

Hardwoods Announces Record Third Quarter 2015 Results

Declares Quarterly Dividend of \$0.055 per share

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

LANGLEY, BC, Nov. 9, 2015 /CNW/ - Hardwoods Distribution Inc. ("Hardwoods" or the "Company") today announced record financial results for the three and nine months ended September 30, 2015. Hardwoods is one of North America's largest wholesale distributors of hardwood lumber and related sheet good products, operating a network in North America of 32 distribution centres and 1 sawmill and kiln drying operation.

Third Quarter Highlights

(For the three months ended September 30, 2015)

- Revenue increased 25.3% to a new quarterly sales record of \$152.1 million
- Third quarter gross profit increased 28.0% to \$26.7 million, from \$20.9 million in Q3 2014, while gross profit margin increased to 17.6% from 17.2%
- Third quarter EBITDA reached a record \$10.2 million, up 34.7% year-over-year
- Profit for the period increased 40.4% to \$6.0 million
- On September 30, 2015, Hardwoods strengthened its management team with the appointments of Jason West as Vice President, Canada; Brian Graham as Vice President, Pacific Northwest, Rocky Mountain and Texas; Dan Figgins as Vice President, Imports; and Dan Besen as Vice President of California and Lake States.
- Hardwoods' Board of Directors approved a quarterly dividend of \$0.055 per share, payable on January 29, 2016 to shareholders of record as at January 19, 2016.

"We turned in another quarter of record-breaking sales and EBITDA results," said Hardwoods CEO Lance Blanco. "Our performance reflects the profitable organic growth we're achieving as we execute our strategies to leverage Hardwoods' successful import product program and expand our presence in the large North American commercial market. We are also benefiting from the stronger US dollar, which is having a significantly positive impact on our business both in Canada and in the US."

A stronger US 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 Hardwoods' Canadian customers; and iii) improving the export competitiveness of the Company's Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

On the market front, the US residential construction market continued to gain ground after a slow start to the year. According to the US Census Bureau, the seasonally adjusted annual rate of US housing starts averaged 1,163,000 during the third quarter, up 13.6% from 1,024,000 in the same period last year. The Canadian housing market also grew 10.8% in the third quarter with average seasonally adjusted housing starts increasing to 198,098 from 178,762 last year according to the Canadian Mortgage and Housing Corporation. Given that hardwood products are used late in the construction cycle (typically 9-12 months after construction starts), the growth in the US and Canadian markets should translate into improved demand in the future.

"Our strategies continue to be a key driver of growth with import products representing approximately 25% of our total revenue and commercial sales representing approximately 20%," said Mr. Blanco. "We are ensuring we can sustain and build on our growth going forward by adding managerial capacity. Overall, however, we continue to manage the business tightly."

Expenses were well controlled across the organization, with third quarter operating expenses remaining stable as a percentage of revenue. Bad debts were also low at 0.2% of sales, compared to the Company's long-term historical average of approximately 0.5%.

Hardwoods ended the third quarter with a strong balance sheet. As at September 30, 2015, net debt-to-EBITDA ratio was a conservative 1.4 times, debt-to-capital ratio was just 24.7% and the Company had borrowing capacity of \$47.2 million. Historically, the second and third quarters are peak periods for construction activity and therefore demand of hardwoods products.

"We are in excellent shape financially and well positioned to take advantage of future growth opportunities, including acquisition opportunities within our highly fragmented industry. Our outlook remains positive and we are pleased to declare another quarterly dividend of \$0.055 per share," said Mr. Blanco.

Summary of Results

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

	Three months ended September 30	Three months ended September 30	Nine months ended September 30	Nine months ended September 30
	2015	2014	2015	2014
Total sales	\$ 152,114	\$ 121,398	\$ 430,581	\$ 341,370
Sales in the US(\$)	92,861	86,155	271,340	239,217
Sales in Canada	30,736	27,525	88,747	79,618
Gross profit	26,734	20,889	74,645	59,680
Gross profit %	17.6%	17.2%	17.3%	17.5%

Operating expenses	(17,180)	(13,877)	(49,383)	(40,975)
Profit from operating activities	9,553	7,012	25,261	18,705
Add: Depreciation and amortization	673	582	1,891	1,535
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 10,226	\$ 7,594	\$ 27,152	\$ 20,240
Add (deduct):				
Depreciation and amortization	(673)	(582)	(1,891)	(1,535)
Net finance expense	154	7	60	(342)
Income tax expense	(3,745)	(2,773)	(9,637)	(7,156)
Profit for the period	\$ 5,962	\$ 4,246	\$ 15,684	\$ 11,207
Basic profit per share	\$ 0.36	\$ 0.26	\$ 0.94	\$ 0.68
Diluted profit per share	\$ 0.35	\$ 0.25	\$ 0.93	\$ 0.67
Average Canadian dollar exchange rate for one US dollar	1.31	1.09	1.26	1.09

Results from Operations - Three Months Ended September 30, 2015

For the three months ended September 30, 2015, total sales increased by 25.3% to \$152.1 million, from \$121.4 million in Q3 2014. Hardwoods' US operations increased sales by 7.8% to US\$92.9 million. This growth was entirely organic and reflects the Company's success in winning new business. Third quarter sales in Canada increased by \$3.2 million, or 11.7%, year-over-year to \$30.7 million. This growth reflects a combination of organic growth, overall higher product prices in Canada resulting from the stronger US dollar, and other positive foreign exchange impacts.

