Interim Consolidated Financial Statements

Richelieu Hardware Ltd.

For the three-month period ended February 29, 2024
[Unaudited]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of dollars] [unaudited]

	Notes	**As at February 29, 2024** **$**	As at November 30, 2023 $
ASSETS			
Current assets			
Cash and cash equivalents		**25,862**	46,327
Accounts receivable		**215,977**	219,264
Income taxes receivable		**17,667**	12,621
Inventories		**585,120**	572,351
Prepaid expenses		**12,907**	8,905
		857,533	859,468
Non-current assets			
Property, plant and equipment		**81,256**	78,053
Intangible assets		**68,842**	67,808
Right-of-use assets		**189,854**	167,124
Goodwill		**138,260**	135,089
Deferred taxes		**9,054**	7,421
		1,344,799	1,314,963
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft		**36,060**	22,617
Accounts payable and accrued liabilities		**155,181**	169,785
Income taxes payable		**—**	4,373
Current portion of long-term debt		**3,110**	2,940
Current portion of lease obligations		**39,823**	37,989
		234,174	237,704
Non-current liabilities			
Long-term debt		**3,526**	2,406
Lease obligations		**165,685**	143,336
Deferred taxes		**13,224**	11,169
Other liabilities		**11,731**	12,191
		428,340	406,806
Equity			
Share capital	4	**73,881**	72,289
Contributed surplus		**9,335**	9,040
Retained earnings		**801,824**	794,971
Accumulated other comprehensive income	5	**28,286**	28,593
Equity attributable to shareholders of the Corporation		**913,326**	904,893
Non-controlling interests		**3,133**	3,264
		916,459	908,157
		1,344,799	1,314,963

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board of Directors :

Richard Lord
Director

Luc Martin
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month periods ended February 29 and February 28 [in thousands of dollars, except earnings per share]
[unaudited]

	Notes	2024 $	2023 $
Sales		**406,857**	403,030
Operating expenses excluding amortization	6	**366,440**	353,932
Earnings before amortization, financial costs and income taxes		**40,417**	49,098
Amortization of property, plant and equipment and right-of-use assets		**14,033**	11,373
Amortization of intangible assets		**2,642**	2,737
Net financial costs		**2,517**	3,831
		19,192	17,941
Earnings before income taxes		**21,225**	31,157
Income taxes		**5,676**	8,575
Net earnings		**15,549**	22,582
Net earnings attributable to:			
Shareholders of the Corporation		**15,229**	22,383
Non-controlling interests		**320**	199
		15,549	22,582
Net earnings per share attributable to shareholders of the Corporation			
Basic		**0.27**	0.40
Diluted		**0.27**	0.40

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended February 29 and February 28 [in thousands of dollars]
[unaudited]

	Notes	2024 $	2023 $
Net earnings		**15,549**	22,582
Other comprehensive income (loss) that will be reclassified to net earnings			
Exchange differences on translation of foreign operations	5	**(307)**	1,979
Comprehensive income		**15,242**	24,561
Comprehensive income attributable to:			
Shareholders of the Corporation		**14,922**	24,362
Non-controlling interests		**320**	199
		15,242	24,561

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three-month periods ended February 29 and February 28 [in thousands of dollars]
[unaudited]

