

Hardwoods Announces Record Second Quarter 2015 Results

Declares Quarterly Dividend of \$0.055 per share

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

LANGLEY, BC, Aug. 13, 2015 /CNW/ - Hardwoods Distribution Inc. ("Hardwoods" or the "Company") today announced financial results for the three and six months ended June 30, 2015. Hardwoods is one of North America's largest wholesale distributors of hardwood lumber and related sheet good products, operating a network of 33 distribution centres in the US and Canada.

Second Quarter Highlights

(For the three months ended June 30, 2015)

- Revenue increased 20.4% to a new quarterly sales record of \$143.4 million
- Second quarter gross profit increased 21.0% to \$24.9 million, from \$20.5 million in Q2 2014
- Second quarter EBITDA increased 23.0% to \$9.3 million
- Profit for the period increased 25.4% to \$5.0 million
- Hardwoods' Board of Directors approved a quarterly dividend of \$0.055 per share, payable on October 30, 2015 to shareholders of record as at October 20, 2015

"Our momentum continued to build in the second quarter as we achieved our second consecutive quarter of record sales results. Meanwhile the pace of EBITDA and profit growth not only matched, but exceeded the revenue growth," said Hardwoods CEO Lance Blanco. "Our results reflect successful implementation of our business strategy, the benefits of a stronger U.S. dollar, an efficient business model that carried the gains we made on the top line through to the bottom line, and acquisition-based growth following the purchase of Hardwoods of Michigan ("HMI") in April 2014."

On the market front, the US residential construction market recovered from a sluggish start to the year. According to the US Census Bureau, the seasonally adjusted annual rate of US housing starts averaged 1,144,000 during the second quarter of 2015, up 16.7% from 980,000 in the same period last year. Given that hardwoods products are used later in the construction cycle (typically 9-12 months after construction starts), this growth did not benefit second quarter results, but should translate into improved demand in the future.

Within this environment, Hardwoods achieved strong organic growth as it continued to implement its "leverage imports" and "strengthen commercial" strategies. Acquisition-based growth was also a factor, with the April 28, 2014 acquisition of HMI contributing US\$2.2 million in incremental revenue.

Hardwoods' results also benefited from a decline in the value of the Canadian dollar relative to the US dollar. A lower Canadian dollar benefits the Company 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.

Second quarter gross profit margin increased slightly to 17.3% from 17.2% in the same period last year, and is within the range that Hardwoods views as sustainable at this point in the business cycle.

Expenses were well controlled across the organization, with second quarter operating expenses remaining stable as a percentage of revenue. Bad debts were also low at 0.4% of sales, compared to the Company's long-term historical average of approximately 0.5%.

Hardwoods ended the second quarter with a strong balance sheet. As at June 30, 2015, net debt-to-EBITDA ratio was a conservative 1.7 times, debt-to-capital ratio was just 28.6% and the Company had borrowing capacity of \$42.7 million.

"The combination of sales growth and tight management of the business continues to underpin our strong financial performance and healthy balance sheet," said Mr. Blanco. "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."

Summary of Results

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

	3 months ended	3 months ended	6 months ended	6 months ended
	June 30	June 30	June 30	June 30
	2015	2014	2015	2014
Total sales	\$ 143,351	\$ 119,038	\$ 278,467	\$ 219,972
Sales in the US (US\$)	92,046	83,521	178,479	153,062
Sales in Canada	30,175	27,904	58,011	52,093
Gross profit	24,848	20,528	47,911	38,791
Gross profit %	17.3%	17.2%	17.2%	17.6%
Operating expenses	(16,215)	(13,500)	(32,203)	(27,098)

Profit from operating activities	8,633	7,028	15,708	11,693
Add: Depreciation	647	515	1,218	953
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	9,280	7,543	\$ 16,926	\$ 12,646
Add (deduct):				
Depreciation	(647)	(515)	(1,218)	(953)
Net finance cost	(330)	(414)	(94)	(349)
Income tax expense	(3,294)	(2,618)	(5,892)	(4,383)
Profit for the period	\$ 5,009	\$ 3,996	\$ 9,722	\$ 6,961
Basic and fully diluted profit per share	\$ 0.30	\$ 0.24	\$ 0.58	\$ 0.42
Average Canadian dollar exchange rate for one US dollar	1.229	1.090	1.235	1.097

Results from Operations – Three Months Ended June 30, 2015

For the three months ended June 30, 2015, total sales increased by 20.4% to \$143.4 million, from \$119.0 million in Q2 2014. Hardwoods' US operations increased sales by 10.2% to US\$92.0 million, reflecting US\$6.3 million of organic growth and US\$2.2 million in incremental revenue from the HMI business.

