

ADENTRA Announces First Quarter 2024 Results

First quarter 2024 sales of US\$535.1 million

Earnings per share increase to US\$0.48 and Adjusted EBITDA grows to US\$45.6 million

Langley, B.C., May 8, 2024/ CNW/ - ADENTRA Inc. ("ADENTRA" or the "Company") today announced financial results for the three months ended March 31, 2024. ADENTRA is one of North America's largest distributors of architectural building products to the residential, repair and remodel, and commercial construction markets. We currently operate a network of 85 facilities in the United States and Canada. All amounts are shown in United States dollars ("US \$" or "\$"), unless otherwise noted.

Financial Highlights for Q1 2024 (as compared to Q1 2023, unless otherwise stated)

- **Generated sales** of \$535.1 million (C\$721.7 million), as compared to \$579.9 million (C\$784.3 million)
- **Gross margin** grew to \$118.2 million, from \$117.0 million
- **Gross margin percentage** increased to 22.1%, a 190 basis points improvement
- **Operating expenses** increased by \$1.4 million, or 1.5%
- **Net income** increased by 11.2% to \$10.7 million; **Basic earnings per share** grew 11.6% to \$0.48 (C\$0.65)
- **Adjusted net income** increased by 16.8% to \$17.3 million; **Adjusted basic earnings per share** increased 18.2% to \$0.78 (C\$1.05)
- **Adjusted EBITDA** grew 6.3% to \$45.6 million (C\$61.4 million)
- **Operating cash flow before changes in working capital** increased \$6.9 million to \$36.9 million, from \$30.0 million
- **Declared a dividend** of C\$0.14 per share, payable on July 26, 2024 to shareholders of record as of July 15, 2024

"We delivered robust gross margin performance again in the first quarter, helping to drive improved bottom-line results, including 18.2% year-over-year growth in Adjusted basic earnings per share and 6.3% growth in Adjusted EBITDA" said Rob Brown, ADENTRA's President and CEO."

"Our first quarter sales volumes also continued to stabilize, increasing by approximately 1% year-over-year. As expected, however, product price deflation continued to impact our top line results, resulting in a 7.7% decrease in total sales compared to the same period last year."

"Overall, our results continue to demonstrate ADENTRA's ability to perform well in all business cycles. Our 22.1% gross margin performance in a deflationary product price environment was particularly meaningful, and underscores the success of our strategic initiatives, including the expansion and diversification of our product mix with higher-margin and value-added offerings, the success of our global sourcing program, and our disciplined operational performance. Operating expenses remained well controlled across our business, and were just 1.5% higher year-over-year, despite continued inflationary pressures in the economy."

“As we move forward, we are sharply focused on our Destination 2028 goal of achieving US\$3.5 billion of annual run-rate sales by 2028 through a combination of acquisition-based and organic growth. Our balance sheet is well positioned to support our growth strategy with a Leverage Ratio of 2.8x at quarter-end and significant unused borrowing capacity of over \$445 million.”

“While investing in future growth, we also remain committed to providing near-term value for investors. During the first quarter we returned \$2.3 million to shareholders via dividend payments, and today our board of Directors approved a dividend of C\$0.14 per share to be paid July 26, 2024 to shareholders of record as at July 15, 2024,” said Mr. Brown.

Outlook

Forecasters are anticipating a stable environment for residential construction in 2024 and a stable-to-lower year of demand for the repair and remodel market. Each of these markets represents approximately 40% of our business, respectively.

Overall, the inflation and interest rate hikes of recent years are expected to continue to moderately impact economic activity. While our sales volumes have improved in recent quarters, we continue to experience softness in product pricing. Sales comparisons to 2023 are expected to improve in the latter half of the year. In this environment, we anticipate modest growth in full-year Adjusted EBITDA, driven by continued gross margin strength and disciplined management of operating expenses.

As we have demonstrated in previous business cycles and most recently in 2023, we are adept at managing our business and cash flows effectively in challenging market conditions. Our size and scale, together with the diversity in our product categories, customer channels and end-markets, provide important stability while reducing our exposure to any one geography or segment of the industry. Our strong balance sheet provides financial stability as we move through periods of changing market conditions, and our business model is expected to continue converting a high proportion of Adjusted EBITDA to operating cash flows before changes in working capital. In addition, our investment in working capital typically decreases during periods of reduced activity, resulting in an additional source of liquidity.

Our balance sheet and liquidity support the continued execution of our Destination 2028 plan, which includes acquiring \$800 million in run-rate revenues by 2028. We are one of the largest distributors of architectural building products in North America with approximately 6% market share. We operate in a fragmented market and have a robust pipeline. We expect the market for acquisitions to be more supportive in 2024 as compared to the previous year, and there remains significant opportunity for growth.

