

HDI Announces US\$270 Million Acquisition of Mid-Am Building Supply and Expanded Credit Facility

Expected to be 15% accretive to earnings per share on a pro forma basis

Acquisition further enhances HDI's presence in the home builder distribution customer channel

LANGLEY, BC, Jan. 31, 2022 /CNW/ - Hardwoods Distribution Inc. ("**HDI**" or the "**Company**") (TSX: HDI) today announced that one of its wholly owned subsidiaries has entered into an agreement to acquire substantially all of the assets and assume certain working capital liabilities of Mid-Am Building Supply, Inc. ("**Mid-Am**") for a total price of US\$270 million (the "**Acquisition**"). At closing of the Acquisition, the Company will enter into leases of the facilities through which Mid-Am operates. The Acquisition will be financed by an expansion of HDI's existing credit facility.

Founded in 1967, Mid-Am is a leading wholesale distributor of building products to customers in the U.S. Midwest. Mid-Am focuses on home builder distribution yards ("**Pro Dealers**"), providing customers with an extensive portfolio of products and services including doors, millwork, and other diversified building materials.

"We are very pleased to welcome Mid-Am's capabilities to HDI, which we believe are complementary to our current operations," commented Rob Brown, HDI's President and CEO. "This Acquisition is a natural geographic extension from our current locations, providing access to customers and markets in the U.S. Midwest that we do not reach today. Mid-Am comes with an experienced team, established customer relationships and a portfolio of specialty and associated products that complement our existing product mix."

The Acquisition is an important strategic addition to HDI's capabilities in the Pro Dealer and home center customer channel. The Pro Dealer / home center customer channel represents a substantial addressable market opportunity for HDI to capitalize on its deep expertise in architectural building products. The Acquisition of Mid-Am, combined with the HDI's purchase of Novo Building Products ("**Novo**") in August 2021, has repositioned HDI to meaningfully participate in this customer channel.

"With today's announced addition of Mid-Am, plus the previous acquisition of Novo, we have achieved additional diversification for our business," commented Mr. Brown. "Combined, we have acquired pro forma annual sales of US\$950 million in the Pro Dealer and home center customer channels in the last six months. Looking ahead, approximately 60% of our sales mix will be focused on industrial customers, and 40% on Pro Dealer / home center. This customer channel diversity, combined with our national footprint and balanced product portfolio, positions HDI as a one-stop-solution for its customers."

HDI believes that the Novo and Mid-Am acquisitions are well timed with respect to the Company's outlook for end markets. HDI expects favorable multi-year demand for its products from the new residential and repair and remodel markets, supported by low existing home inventories, favorable demographics, historically low interest rates, rising home equity levels and an aging US housing stock.

The building products distribution market is large in size and scope, but remains fragmented. The Company maintains a pipeline of M&A targets and intends to remain active with respect to additional acquisition opportunities. Mid-Am represents HDI's eleventh acquisition in the last five years, on a pro forma basis adding over US\$1.4 billion in annual revenues during this time period.

Mid-Am Acquisition Highlights

1. **Accretive acquisition terms, and further synergies expected.** The Acquisition is expected to be 15% accretive to earnings per share before accounting for any synergies.

Management has identified potential synergies in the areas of supply chain, tax and logistics that are anticipated as sources for further upside.

2. **Strategic growth in the scale and breadth of HDI's operations.** Mid-Am brings new local presence in the Midwest to HDI's existing network of 83 distribution centers. It serves over 800 customers from six sales and distribution facilities located in four U.S. states including Missouri (two), Kansas (two), Illinois, and Iowa. Mid-Am generated annual revenues of over US\$270 million in 2021.
3. **Leadership team with proven track record in operations, fabrication, and sales.** Mid-Am has a team of over 350 employees, with tenure in its customer-facing roles averaging 15 years. Mid-Am's leadership has significant industry experience and will continue to lead the Mid-Am business as part of HDI, ensuring business continuity while further adding to the Company's skillset.

Completion of the Acquisition is subject to a number of conditions customary for a transaction of this nature. The Acquisition is expected to close in February 2022.

Credit Facility

HDI has received a commitment from its existing lender Bank of America, N.A. (the "**Lender**") for an increase in the size of its existing senior secured credit facility (the "**Expanded Credit Facility**") from its current size of US\$525 million to a new aggregate facility amount of up to US\$900 million. The Expanded Credit Facility is expected to include (i) a revolving credit facility of up to US\$500 million which can be drawn upon in U.S. dollars and Canadian dollars, and (ii) a term loan of up to US\$400 million.

