

Hardwoods Announces First Quarter 2016 Results

Achieves Record Quarterly sales

Declares Quarterly Dividend of \$0.055 per share

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

LANGLEY, BC, May 12, 2016 /CNW/ - Hardwoods Distribution Inc. ("Hardwoods" or the "Company") today announced record quarterly sales. 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.

Highlights (For the three months ended March 31, 2016)

- First quarter revenue increased 16.5% year-over-year to \$157.4 million, the highest quarterly sales result in Hardwoods' history.
- Gross profit grew by 21.6% to \$28.0 million and gross profit margin increased to 17.8%, from 17.1%.
- First quarter Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA") climbed 23.4% to \$9.4 million; EBITDA margin increased to 6.0% from 5.7% period-over-period.
- Taking into account foreign exchange, generated profit of \$4.6 million compared to \$4.7 million in the first quarter of 2015;
- The Board of Directors approved a quarterly dividend of \$0.055 per share, payable on July 29, 2016 to shareholders of record as at July 18, 2016

"We established a new quarterly record for sales and achieved a 23.4% year-over-year improvement in EBITDA in the first quarter of 2016," said Rob Brown, President and CEO. "Our robust results reflect continued strong underlying performance as we leveraged improving market conditions and executed our 'strengthen commercial' and 'leverage imports' strategies. We also benefited from the positive impact of a US dollar that was significantly stronger year-over-year relative to the Canadian dollar."

A stronger US dollar benefits Hardwoods by: i) increasing the value of sales and profits earned in the 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, US housing starts climbed 16.9% to 1,133,000 as compared to Q1 2015 and based on information from the US Census Bureau. This strong growth bodes well for demand later in 2016 as hardwood products are typically used 9-12 months after construction begins. In Canada, seasonally adjusted housing starts increased by 10.3% to 162,733 as compared to Q1 2015 and according to the Canada Mortgage and Housing Corporation. The Company views the first quarter growth in the Canadian market as unusually strong given the generally flat conditions and outlook for this market.

Cash used in operating activities decreased by \$1.8 million as compared to Q1 2015 and we ended the quarter with a very strong balance sheet. As at March 31, 2016, Hardwoods' net debt-to-EBITDA ratio was a conservative 0.9 times, debt-to-capital ratio was just 19.8% and the Company had unused borrowing capacity of \$58.2 million.

"It was an excellent start to the year for Hardwoods and our outlook for the business remains positive," said Mr. Brown. "While an improving Canadian dollar could temper foreign exchange gains in the months ahead, market demand for our products continues to grow and we are successfully executing our strategies. Our strong financial position also enables us to grow the business organically and through acquisitions, while continuing to support our dividend. We are well positioned for 2016."

Summary of Results

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

	Three months ended March 31		Three months ended March 31	
	2016		2015	
Total sales	\$	157,413	\$	135,116
Sales in the US (US\$)		91,861		86,433
Sales in Canada		31,343		27,836
Gross profit		28,038		23,063
Gross profit %		17.8%		17.1%
Operating expenses		(19,355)		(15,988)
Profit from operating activities		8,683		7,075
Add: Depreciation and amortization		750		571
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	9,433	\$	7,646
EBITDA as a % of revenue		6.0%		5.7%
Add (deduct):				
Depreciation and amortization		(750)		(571)
Net finance income (expense)		(568)		236
Income tax expense		(3,493)		(2,598)
Profit for the period	\$	4,622	\$	4,713
Basic profit per share	\$	0.28	\$	0.28
Diluted profit per share	\$	0.27	\$	0.28
Average Canadian dollar exchange rate for one US dollar		1.37		1.24

Results from Operations - Three Months Ended March 31, 2016

For the three months ended March 31, 2016, total sales increased by 16.5% to \$157.4 million, from \$135.1 million in Q1 2015.

Hardwoods' US operations increased sales by US\$5.4 million, or 6.3%, to US\$91.9. This growth was entirely organic and reflects the Company's success in winning new business. Sales in Canada increased by \$3.5 million, or 12.6%, in Q1 2016 to \$31.3 million. The improvement in Canadian sales reflects organic growth, as well as the positive impacts of a stronger US dollar as described above.