Over the longer term our business is supported by strong fundamentals in our end markets which include historic under-building of homes, positive demographic factors, strong home equity, and an aging housing stock. Decreases in interest rates could further support end-market demand for our products. We continue to see a multi-year runway for growth in our core repair and remodel, residential, and commercial markets.

Q1 2024 Investor Call

ADENTRA will hold an investor call on Thursday, May 9, 2024 at 8:00 am Pacific (11:00 am Eastern). Participants should dial 1-888-664-6392 or (416) 764-8659 (GTA) at least five minutes before the call begins. A replay will be available through May 23, 2024 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 536845.

Summary of Results

	Three months ended March 31 2024	Three months ended March 31 2023
Total sales	\$ 535,138	\$ 579,857
<i>Sales in the US</i>	492,470	536,184
<i>Sales in Canada (CAD\$)</i>	57,542	59,068
Gross margin	118,234	116,993
<i>Gross margin %</i>	22.1%	20.2%
Operating expenses	(93,835)	(92,428)
Income from operations	\$ 24,399	\$ 24,565
Add: Depreciation and amortization	18,329	17,018
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 42,728	\$ 41,583
<i>EBITDA as a % of revenue</i>	8.0%	7.2%
Add (deduct):		
Depreciation and amortization	(18,329)	(17,018)
Net finance expense	(11,078)	(12,219)
Income tax expense	(2,650)	(2,749)
Net income for the period	\$ 10,671	\$ 9,597
Basic earnings per share	\$ 0.48	\$ 0.43
Diluted earnings per share	\$ 0.47	\$ 0.42
Average US dollar exchange rate for one Canadian dollar	\$ 0.742	\$ 0.739

	Three months ended March 31 2024	Three months ended March 31 2023
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$ 42,728	\$ 41,583
LTIP expense	2,824	1,286
Adjusted EBITDA	\$ 45,552	\$ 42,869
<i>Adjusted EBITDA as a % of revenue</i>	8.5%	7.4%
Net income for the period, as reported	\$ 10,671	\$ 9,597
LTIP expense, net of tax	2,586	1,172
Amortization of acquired intangible assets, net of tax	4,062	4,062
Adjusted net income for the period	\$ 17,319	\$ 14,831
Basic earnings per share, as reported	\$ 0.48	\$ 0.43
Net impact of above items per share	0.30	0.23
Adjusted basic earnings per share	\$ 0.78	\$ 0.66
Diluted earnings per share, as reported	\$ 0.47	\$ 0.42
Net impact of above items per share	0.29	0.23
Adjusted diluted earnings per share	\$ 0.76	\$ 0.65

Results from Operations - Three Months Ended March 31, 2024

For the three months ended March 31, 2024, we generated total sales of \$535.1 million, as compared to the \$579.9 million we achieved in Q1 2023. While sales volumes improved by approximately 1% year-over-year, product price deflation of approximately 9% resulted in a \$44.7 million, or 7.7%, decrease in sales. The results were not significantly impacted by foreign exchange translation of Canadian sales to US dollars for reporting purposes.

Our US operations generated first quarter sales of \$492.5 million, compared to \$536.2 million in the same period in 2023. The \$43.7 million, or 8.2%, year-over-year decrease primarily reflects product price deflation of 9%, partially offset by a 1% increase in sales volume as compared to the same period last year.

In Canada, first quarter sales of C\$57.5 million were C\$1.5 million, or 2.6%, lower than the same period in 2023. The year-over-year change in Canadian sales reflects a 9% decrease in product prices, mitigated by a 6% increase in sales volume.

First quarter gross margin increased to \$118.2 million, up \$1.2 million, or 1.1%, from the same period last year. The improvement in gross margin was primarily driven by a higher gross margin percentage, partially offset by lower sales revenue. At 22.1%, our first quarter gross margin percentage was 190 basis points higher than the 20.2% achieved in Q1 2023. The improvement in gross margin percentage was due to our strategic initiatives as outlined in Section 1.1, and a reduction in inventory write-downs as compared to the first quarter of 2023.

For the three months ended March 31, 2024, operating expenses were \$93.8 million, as compared to \$92.4 million in the same period last year. This \$1.4 million, or 1.5%, increase was primarily driven by continued inflationary pressures in the economy.

For the three months ended March 31, 2024, depreciation and amortization increased to \$18.3 million, from \$17.0 million in Q1 2023. The year-over-year increase was attributable to higher depreciation related to premise leases. Included in the depreciation and amortization was \$5.5 million of amortization on acquired intangible assets, consistent with the same period last year.