Second quarter sales in Canada increased by \$2.3 million, or 8.1%, year-over-year to \$30.2 million. This growth reflects success in winning new business, overall higher product prices in Canada resulting from the stronger US dollar, and other positive foreign exchange impacts.

Second quarter gross profit increased to \$24.8 million, up 21.0% from \$20.5 million last year. This improvement reflects the higher sales revenue, paired with a modestly higher gross profit margin.

Operating expenses for the three-month period ended June 30, 2015 were \$16.2 million, compared to \$13.5 million in Q2 2014. This increase primarily reflects the impact of a stronger US dollar on translation of US operating expenses, additional costs incurred to support growth and incremental costs from the acquired HMI business. As a percentage of sales, operating expenses were 11.3% in the three-month period ended June 30, 2015 and 2014.

Second quarter EBITDA increased 23.0% to \$9.3 million, from \$7.5 million in 2014. The EBITDA gain reflects the increase in gross profit, partially offset by higher expenses. Profit for the period increased to \$5.0 million, from \$4.0 million in 2014. The \$1.0 million increase reflects the \$1.7 million increase in EBITDA partially offset by a \$0.7 million increase in income tax expense.

Results from Operations – Six Months Ended June 30, 2015

For the six months ended June 30, 2015, total sales increased by 26.6% to \$278.5 million, from \$220.0 million in the first half of 2014. Hardwoods' US operations increased sales by US\$25.4 million, or 16.6%, reflecting US\$14.4 million in organic growth and US\$11.0 million in incremental revenue from the acquired HMI business. First-half sales in Canada increased by \$5.9 million, or 11.4%, year-over-year, entirely on organic growth.

First-half gross profit increased 23.5% to \$47.9 million, from \$38.8 million in the first six months of 2014. This gain reflects the increased sales, partially offset by a lower gross margin of 17.2%, compared to 17.6% in the same period last year.

First-half operating expenses increased to \$32.2 million, from \$27.1 million in the first six months of 2014. The increased operating expenses reflect higher expense due to the impact of a stronger US dollar on translation of US operating expenses, added expenses to support organic growth, and incremental costs related to the acquired HMI business. As a percentage of sales, operating expenses improved to 11.6% from 12.3% last year.

First-half EBITDA increased sharply to \$16.9 million, from \$12.7 million in 2014. The 33.8% increase reflects higher gross profit, partially offset by higher expenses before depreciation and amortization. Profit for the six-month period increased to \$9.7 million, from \$7.0 million during the same period in 2014. This significant improvement primarily reflects the \$4.3 million increase in EBITDA and the \$0.3 million decrease in net finance cost, partially offset by a \$1.5 million increase in income tax expense and a \$0.3 million increase in depreciation and amortization.

Outlook

Economic forecasters continue to predict a multi-year strengthening of the US residential construction market. With 75% of its business in the US, growing import and commercial sales, and the positive foreign exchange impact of a stronger US dollar, Hardwoods expects to achieve continued sales growth through the balance of 2015.

The industry forecasts are for hardwood lumber prices to generally remain soft through the second half of 2015 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 in 2015 will be 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 Hardwoods' high-quality, proprietary import lines, supported both by the Company's established international quality assurance team and continued global 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 products 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 strategic objectives.

The Board of Directors will continue to review financial performance and assess distribution levels on a regular basis, however the primary focus in 2015 will be 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 six months ended June 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 of 33 distribution centers in the U.S. and Canada.

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 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 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 six months ended June 30, 2014.

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: The US residential construction market recovered from a sluggish start to the year; given that hardwoods products are used later in the construction cycle (typically 9-12 months after construction starts) this growth should translate into improved demand in the future; second quarter gross profit margin is within the range that Hardwoods views as sustainable at this point in the business cycle; our outlook remains positive; economic forecasters continue to predict a multi-year strengthening of the US residential construction market; Hardwoods expects to achieve continued sales growth through the balance of 2015; prices for hardwoods lumber are expected to remain soft through the second half of 2015 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.

SOURCE Hardwoods Distribution Inc.

%SEDAR: 00031887E

For further information: Faiz Karmally, Chief Financial Officer, Phone: (604) 881-1982, Email: fkarmally@hardwoods-inc.com, Website: <http://www.hardwoods-inc.com>

CO: Hardwoods Distribution Inc.