First quarter gross profit increased 21.6% to \$28.0 million, from \$23.1 million in Q1 2015. The year-over-year improvement reflects higher sales revenue, combined

with a higher gross profit margin. As a percentage of sales, gross profit margin increased to 17.8%, from 17.1% in Q1 2015.

Operating expenses for the three months ended March 31, 2016 were \$19.4 million, compared to \$16.0 million in Q1 2015. The increase primarily reflects added costs to support organic growth. As a percentage of sales, operating expenses increased slightly to 12.3% in the first quarter of 2016, compared to 11.8% in Q1 2015.

First quarter EBITDA increased 23.4% to \$9.4 million, from \$7.6 million in Q1 2015. The 23.4% gain primarily reflects higher gross profit, partially offset by increased operating expenses before depreciation and amortization. Profit for the year decreased slightly to \$4.6 million, from \$4.7 million in Q1 2015, reflecting the higher EBITDA, offset by a \$0.9 million increase in income tax expense, a \$0.2 million increase in depreciation and amortization, and a \$0.8 million decrease in net finance income. The decrease in net finance income is primarily the result of changes in unrealized foreign exchange on US denominated intercompany debt.

Outlook

Job growth and income levels are gaining momentum in the US and are expected to help propel the continuing recovery in the US residential construction market through 2016 and beyond. According to Harvard's Joint Center for Housing Studies, home improvement spending is also projected to pick up pace in 2016 as housing markets strengthen. In addition, forecasts from the American Institute of Architects predict overall growth of 8.2% for the US non-residential building segment in 2016, with the strongest gains anticipated in the commercial sector, which includes office buildings, hotels and retail.

With approximately three quarters of its business in the US, and approximately 60% of sales driven by the residential construction market and 20% by the commercial market, Hardwoods expects to realize continued growth in its US business this year. However, recent improvements in the value of the Canadian dollar could temper foreign exchange gains on this growth in the months ahead.

The outlook for the Canadian market remains neutral, with 2016 housing starts expected to remain consistent with 2015 levels. Canadian commercial construction and renovation spending is expected to remain in line with inflation.

Industry forecasts predict overall hardwood lumber prices will generally remain soft through 2016 as increased supply works its way through the market and demand from export markets remains less predictable. Prices for hardwood plywood and composite panel products are expected to remain steady.

Hardwoods' focus in 2016 will be on further expanding its share of both the US residential and commercial construction markets. 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 company's established international quality assurance team and new international sourcing initiatives designed to bring world-wide product solutions to Hardwoods' customers; and,
- 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 commercial customers an attractive and differentiated line-up of products. Hardwoods will also continue to pursue well-priced acquisition opportunities that support its objectives.

Hardwoods' Board of Directors will continue to review financial performance and assess dividend levels on a regular basis. However the primary focus in 2016 will remain 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 months ended March 31, 2016. The MD&A will be posted, along with the Company's annual audited financial statements on SEDAR (www.sedar.com) and on the Company's website (www.hardwoods-inc.com) on or before May 12, 2016.

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 centres 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 such as net debt-to-EBITDA (as presented in section 5.3 of our MD&A) 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 such as EBITDA margin (being EBITDA as a percentage of revenue) 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 months ended March 31, 2016.

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: US housing growth bodes well for demand later in 2016 as hardwood products are typically used 9-12 months after construction begins; outlook for the Canadian housing market expected to be flat; our outlook for the business remains positive; an improving Canadian dollar could temper foreign exchange gains in the months; we are well positioned for 2016; job growth and income levels are gaining momentum in the US and are expected to help propel the continuing recovery in the US residential construction market through 2016 and beyond; home improvement spending is also projected to pick up pace in 2016 as housing markets strengthen; forecasters predict growth for the US non-residential building segment in 2016, with the strongest gains anticipated in the commercial sector, which includes office buildings, hotels and retail; we expect to realize continued growth in its US business this year; recent improvements in the value of the Canadian dollar could temper foreign exchange gains on this growth in the months ahead; the outlook for the Canadian market remains neutral, with 2016 housing starts expected to remain consistent with 2015 levels; Canadian commercial construction and renovation spending is expected to remain in line with inflation; forecasters predict overall hardwood lumber prices will generally remain soft through 2016 as increased supply works its way through the market and demand from export markets remains less predictable; prices for hardwood plywood and composite panel products are expected to remain steady.

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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