For the three months ended March 31, 2024, net finance expense decreased to \$11.1 million, from \$12.2 million in Q1 2023. This included \$8.0 million of interest on bank borrowing, as compared to \$9.7 million in Q1 2023, primarily reflecting lower bank indebtedness, partially offset by higher interest rates.

For the three months ended March 31, 2024, income tax expense was \$2.7 million, consistent with Q1 2023 results. This reflects similar net income before tax in both periods.

First quarter Adjusted EBITDA grew 6.3% to \$45.6 million, from \$42.9 million during the same period in 2023. This \$2.7 million improvement largely reflects the \$1.2 million increase in gross margin and \$1.4 million decrease in operating expenses (before changes in depreciation and amortization and LTIP expense).

Net income for the first quarter of 2024 increased to \$10.7 million (basic earnings per share of \$0.48), from \$9.6 million (basic earnings per share of \$0.43) in Q1 2023. The \$1.1 million, or 11.2%, improvement in net income includes the \$1.1 million increase in EBITDA and the \$1.1 million decrease in net finance expense, the \$0.1 million decrease in income tax expense, partially offset by the \$1.3 million increase in depreciation and amortization.

First quarter adjusted net income grew 16.8% to \$17.3 million, from \$14.8 million in Q1 2023. Adjusted basic earnings per share climbed 18.2% to \$0.78, from \$0.66 in Q1 2023.

About ADENTRA

ADENTRA is one of North America's largest distributors of architectural building products to the residential, repair and remodel, and commercial construction markets. The Company operates a network of 85 facilities in the United States and Canada. ADENTRA's common shares are listed on the Toronto Stock Exchange under the symbol ADEN.

Non-GAAP and other Financial Measures

In 2024, we revised our calculations of Adjusted net income, Adjusted basic earnings per share, and Adjusted diluted earnings per share to exclude the amortization of acquired intangible assets. The historical presentation of these measures within this MD&A has also been updated to reflect the revised calculations. We believe that excluding the amortization of acquired intangible assets from these non-GAAP financial measures helps management and investors in understanding our underlying operating performance.

In this news release, reference is made to the following non-GAAP financial measures:

- "Adjusted EBITDA" is EBITDA before long term incentive plan ("LTIP") expense, accrued trade duties, professional fees, and transaction costs. We believe Adjusted EBITDA is a useful supplemental measure for investors, and is used by management, for evaluating our ability to meet debt service requirements and fund organic and inorganic growth, and as an indicator of relative operating performance.
- "Adjusted net income" is net income before LTIP expense, accrued trade duties, professional fees, transaction costs, and amortization of intangible assets acquired in connection with an acquisition. We believe adjusted net income is a useful supplemental measure for investors, and is used by management to assist in evaluating our profitability, our ability to meet debt service and capital expenditure requirements, our ability to generate cash flow from operations, and as an indicator of relative operating performance.
- "EBITDA" is earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance income (expense) as per the consolidated statement of comprehensive income. We believe EBITDA is a useful supplemental measure for investors, and is used by management, for evaluating our ability to meet debt service requirements and fund organic and inorganic growth, and as an indicator of relative operating performance.
- "Working capital" is accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We believe working capital is a useful indicator for investors, and is used by management, for evaluating the operating liquidity available to us.

In this news release, reference is also made to the following non-GAAP ratios: "adjusted basic earnings per share", "adjusted diluted earnings per share", "Adjusted EBITDA margin" and "Leverage Ratio". For a description of the composition of each non-GAAP ratio and how each non-GAAP ratio provides useful information to investors and is used by management, see "Non-GAAP and Other Financial Measures" in the Company's management's discussion and analysis for the quarter ended March 31, 2024 (which is incorporated by reference herein).

Such non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. For a reconciliation between non-GAAP measures and non-GAAP ratios and the most directly comparable financial measure in our financial statements, please refer to the "Summary of Results".