	Attributable to shareholders of the Corporation						
	Share capital	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**	**Non-controlling interests**	**Total equity**
	$	$	$	$	$	$	$
Notes	4			5			
Balance as at November 30, 2022	61,829	8,400	719,185	27,743	817,157	2,665	819,822
Net earnings	—	—	22,383	—	22,383	199	22,582
Other comprehensive income	—	—	—	1,979	1,979	—	1,979
Comprehensive income	—	—	22,383	1,979	24,362	199	24,561
Shares repurchased	(22)	—	(751)	—	(773)	—	(773)
Stock options exercised	1,248	(233)	—	—	1,015	—	1,015
Share-based compensation expense	—	590	—	—	590	—	590
Dividends *[note 9]*	—	—	(8,368)	—	(8,368)	—	(8,368)
Other liabilities	—	—	—	—	—	(115)	(115)
	1,226	357	(9,119)	—	(7,536)	(115)	(7,651)
Balance as at February 28, 2023	63,055	8,757	732,449	29,722	833,983	2,749	836,732
Balance as at November 30, 2023	**72,289**	**9,040**	**794,971**	**28,593**	**904,893**	**3,264**	**908,157**
Net earnings	**—**	**—**	**15,229**	**—**	**15,229**	**320**	**15,549**
Other comprehensive loss	**—**	**—**	**—**	**(307)**	**(307)**	**—**	**(307)**
Comprehensive income (loss)	**—**	**—**	**15,229**	**(307)**	**14,922**	**320**	**15,242**
Stock options exercised	**1,592**	**(302)**	**—**	**—**	**1,290**	**—**	**1,290**
Share-based compensation expense	**—**	**597**	**—**	**—**	**597**	**—**	**597**
Dividends *[note 9]*	**—**	**—**	**(8,418)**	**—**	**(8,418)**	**(215)**	**(8,633)**
Other liabilities	**—**	**—**	**44**	**—**	**44**	**460**	**504**
Acquisition of non-controlling interests *[note 3]*	**—**	**—**	**(2)**	**—**	**(2)**	**(696)**	**(698)**
	1,592	**295**	**(8,376)**	**—**	**(6,489)**	**(451)**	**(6,940)**
Balance as at February 29, 2024	**73,881**	**9,335**	**801,824**	**28,286**	**913,326**	**3,133**	**916,459**

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended February 29 and February 28 [in thousands of dollars]
[unaudited]

	Notes	**2024** **$**	2023 $
OPERATING ACTIVITIES			
Net earnings		**15,549**	22,582
Items not affecting cash and cash equivalent			
Amortization of property, plant and equipment and right-of-use assets		**14,033**	11,373
Amortization of intangible assets		**2,642**	2,737
Deferred taxes		**(439)**	(495)
Share-based compensation expense	4	**597**	590
Net financial costs		**2,517**	3,831
		34,899	40,618
Net change in non-cash working capital balances		**(34,385)**	(21,835)
		514	18,783
FINANCING ACTIVITIES			
Repayment of long-term debt		**(1,689)**	(4,484)
Payment of lease obligations		**(9,669)**	(7,088)
Dividends paid to shareholders of the Corporation	9	**(8,418)**	(8,368)
Interest paid on bank overdraft		**(362)**	(2,331)
Other dividends paid		**(215)**	—
Common shares issued		**1,290**	1,015
Common shares repurchased for cancellation		**—**	(773)
		(19,063)	(22,029)
INVESTING ACTIVITIES			
Business acquisitions	3	**(7,415)**	(15,792)
Additions to property, plant and equipment and intangible assets		**(8,046)**	(6,460)
		(15,461)	(22,252)
Effect of exchange rate changes on cash and cash equivalents		**102**	(203)
Net change in cash and cash equivalents (bank overdraft)		**(33,908)**	(25,701)
Cash and cash equivalents (bank overdraft), beginning of period		**23,710**	(111,988)
Cash and cash equivalents (bank overdraft), end of period		**(10,198)**	(137,689)
Supplementary information			
Income taxes paid		**15,440**	22,069

See accompanying notes to the interim consolidated financial statements.

As at February 29, 2024 and February 28, 2023 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

NATURE OF BUSINESS

Richelieu Hardware Ltd. (the "Corporation") is incorporated under the laws of Quebec, Canada. The Corporation is an importer, manufacturer and a distributor of specialty hardware and complementary products. Its products target an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, door and window manufacturers, residential and commercial woodworkers and hardware retailers including renovation superstores. The Corporation's head office is located at 7900 Henri-Bourassa Blvd. West, Montreal, Quebec, Canada, H4S 1V4.

