NEWS RELEASE

ADENTRA Announces Second Quarter 2023 Results

8/10/2023

Second quarter 2023 sales of US$585.9 million
Cash flow from operations of US$52.8 million
Declares dividend of C$0.13 per share

LANGLEY, BC, Aug. 10, 2023 /CNW/ - ADENTRA Inc. ("ADENTRA" or the "Company") today announced financial results for the three and six months ended June 30, 2023. 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 86 facilities in the United States and Canada. All amounts are shown in United States dollars ("U.S. $" or "$"), unless otherwise noted.

Financial Highlights for Q2 2023

- Generated sales of $585.9 million (C$786.8 million)
- Achieved gross profit of $119.4 million, representing a gross margin percentage of 20.4%
- Operating expenses as a percentage of sales were 16.1%, and grew by just $1.5 million, or 1.7%, organically despite higher inflationary conditions prevalent in the economy
- Generated net income of $9.4 million and Adjusted EBITDA of $46.2 million (C$62.0 million)
- Achieved basic earnings per share of $0.42 and Adjusted basic earnings per share of $0.56 (C$0.75)
- Cash flow from operating activities was $52.8 million (C$70.8 million). Net bank debt decreased by $51.7 million
- Ended the quarter with a strong balance sheet and a Leverage Ratio of 3.0 times
- Declared a dividend of C$0.13 per share, payable on October 27, 2023 to shareholders of record as of

"ADENTRA performed well in the second quarter as we leveraged our strategies and proven business model to achieve positive financial results, increase operating cash flow, and pay down debt even in a challenging macroeconomic environment," said Rob Brown, ADENTRA's President and CEO.

"While our Q2 results did not keep pace with the record results generated during the exceptional conditions of fiscal 2022, we achieved sequential quarterly improvement in sales volumes, gross margin and EBITDA margin percentage as compared to Q1 2023. Our performance in a period of reduced demand and product price deflation underscores the success of our strategies to grow and broaden our end-market participation, expand our channels to market, diversify and strengthen our product mix, and deepen our geographic coverage."

"We also continued to demonstrate our business's ability to convert a high percentage of adjusted EBITDA into operating cash flow before changes in working capital, and to release working capital and generate additional cash flow in periods of reduced economic activity. Second quarter operating cash flow grew to $52.8 million, a year-over-year increase of $26.1 million, supported by a further $35.9 million reduction in inventory."

"Our strong cash flow generation enabled us to further reduce our net bank debt by $51.7 million during the quarter, bringing to $132.0 million the total net debt reduction we have achieved in the first half of 2023."

"Looking forward, market headwinds are expected to persist in the near term but our business model and strategies are designed for success. We are confident in our ability to continue generating steady performance and strong operating cash flow through the balance of 2023," said Mr. Brown.

Outlook

The combined impact of recent inflation and interest rate hikes is expected to have a continued near-term negative effect on economic activity. This, in turn, is resulting in a moderation of demand for our products as compared to 2022, and could lead to a continuation of the softer product pricing and volumes that we have experienced thus far in 2023. While we expect third quarter 2023 adjusted results will be similar to what we achieved in Q2 2023, we do not expect our overall 2023 financial performance to match the record-setting levels achieved in 2022.

As we have demonstrated in previous business cycles and most recently through the first half of 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 will continue

to convert 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 we anticipate a return to robust demand levels, 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 the repair and remodel, residential, and commercial markets we participate in.

From a trade perspective, the U.S. Department of Commerce ("Commerce") issued its final determination ("Final Determination") with respect to certain hardwood plywood products produced in Vietnam that Commerce believes are circumventing a previously established anti-dumping and countervailing duty order against hardwood plywood from China (the "Circumventing Products"). As a result of the Final Determination, we expect to accrue duties of $15.7 million and record the related impact in net income in the third quarter of 2023. The Circumventing Products are specifically defined by Commerce and we believe that the products we have imported from Vietnam do no meet Commerce's definition of Circumventing Products. We intend to appeal Commerce's decision and vigorously pursue recovery of any duties paid. We note, however, that the appeal process is typically a multi-year procedure and the timing and ultimate outcome of our efforts are not estimable at this time.

Q2 2023 Investor Call

ADENTRA will hold an investor call on Friday August 11, 2023 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 August 25, 2023 by calling toll free 1-888-390-0541 or (416) 764-8677 (GTA), followed by passcode 090194.