Forward-Looking Statements

Certain statements in this press release contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this press release is included, but not limited to: We also continue to maintain significant unused borrowing capacity of over \$445 million, which will enable us to fund anticipated future growth and continue executing on our strategies; capital allocation priorities going forward include continued repayment of debt and growth through acquisitions; forecasters are anticipating a stable environment for residential construction in 2024 and a stable-to-lower year of demand for the repair and remodel market; inflation and interest rate hikes of recent years are expected to continue to moderately impact economic activity; in the first quarter, our sales were down 7.7% as compared to the same period in the prior year, and we expect second quarter sales to be down similarly as compared to Q2 2023; sales comparisons to 2023 are expected to improve in the latter half of the year; in this environment, we anticipate modest growth in full-year Adjusted EBITDA, driven by continued gross margin strength and disciplined management of operating expenses; as we have demonstrated in previous business cycles and most recently in 2023, we are adept at managing our business and cash flows effectively in challenging market conditions; our size and scale, together with the diversity in our product categories, customer channels and end-markets, provide important stability while reducing our exposure to any one geography or segment of the industry; our strong balance sheet provides financial stability as we move through periods of changing market conditions, and our business model is expected to continue converting a high proportion of EBITDA to operating cash flows before changes in working capital; in addition, our investment in working capital typically decreases during periods of reduced activity, resulting in an additional source of cash; over the longer term our business is supported by strong fundamentals in our end markets which include historic under-building of homes, positive demographic factors, strong home equity, and an aging housing stock; we continue to see a multi-year runway for growth in our core repair and remodel, residential, and commercial markets; our business requires an ongoing investment in working capital; our investment in working capital may fluctuate from quarter-to-quarter based on factors such as sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers; historically, the first and fourth quarters can be seasonally slower periods for construction activity, resulting in reduced demand for architectural building products; our debt management strategy is to repay a portion of our credit facilities related to acquisitions, and maintain a base level of debt as part of our capital structure; our intent is to roll and renew our credit facilities when they expire; we do not intend to restrict future dividends in order to fully extinguish our debt obligations upon their maturity; the amount of debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business and our cash generating capacity going forward; when making future dividend and share repurchase decisions, we will consider the amount of financial leverage, and therefore debt, we believe is appropriate given existing and expected market conditions and available business opportunities; we do not target a specific financial leverage amount; we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy; we intend to vigorously pursue recovery of the duties paid; the appeal process is typically a multi-year procedure, however, and the actual timing and outcome of the appeal is not estimable at this time; to the extent we are unsuccessful in challenging the out of scope notices and are unable to recover the related payments, then such payments would instead be recorded as selling, distribution and administration expenses; and the timing and outcome of our challenge is not estimable at this time.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect our performance; the general state of the economy does not worsen; we do not lose any key personnel; there is no labor shortage across multiple geographic locations; there are no circumstances, of which we are aware that could lead to the Company incurring costs for environmental remediation; there are no decreases in the supply

of, demand for, or market values of our products that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and earnings margins; we are able to grow our business long term and to manage our growth; we are able to integrate acquired businesses; there is no new competition in our markets that leads to reduced revenues and profitability; we can comply with existing regulations and will not become subject to more stringent regulations; no material product liability claims; importation of components or other innovative products does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; we are not adversely impacted by disruptive technologies; an outbreak or escalation of a contagious disease does not adversely affect our business; and, our insurance is sufficient to cover losses that may occur as a result of our operations.

The forward-looking information 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: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; the impacts of COVID-19, further mutations thereof or other outbreaks of disease, could have significant impacts on our business; we depend on key personnel, the loss of which could harm our business; a labour shortage across multiple geographic locations could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or earnings margins; we may be unable to grow our business long term or to manage any growth; we are unable to integrate acquired businesses; competition in our markets may lead to reduced revenues and profitability; we may fail to comply with existing regulations or become subject to more stringent regulations; product liability claims could affect our revenues, profitability and reputation; importation of components or other innovative products may increase, and replace products manufactured in North America; disruptive technologies could lead to reduced revenues or a change in our business model; we are dependent upon our management information systems; disruptive technologies could lead to reduced revenues or a change in our business model; our information systems are subject to cyber securities risks; our insurance may be insufficient to cover losses that may occur as a result of our operations; an outbreak or escalation of a contagious disease may adversely affect our business; our credit facility affects our liquidity, contains restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by us and certain of our subsidiaries; the market price of our Shares will fluctuate; there is a possibility of dilution of existing Shareholders; and, other risks described in our Annual Information Form and in our management's discussion and analysis for the year December 31, 2023, each of which are available on the Company's profile at www.sedarplus.ca

This news release contains information that may constitute a "financial outlook" within the meaning of applicable securities laws. The financial outlook has been approved by our management as of the date of this news release. The financial outlook is provided for the purpose of providing readers with an understanding of our anticipated financial performance. Readers are cautioned that the information contained in the financial outlook may not be appropriate for other purposes.

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, we undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Third-Party Information

Certain information contained in this news release includes market and industry data that has been obtained from or is based upon estimates derived from third-party sources, including industry publications, reports and websites. Although the data is believed to be reliable, we have not independently verified the accuracy, currency or completeness of any of the information from third-party sources referred to in this news release or ascertained from the underlying economic assumptions relied upon by such sources. We hereby disclaim any responsibility or liability whatsoever in respect of any third-party sources of market and industry data or information.

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