The Expanded Credit Facility is expected to bear interest at a rate equal to (a) Term SOFR plus (i) the applicable spread adjustment for the relevant tenor and (ii) up to 2.25% or (b) the base rate of interest charged by the Lender under the Expanded Credit Facility from time to time ("**Base Rate**"). The Term SOFR and Base Rate margins for the Expanded Credit Facility are expected to be subject to performance pricing adjustments, from time to time, based on the Company's then applicable leverage ratio.

The financial covenants under the Expanded Credit Facility are expected to include, among others: (i) a consolidated interest coverage ratio (a ratio of adjusted EBITDA to total interest expense, determined on a consolidated basis of the Company, with the specific definitions to be agreed upon) and (ii) a consolidated leverage ratio (a ratio of total funded debt to adjusted EBITDA, determined on a consolidated basis of the Company, with the specific definitions to be agreed upon).

The commitment and advance of the loan facilities are subject to usual conditions including, among others, execution of documents satisfactory to the Lender, completion of the related transactions on terms satisfactory to the Lender, no material adverse change in the business of the Company and its subsidiaries or the sellers of Mid-Am having occurred, delivery of certain interim financial statements, pro forma financial statements and a pro forma compliance certificate confirming compliance with financial covenants and borrowing base on a pro forma basis, receipt of all necessary consents for the Acquisition and completion of the Lender's due diligence.

Conference Call Details

HDI will hold an investor call on Tuesday, February 1, 2022 at 8:00 am Eastern time to discuss the Acquisition. Participants should dial 1-888-204-4368 or (647)-794-4605 (GTA) at least five minutes before the call begins. A replay will be available through February 15, 2022 by calling toll free 1-888-203-1112 or (647)-436-0148 (GTA), followed by passcode 2525443.

About HDI

HDI is one of North America's largest suppliers of specialty building products to industrial manufacturers, Pro Dealers, and home centers servicing the new residential, repair and remodel, and commercial construction end-

markets. The Company currently operates a network in North America of 83 distribution and sales facilities in the United States and Canada. HDI's common shares are listed on the TSX under the symbol HDI.

Forward-Looking Statements

Certain statements in this news release may constitute "forward-looking information" or "financial outlook" within the meaning of applicable securities laws that 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 or industry results expressed or implied by such forward-looking information and financial outlook. Forward-looking information and financial outlook are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information may involve, but is not limited to, comments with respect to strategies, expectations, planned operations or future actions. Forward-looking information in this news release includes, without limitation, statements with respect to: the anticipated closing of the Acquisition, the terms thereof and the timing therefor; the Acquisition of Mid-Am, combined with HDI's purchase of Novo, is expected to reposition HDI to meaningfully participate in the Pro Dealer / home center customer channel. ; approximately 55% of our sales mix will be now focused on industrial customers, and 45% on Pro Dealer / home center; HDI believes the Novo and Mid-Am acquisitions are well timed with respect to the Company's outlook for end markets; HDI expects favorable multi-year demand for its products from new residential and repair and remodel markets, supported by low existing home inventories, demographics, historically low interest rates, and an aging US housing stock; the Company intends to remain active with respect to additional acquisition opportunities; .; Mid-Am's expected annual revenues; Mid-Am's leadership will continue to lead the Mid-Am business as part of HDI, ensuring business continuity while further adding to the Company's skillset; the expected accretion to cash flows and earnings resulting from the Acquisition; management has identified potential synergies that are expected to provide further upside to the accretion; ; and, the anticipated entering into of the Expanded Credit Facility and the terms thereof and timing therefor. Actual events or results may differ materially.

The forecasts and projections that make up the forward-looking information and financial outlook in this news release are based on assumptions which include, but are not limited to: the completion of the Acquisition; no undisclosed liabilities associated with the Acquisition; no material adverse changes occur in respect of the acquired assets before the completion of the Acquisition; the Company completes the Expanded Credit Facility in accordance with the terms currently contemplated; the financial impact of the Acquisition is as currently expected by management; the Company and Mid-Am do not lose any key personnel; there are no decreases in the supply of, demand for, or market values of products that harm the Company or Mid-Am's business; the Company does not incur material losses related to credit provided to its customers; the Company is able to sustain its level of sales and earnings margins; the Company is able to grow its business long term and to manage its growth; the Company is able to integrate acquired businesses, including Mid-Am; there is no new competition in the markets in which the Company operates that lead to reduced sales and profitability; the Company can comply with existing regulations and will not become subject to more stringent regulations; no material product liability claims; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; the Company's management information systems upon which it is dependent are not impaired; the Company is not adversely impacted by disruptive technologies; an outbreak or escalation of a contagious disease does not adversely affect the Company's business; and, the Company's insurance is sufficient to cover losses that may occur as a result of its operations.