Third quarter gross profit increased to \$26.7 million, up 28.0% from \$20.9 million last year. This improvement reflects the higher sales revenue, paired with a higher gross profit margin. As a percentage of sales, third quarter gross profit margin increased to 17.6%, from 17.2% last year, and are within the range we consider sustainable at this point in the business cycle.

Operating expenses for the quarter were \$17.2 million, up from \$13.9 million in Q3 2014. The increase primarily reflects the impact of a stronger US dollar on translation of US operating expenses, together with additional costs incurred to support the Company's growth. As a percentage of sales, operating expenses remained stable at approximately 11.3% in the third quarter of this year and 11.4% last year.

Third quarter EBITDA increased 34.7% to \$10.2 million, from \$7.6 million in 2014. The EBITDA gain reflects the increase in gross profit, partially offset by the higher expenses. Profit for the period increased to \$6.0 million, from \$4.2 million in Q3 2014. The \$1.7 million improvement primarily reflects the \$2.6 million increase in EBITDA and the \$0.1 million increase in net finance income, partially offset by the \$1.0 million increase in income tax expense.

Results from Operations - Nine Months Ended September 30, 2015

For the nine months ended September 30, 2015, total sales increased by 26.1% to \$430.6 million, from \$341.4 million in the same period last year. Hardwoods' US operations increased sales by US\$32.1 million, or 13.4%, reflecting US\$21.8 million in organic growth and US\$10.3 million in incremental revenue from the Hardwoods of Michigan ("HMI") business acquired on April 28, 2014. Year-to-date sales in Canada increased by \$9.1 million, or 11.5%, year-over-year on organic growth and the positive impacts of a stronger US dollar.

Nine-month gross profit increased 25.1% to \$74.6 million, from \$59.7 million in 2014. This gain reflects the increased sales, partially offset by a lower gross margin of 17.3%, compared to 17.5% in the first nine months of last year. The year-over-year reduction in gross profit margin reflects competitive conditions, as well as the impact of the acquired HMI manufacturing business, which generates a slightly lower gross profit percentage than does Hardwoods' traditional distribution business. Hardwoods' entry into targeted commercial market segments also impacted margins as the Company offered introductory pricing to some new commercial accounts.

Nine-month operating expenses increased to \$49.4 million, from \$41.0 million in 2015. This increase primarily reflects higher expense due to the impact of a stronger US dollar on translation of US operating expenses, added costs to support organic growth, and incremental costs related to the acquired HMI business. However, as a percentage of sales, operating expenses improved to 11.5% from 12.0% last year.

Nine-month EBITDA increased sharply to \$27.2 million, from \$20.2 million in 2014. The 34.1% gain reflects the higher gross profit, partially offset by higher expenses before depreciation and amortization. Profit for the nine-month period increased to \$15.7 million, from \$11.2 million last year. This significant improvement reflects the \$6.9 million increase in EBITDA and the \$0.4 million increase in net finance income, partially offset by a \$2.5 million increase in income tax expense, and a \$0.4 million increase in depreciation and amortization.

Outlook

Economic forecasters continue to predict a multi-year strengthening of the US residential construction market. With our strong base of business in the US, growing import and commercial sales, and the positive foreign exchange impact of a stronger US dollar, we expect to achieve continued sales growth through the remainder of 2015 and into 2016.

Industry forecasts predict overall hardwood lumber prices will generally remain soft through the balance of 2015 and into 2016 as increased supply works its way through the market. Prices for hardwood plywood are expected to remain steady and prices for some composite panel products are expected to increase modestly.

Hardwoods' focus will remain on further expanding its US market share. The Company is actively pursuing its "leverage imports" and

"strengthen commercial" strategies which focus on:

- growing sales of our high-quality proprietary import lines, supported both by our established international quality assurance team and continued global sourcing initiatives designed to bring world-wide product solutions to our customers; and
- capitalizing on significant opportunities in the commercial market. In particular, we are actively growing our supply of products for commercial customers. We are also capitalizing on our import capabilities to offer commercial customers an attractive and differentiated line-up of products.

Hardwoods will also continue to pursue well-priced acquisition opportunities that support its strategic objectives.

The Company's Board of Directors will continue to review financial performance and assess dividend levels on a regular basis. However we continue to focus on retaining the cash necessary to finance the significant market growth 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 Hardwoods' Management's Discussion and Analysis (MD&A) for the three and nine months ended September 30, 2015. The MD&A will be posted, along with the Company's audited financial statements, on SEDAR (www.sedar.com) and on the Company's website (www.hardwoods-inc.com).

About Hardwoods Distribution Inc.

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 in North America of 32 distribution centers and 1 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. In addition to profit or loss, the Company considers EBITDA and EBITDA ratios 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 and EBITDA ratios 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 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, 2015.

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: Given that hardwood products are used late in the construction cycle (typically 9-12 months after construction starts), the growth in the US and Canadian markets should translate into improved demand in the future; we are in excellent shape financially and well positioned to take advantage of future growth opportunities, including acquisition opportunities within our highly fragmented industry; our outlook remains positive; economic forecasters continue to predict a multi-year strengthening of the US residential construction market; we expect to achieve continued sales growth through the remainder of 2015 and into 2016; industry forecasts predict overall hardwood lumber prices will generally remain soft through the balance of 2015 and into 2016 as increased supply works its way through the market; and prices for hardwood plywood are expected to remain steady and prices for some composite panel products are expected to increase modestly.

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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