation and amortization	1,732	1,504	5,045	4,896
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 14,010	13,356	$ 42,860	$ 44,590
EBITDA as a % of revenue	*4.8%*	*5.1%*	*5.0%*	*5.6%*
Add (deduct):				
Depreciation and amortization	(1,732)	(1,504)	(5,045)	(4,896)
Net finance income (expense)	(1,218)	(630)	(2,684)	(1,825)
Income tax expense	(2,918)	(3,910)	(8,850)	(12,859)
Profit for the period	$ 8,142	$ 7,312	$ 26,281	$ 25,010
Basic profit per share	$ 0.38	$ 0.34	$ 1.23	$ 1.17
Diluted profit per share	$ 0.38	$ 0.34	$ 1.22	$ 1.16
Average Canadian dollar exchange rate for one US dollar	$ 1.31	$ 1.25	$ 1.29	$ 1.31

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)	Three months ended Sept 30 2018	Three months ended Sept 30 2017	Nine months ended Sept 30 2018	Nine months ended Sept 30 2017
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 14,010	$ 13,356	$ 42,860	$ 44,590
Non-cash LTIP expense	1,111	1,699	2,353	*2,731*
Allowance related to duty deposits receivable	$ —	$ —	$ 880	$ —
Transaction expenses	$ 61	$ 170	$ 61	$ 273
Adjusted EBITDA	$ 15,182	$ 15,225	$ 46,155	$ 47,594
Adjusted EBITDA as a % of revenue	*5.2%*	*5.9%*	*5.4%*	*6.0%*
Profit for the period, as reported	$ 8,142	$ 7,312	$ 26,281	$ 25,010
Adjustments, net of tax	1,063	1,734	2,866	2,771
Adjusted profit for the period	$ 9,205	$ 9,046	$ 29,147	$ 27,781
Basic profit per share, as reported	$ 0.38	$ 0.34	$ 1.23	$ 1.17
Net impact of above items per share	0.05	0.08	0.13	0.13
Adjusted basic profit per share	$ 0.43	$ 0.42	$ 1.36	$ 1.30
Diluted profit per share, as reported	$ 0.38	$ 0.34	$ 1.22	$ 1.16
Net impact of above items per share	0.05	0.08	0.13	0.13
Adjusted diluted profit per share	$ 0.43	$ 0.42	$ 1.35	$ 1.29

Results from Operations - Three Months Ended September 30, 2018

Sales for the three months ended September 30, 2018 increased 11.9% to $290.4 million, from $259.5 million during the same period in 2017. Of the $30.9 million year-over-year increase, $15.5 million, representing a 6.0% increase in sales, was due to organic growth and $5.0 million, representing a 1.9% increase in sales, reflects the addition of acquired businesses. In addition, a gain of $10.3 million was realized relating to the favorable foreign exchange translation impact resulting from a stronger US dollar when translating US sales to Canadian dollars for reporting purposes.

Sales from US operations increased by US$16.4 million, or 9.2%, to US$195.4 million, from US$179.1 million in the same period in 2017. The US operations achieved organic growth of US$12.5 million, representing a 7.0% increase in sales. This improvement reflects higher volumes, together with some price inflation on certain product lines. Growth from acquired businesses contributed an additional US$3.8 million of sales in the quarter. Sales in Canada increased by $0.2 million, or 0.6%, year-over-year.

Gross profit for the three months ended September 30, 2018 increased 8.1% to $51.4 million, from $47.6 million during the same period in 2017. This $3.9 million improvement reflects higher sales, partially offset by a lower gross profit margin. As a percentage of sales, third quarter gross profit margin was 17.7% as compared to 18.3% year-over-year. The decrease in gross profit margin primarily reflects a) increased costs for certain product lines that the Company now purchases from alternate suppliers, rather than from mills in China as it previously did; and b) an excess market supply of lower-value hardwood plywood and substitute products. HDI expects these impacts to be short term in nature. As it relates to product costs, the Company has made excellent progress in developing proprietary product offerings with alternative suppliers of hardwood plywood, and a number of these products are now in market trials with customers. As it relates to excess supply, this excess is working its way through the market and the impact is expected to gradually diminish as more consistent supply-demand dynamics emerge.

Operating expenses were $39.1 million, compared to $35.7 million during the same period in 2017. The $3.4 million increase includes $0.8 million of operating expenses related to acquired businesses, $1.3 million of added costs to support organic growth, and a $1.4 million increase in expenses due to the impact of a stronger US dollar on translation of US operating expenses. As a percentage of sales, operating expenses were 13.5% as compared to 13.8% in the same period last year.

EBITDA increased to $14.0 million, from $13.4 million in the same period of 2017. The $0.6 million improvement reflects a $3.9 million increase in gross profit dollars, partially offset by a $3.4 million increase in operating expenses. Third quarter Adjusted EBITDA of $15.2 million was on par with Q3 2017 results.

Net finance expense was $1.2 million compared to $0.6 million in the same period in 2017. The year-over-year increase primarily relates to interest on bank indebtedness.