The forward-looking information and financial outlook in this news release is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: failure to close the Acquisition; the actual impacts of the Acquisition on the Company's earnings per share may not be in line with management's expectations; the Acquisition may not be immediately accretive to earnings per share; potential undisclosed liabilities associated with the Acquisition; no control by the Company over Mid-Am until completion of the Acquisition; the Company may not be able to obtain the Expanded Credit

Facility on the terms currently expected, or at all; the Expanded Credit Facility will be subject to certain restrictive conditions that limit the discretion of management; exchange rate fluctuations between the Canadian and US dollar could affect the Company's performance; the Company's results are dependent upon the general state of the economy; the Company depends on key personnel, the loss of which could harm its business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm the Company's business; the Company may incur losses related to credit provided to the Company's customers; the Company's products may be subject to negative trade outcomes; the Company may not be able to sustain its current level of sales or earnings margins; the Company may be unable to grow its business long term or to manage any growth; the Company may be unable to integrate acquired businesses; competition in the Company's markets may lead to reduced sales and profitability; the Company may fail to comply with existing regulations or become subject to more stringent regulations; product liability claims could affect the Company's sales, profitability and reputation; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; disruptive technologies could lead to reduced revenues or a change in our business model; the Company is dependent upon its management information systems; the Company's insurance may be insufficient to cover losses that may occur as a result of the Company's operations; an outbreak or escalation of a contagious disease may adversely affect the Company's business; and, the Company's credit facilities affect its liquidity, contain restrictions on the Company's ability to borrow funds, and impose restrictions on distributions that can be made by certain subsidiaries of the Company. More information about the risks and uncertainties affecting HDI's business can be found in the "Risk Factors" section of its Annual Information Form dated March 11, 2021 which is available under the HDI's profile on SEDAR at www.sedar.com.

To the extent any forward-looking information or statements in this news release constitute a "financial outlook" within the meaning of securities laws, such information is being provided to demonstrate the potential benefits of the Acquisition and management's estimate of the future financial performance of Mid-Am, and readers are cautioned that this information may not be appropriate for any other purpose and that they should not place undue reliance on such information.

Although HDI has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements or information or financial outlook in this news release, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Also, many of the factors are beyond the control of HDI. Accordingly, readers should not place undue reliance on forward-looking statements or information in this news release. The forward-looking information is made as of the date of this news release, and HDI assumes no obligation to publicly update or revise such forward-looking information to reflect new information, subsequent or otherwise, except as may be required by applicable securities law. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement.

Non-IFRS and Non-U.S. GAAP Financial Measures

This news release makes reference to certain non-IFRS financial measures, in the case of the Company, or non-U.S. GAAP financial measures, in the case of Mid-Am. These non-IFRS and non-U.S. GAAP financial measures are not recognized measures under IFRS and U.S. GAAP, as applicable, do not have a standardized meaning prescribed by IFRS or U.S. GAAP, as applicable, and are therefore unlikely to be comparable to similar measures presented by other publicly traded companies, and should not be construed as an alternative to other financial measures determined in accordance with IFRS and U.S. GAAP, as applicable. Rather, these financial measures are provided as additional information to complement IFRS and U.S. GAAP financial measures by providing further understanding of operations from management's perspective. Accordingly, non-IFRS and non-U.S. GAAP financial measures should never be considered in isolation nor as a substitute to using net income as a measure of profitability or as an alternative to the IFRS consolidated statements of income or other IFRS or U.S. GAAP statements. Management presents non-IFRS and non-U.S. GAAP financial measures, specifically EBITDA and Adjusted EBITDA as it believes these supplementary disclosures provide useful additional information related to the operating results and financial condition of the Company and Mid-Am and uses these

measures of financial performance and financial condition as a supplement to the consolidated statements of income and statements of financial position of the Company and Mid-Am.

The definitions of the non-IFRS and non-U.S. GAAP measures contained in this news release are as follows: "EBITDA", as it relates to Mid-Am, means earnings before interest, taxes, depreciation and amortization; .

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