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's interim consolidated financial statements, presented in Canadian dollars, have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), and more specifically with IAS34, *Interim Financial Reporting.*

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing the annual consolidated financial statements as at November 30, 2023, and for the year then ended, and their preparation requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future and other factors deemed relevant and reasonable. In management's opinion, these interim consolidated financial statements reflect all the adjustments required for a fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year as the operating level of the Corporation is subject to seasonal fluctuations. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the Corporation's annual report for the fiscal year ended November 30, 2023.

2. CHANGES IN ACCOUNTING METHODS

In May 2021, the IASB amended IAS 12 "Income Taxes" to narrow the scope of the recognition exemption so that it does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments apply to fiscal years beginning on or after January 1, 2023. The application of these amendments to IAS 12 did not have a significant impact on the Corporation's interim consolidated financial statements.

3. BUSINESS ACQUISITIONS

2024

Effective December 1, 2023, the Corporation acquired all issued and outstanding shares of Olympic Forest Products Inc., a distributor of specialized lumber and panel products operating one distribution centre in Erin, ON.

Effective January 15, 2024, the Corporation acquired the principal net assets of Rapid Start, a distributor of specialized hardware operating one distribution centre in Rittman, OH.

Effective January 1, 2024, the Corporation acquired from minority shareholders an additional 15% interest in the voting shares of Provincial Woodproducts Ltd, thereby increasing its interest to 100% for a cash consideration of $698.

Sales of $4.0 million have been generated by these acquisitions since their completion. Had these acquisitions been made on December 1, 2023, management believes that sales included in the consolidated statement of earnings would have totalled approximately $4.2 million.

2023

Effective January 1, 2023, the Corporation acquired, through a newly formed subsidiary, 100% of all issued and outstanding shares of both Usimm Inc. and Unigrav Inc., two 3D scanning providers offering custom-made products for the architectural and industrial market, in partial consideration for which an interest equivalent to 25% of the share capital of the newly formed subsidiary was issued to sellers. The offices of Usimm and Unigrav are located, respectively, in Montreal and Drummondville, QC.

Effective January 4, 2023, the Corporation acquired all issued and outstanding shares of Quincaillerie Rabel Inc., a specialty hardware distributor operating one distribution centre in Terrebonne, QC.

Effective January 6, 2023, the Corporation acquired all issued and outstanding shares of Trans-World Distributing Ltd., a distributor of industrial fasteners for the industrial market operating one distribution centre in Dartmouth, NS.

Effective April 3, 2023, the Corporation acquired the principal net assets of Maverick Hardware, a distributor of specialized hardware operating one distribution centre in Eugene, OR.

Effective April 30, 2023, the Corporation acquired the principal net assets of Westlund Distributing, a distributor of specialized hardware operating one distribution centre in Monticello, MN.

Summary of acquisitions

The preliminary purchase price allocations, as of the date of the transactions, are summarized as follows:

	2024 $
Current assets acquired	3,896
Property, plant and equipment and right-of-use assets	2,306
Intangible assets	3,552
Goodwill	3,199
	12,953
Current liabilities assumed	(494)
Non-current liabilities assumed	(1,906)
Deferred tax liabilities	(857)
Net assets acquired	9,696
Consideration	
Cash, net of cash acquired	6,717
Consideration payable	2,979
	9,696

Goodwill deductible for tax purposes with regard to these acquisitions amounts to $325.

Preliminary purchase price allocations are subject to fair value adjustments to assets, liabilities and goodwill until the estimation process is complete. The final allocation of the purchase price should be completed as soon as management has gathered all the information available and deemed necessary to finalize the calculation, in particular for intangible assets, no later than 12 months after the acquisition date.

4. SHARE CAPITAL

Authorized

Unlimited number of:

- Common shares, participating, entitling the holder to one vote per share.
- Non-voting first and second ranking preferred shares issuable in the series, the characteristics of which are to be determined by the Board of Directors.