Income tax expense decreased to $2.9 million, from $3.9 million during the same period in 2017. The decrease was primarily driven by a lower effective tax rate in the US as compared to the same quarter in the previous year.

Profit increased 11.4% to $8.1 million, from $7.3 million during the same period in 2017. The $0.8 million improvement reflects a $0.6 million increase in EBITDA, and a $1.0 million decrease in income tax expense, partially offset by a $0.2 million increase in depreciation expense and a $0.6 million increase in net finance expense. Third quarter diluted profit per share increased to $0.38 from $0.34 in Q3 2017.

Results from Operations - Nine Months Ended September 30, 2018

For the nine months ended September 30, 2018, sales increased 7.9% to $859.3 million, from $796.3 million during the same period in 2017. Of the $63.0 million year-over-year increase, $51.7 million, representing a 6.5% increase in sales, was due to organic growth and $22.5 million, representing a 2.8% increase in sales, was due to acquired businesses. The growth in sales was achieved despite an $11.2 million unfavorable foreign exchange translation impact, resulting from a stronger Canadian dollar as compared to the first nine months of 2017, when translating US sales to Canadian dollars for reporting purposes.

Nine-month sales from US operations increased by US$55.0 million, or 10.4%, to US$583.7 million. This was up from sales of US$528.7 million in the first nine months of 2017. Organic growth accounted for US $37.5 million of the gain, representing a 7.1% increase in sales, and reflects increased volumes as well as some price inflation on certain product lines. Growth from acquired businesses contributed additional sales of US$17.5 million. Nine-month sales in Canada increased by $2.6 million, or 2.5%, as compared to the same period in 2017. The increase in Canadian sales was entirely organic and reflects success in winning new business.

Gross profit for the nine months ended September 30, 2018 increased 3.9% to $153.1 million, from $147.4 million during the same period in 2017. This $5.7 million improvement reflects higher sales, partially offset by a lower gross profit margin. As a percentage of sales, gross profit margin was 17.8% as compared to 18.5% in 2017.

Operating expenses increased to $115.3 million, from $107.7 million during the same period in 2017. The $7.6 million increase includes the addition of $4.1 million of operating expenses related to acquired businesses, $4.3 million of added costs to support organic growth, and $0.9 million for an allowance related to duty deposits receivable. These increases were partially offset by a $0.2 million decrease in transaction costs and a $1.5 million foreign exchange impact related to a stronger Canadian dollar on translation of US operating expenses. As a percentage of sales, operating expenses improved to 13.4%, from 13.5% in the comparative period, reflecting the efficiency of HDI's business model.

HDI generated year-to-date EBITDA of $42.9 million, as compared to $44.6 million in the first nine months of 2017. The $1.7 million reduction primarily reflects the $7.6 increase in operating expenses, partially offset by the $5.7 million increase in gross profit. Adjusted EBITDA was $46.2 million, a decrease of $1.4 million from $47.6 million in the same period in 2017.

Net finance expense for the first nine months of 2018 was $2.7 million, compared to $1.8 million in the same period in 2017. This increase relates primarily to interest on bank indebtedness.

Income tax expense decreased to $8.8 million for the nine months ended September 30, 2018, from $12.9 million during the same period in 2017. The decrease was primarily driven by the lower effective tax rate in the US that came into effect in 2018.

Nine month profit increased 5.1% to $26.3 million, from $25.0 million during the same period in 2017. The $1.3 million improvement primarily reflects the decrease in income tax expense of $4.0 million, partially offset by the $1.7 million decrease in EBITDA and the $0.9 million increase in net finance expense. Diluted profit per share increased to $1.22 from $1.16, a 5.2% gain, as compared to the first nine months of 2017.

About HDI

HDI is North America's largest distributor of architectural grade building products to the residential and industrial construction markets. The Company operates a North American network of 62 distribution centres, as well as one sawmill and kiln drying operation.

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 mark-to-market adjustments and allowance related to duty deposits receivable. "Adjusted EBITDA margin" is as defined above, before certain items related to mark-to-market adjustments and allowance related to duty deposits receivable. 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 mark-to-market adjustments and allowance related to duty deposits receivable. 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. Such statements may involve, but are not limited to: Market conditions in the hardwood plywood product category have been slower than expected to rebalance, but should improve gradually in the next several quarters; we have made significant strides in developing new supply in this product category that should assist in increasing our overall gross margins to more typical levels in 2019 and contribute to a further strengthening of our results; while US housing market outlooks have become more cautious in recent months, we continue to see considerable room for growth in commercial and other end-use markets that we serve; in US end-markets, the Company anticipates a continuation of mid-to-high single digit organic market growth through the balance of 2018, and low single digit organic growth in Canada;

fourth quarter sales and profit are expected to increase compared to the same period of 2017; gross profit percentage is expected to remain slightly below the 18-19% target range through year-end, but to gradually strengthen as market-related impacts continue to diminish and new product programs gain traction; and higher value decorative products are generally subject to stable pricing.

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, Hardwoods 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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