Changes in common shares are summarized as follows:

	Number of shares (in thousands)	$
Outstanding, November 30, 2022	55,786	61,829
Issued	324	10,482
Repurchased	(20)	(22)
Outstanding, November 30, 2023	**56,090**	**72,289**
Issued	**51**	**1,592**
Outstanding, February 29, 2024	**56,141**	**73,881**

During the three-month period ended February 29, 2024, the Corporation issued 50,775 common shares [2023 - 323,575] at a weighted average exercise price of $25.40 per share [2023 - $26.43] pursuant to the exercise of stock options under the stock option plan. The Corporation did not repurchase any common share for cancellation [20,000 common shares in consideration for $773 in fiscal 2023, which resulted in a premium on the redemption in the amount of $751].

Stock Option Plan

Changes in stock options are summarized as follows:

	Number of options (in thousands)	Weighted average exercise price $
Outstanding, November 30, 2022	1,680	30.50
Granted	307	37.39
Exercised	(324)	26.43
Cancelled	(41)	37.63
Outstanding, November 30, 2023	**1,622**	**32.44**
Granted	**289**	**46.66**
Exercised	**(51)**	**25.40**
Cancelled	**(5)**	**36.49**
Outstanding, February 29, 2024	**1,855**	**34.83**

Stock options granted during the three-month period ended February 29, 2024 have an average fair value of $11.48 per option [2023 - $9.18] as determined using the Black & Scholes option pricing model with an expected dividend yield of 1.3% [2023 - 1.4%], expected volatility of 24.4% [2023 - 24.3%], a risk free interest rate of 3.36% [2023 - 2.75%] and an expected life of 6.12 years [2023 - 6.46 years]. For the three-month period ended February 29, 2024, the compensation expense related to stock options amounted to $597 [2023 - $590] and was recognized under Operating expenses excluding amortization. As at February 29, 2024, the exercise price of stock options outstanding varied between $18.83 and $46.66 [between $12.71 and $43.57 as at November 30, 2023].

Deferred Share Unit Plan (DSU)

The $7,857 liability resulting from the DSU plan [November 30, 2023 - $7,500] was recognized under the Accounts payable and accrued liabilities. As at February 29, 2024, the fair value of the swaps amounted to a liability of $695 [November 30, 2023 - an asset of $178] and was recognized under Accounts payable and accrued liabilities. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data. Compensation expense for the DSUs for the three-month period ended February 29, 2024, amounted to $351 [2023 - $25] and was recognized under Operating expenses excluding amortization.

Share Purchase Plan

Compensation expense related to the share purchase plan amounted to $312 for the three-month period ended February 29, 2024 [2023 - $290] and was recognized under Operating expenses excluding amortization.

Net Earnings Per Share

Basic and diluted net earnings per share were calculated based on the following number of shares:

(in thousands)	2024	2023
Weighted average number of shares outstanding - Basic	**56,112**	55,780
Dilutive effect under stock option plan	**418**	367
Weighted average number of shares outstanding - Diluted	**56,530**	56,147

For the three-month period ended February 29, 2024, the computation of diluted net earnings per share did not take into account the weighted average of 289,000 [2023 - 271,000] stock options since their exercise price, being higher than the average price of the shares for the period, would have had an anti-dilutive effect.

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income includes the following items and its changes are detailed as follows:

(in thousands)	2024 $	2023 $
Balance, beginning of the period	**28,593**	27,743
Exchange differences on translation of foreign operations	**(307)**	1,979
Balance, end of the period	**28,286**	29,722

6. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

Fair Value

The carrying value of long-term debt approximates its fair value because of the short maturity on balance of sale payable. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data.

Credit Risk

The Corporation sells its products to numerous customers in Canada and in the United States. Credit risk refers to the possibility that customers will be unable to assume their liabilities towards the Corporation. The average days outstanding of accounts receivable, as at February 29, 2024 is deemed acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluations of customers and generally does not require collateral. The allowance for doubtful accounts increased by $530 during the three-month period ended February 29, 2024 to a total of $7,279 as at February 29, 2024 [November 30, 2023 - $6,749].

Market Risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and euros. Operating expenses include, for the three-month period ended February 29, 2024, an exchange gain of $705 [2023 - gain of $1,034].

As part of its business practices, the Corporation aims to preserve the purchase costs and the selling prices of its commercial activities. To protect its operations from exposure to exchange rate risks, the Corporation uses, among other things, centralized cash flow management. The Corporation may also periodically use forward foreign exchange contracts. By implementing these measures, the Corporation seeks to protect operating results from exposure to exchange rate fluctuations. The Corporation's business practices in terms of foreign exchange risk management does not allow for speculative trades.

As at February 29, 2024, a decrease (increase) of 5% of the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased (decreased) consolidated net earnings by $964 [$1,352 as at February 28, 2023] and would have increased (decreased) other comprehensive income by $11,441 [$9,734 as at February 28, 2023]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at February 29, 2024.

Liquidity Risk

The Corporation manages its risk of not being able to settle its financial liabilities when required by taking into account its operational needs and by using different financing tools, as needed. In recent years, the Corporation has financed its growth, business acquisitions, share repurchases and payout to shareholders using mainly cash generated by operating activities and through its lines of credit, when necessary.

The Corporation has an authorized line of credit of C$85 million [November 30, 2023 - C$150 million] as well as a line of credit of US$56 million [November 30, 2023 - US$56 million]. The restrictive conditions and covenants remain unchanged.

Interest Rate Risk

The Corporation is exposed to interest rate risk associated with the use of its lines of credit.

Operating Expenses Excluding Amortization

(in thousands)	**2024** **$**	2023 $
Inventories from the distribution, importing and manufacturing activities recognized as an expense	**308,145**	297,085
Salaries and related charges	**56,376**	53,470
Other charges	**1,919**	3,377
	366,440	353,932

For the three-month period ended February 29, 2024, an expense of $1,390 [2023 - $1,510] for inventory obsolescence was included in Inventories from the distribution, importing and manufacturing activities recognized as an expense.

7. CAPITAL MANAGEMENT

The Corporation's objectives are:

- Maintain a low debt ratio to preserve its capacity to pursue its growth both internally and through acquisitions; and
- Provide an adequate shareholders' return.

The Corporation manages and makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

As at February 29, 2024, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.7% [0.6% as at November 30, 2023] [long-term debt/equity]
- Return on average shareholders' equity of 11.9% over the last 12 months [12.9% for the year ended November 30, 2023]

The Corporation's capital management objectives remained unchanged from the previous fiscal year.

8. GEOGRAPHIC INFORMATION

During the three-month period ended February 29, 2024, nearly 57% of sales were made in Canada [2023 - 57%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to $174,827 [2023 - $172,124] in Canadian dollars and to $129,949 [2023 - $127,666] in US dollars.

As at February 29, 2024, of the total amount of property, plant and equipment, $30,063 [November 30, 2023 - $29,707] were located in the United States. In addition, intangible assets located in the United States amounted to $26,571 [November 30, 2023 - $27,330] and goodwill to $31,902 [November 30, 2023 - $31,605] in Canadian dollars and to $19,581 [November 30, 2023 - $20,122] and to $23,509 [November 30, 2023 - $23,270] in US dollars. Of the total amount of right-of-use assets, $108,997 [November 30, 2023 - $108,477] were located in the United States.

9. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three-month period ended February 29, 2024, the Corporation paid dividends of $8,418 to holders of common shares [2023 - $8,368], representing a quarterly dividend of $0.15 per common share [quarterly dividend of $0.15 per share in 2023].

10. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three-month period ended February 29, 2024 (including the comparative figures) were approved for issue by the Board of Directors on April 11, 2024.

11. SUBSEQUENT EVENT

On March 27, 2024, the Corporation acquired the principal net assets of Allegheny Plywood, a distributor of specialized panels operating three distribution centres in Pittsburgh and Allentown, PA, and in Cleveland, OH.

12. COMPARATIVE FIGURES

Certain figures disclosed for the three-month period ended February 28, 2023 have been reclassified to conform to the presentation adopted for the three months ended February 29, 2024.