Summary of Results

	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Total sales	$ 585,935	$ 700,263	$ 1,165,792	$ 1,345,149
Sales in the US	540,988	645,899	1,077,172	1,237,121
Sales in Canada (CAD$)	60,365	69,412	119,433	137,357
Gross profit	119,449	153,829	236,442	301,611
Gross profit %	20.4 %	22.0 %	20.3 %	22.4 %
Operating expenses	(94,419)	(92,875)	(186,847)	(177,647)
Income from operations	$ 25,030	$ 60,954	$ 49,595	$ 123,964
Add: Depreciation and amortization	17,713	16,487	34,731	31,693
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 42,743	$ 77,441	$ 84,326	$ 155,657

EBITDA as a % of revenue	7.3 %	11.1 %	7.2 %	11.6 %
Add (deduct):				
Depreciation and amortization	(17,713)	(16,487)	(34,731)	(31,693)
Net finance expense	(12,105)	(5,789)	(24,324)	(11,171)
Income tax expense	(3,557)	(13,250)	(6,306)	(27,390)
Net income for the period	$ 9,368	$ 41,915	$ 18,965	$ 85,403
Basic earnings per share	$ 0.42	$ 1.77	$ 0.85	$ 3.60
Diluted earnings per share	$ 0.42	$ 1.76	$ 0.84	$ 3.58
Average US dollar exchange rate for one Canadian dollar	$ 0.745	$ 0.783	$ 0.742	$ 0.786

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)

	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 42,743	$ 77,441	$ 84,326	$ 155,657
LTIP expense	3,407	1,152	4,693	1,850
Transaction expense	—	—	—	892
Adjusted EBITDA	$ 46,150	$ 78,593	$ 89,019	$ 158,399
Adjusted EBITDA as a % of revenue	7.9 %	11.2 %	7.6 %	11.8 %
Net income for the period, as reported	$ 9,368	$ 41,915	$ 18,965	$ 85,403
Adjustments, net of tax	3,142	1,049	4,313	2,299
Adjusted net income for the period	$ 12,510	$ 42,964	$ 23,278	$ 87,702
Basic earnings per share, as reported	$ 0.42	$ 1.77	$ 0.85	$ 3.60
Net impact of above items per share	0.14	0.04	0.19	0.10
Adjusted basic earnings per share	$ 0.56	$ 1.81	$ 1.04	$ 3.70
Diluted earnings per share, as reported	$ 0.42	$ 1.76	$ 0.84	$ 3.58
Net impact of above items per share	0.14	0.04	0.19	0.10
Adjusted diluted earnings per share	$ 0.56	$ 1.80	$ 1.03	$ 3.68

Results from Operations - Three Months Ended June 30, 2023

For the three months ended June 30, 2023, we generated total sales of $585.9 million, as compared to the record $700.3 million achieved in a period of unusually high demand and increasing prices in Q2 2022. The $114.3 million, or 16.3%, year-over-year decrease primarily reflects lower volumes in the current period, and to a lesser extent, the impact of product price deflation. Sales results also include a $2.3 million unfavorable foreign exchange impact related to the translation of Canadian sales to US dollars for reporting purposes.

Our U.S. operations generated second quarter sales of $541.0 million, as compared to $645.9 million in the same period in 2022. The $104.9 million, or 16.2%, decrease primarily reflects the lower volumes year-over-year, as well as some product price deflation.

In Canada, second quarter sales of C$60.4 million were C$9.0 million, or 13.0%, lower than the same period in 2022. The year-over-year change in Canadian sales reflects both product price deflation and lower volumes.

We generated second quarter gross profit of $119.4 million, as compared to $153.8 million in the same period last year. The $34.4 million, or 22.3%, decrease reflects lower sales and a reduced gross profit percentage. At 20.4% our second quarter gross margin percentage did not match the unusually strong 22.0% performance achieved in Q2 2022, but was slightly higher than the 20.2% generated in Q1 2023. Our Q2 2022 gross profit percentage was temporarily elevated due to favorable market dynamics, including strong demand and tight supply.

For the three months ended June 30, 2023, operating expenses increased by $1.5 million to $94.4 million, from $92.9 million in the same period last year. As a percentage of sales, operating expenses were 16.1%, as compared to 13.3% in Q2 2022. The$1.5 million increase in operating expenses primarily reflects higher premise and LTIP expenses year-over-year.

For the three months ended June 30, 2023, depreciation and amortization increased to $17.7 million, from $16.5 million in Q2 2022, mainly driven by depreciation related to right-of-use assets. Included in depreciation and amortization is $5.5 million of amortization on acquired intangible assets, consistent with the same period last year.

For the three months ended June 30, 2023, net finance expense increased to $12.1 million, from $5.8 million in Q2 2022. The year-over-year increase was largely driven by higher interest rates, partially offset by lower bank indebtedness.

For the three months ended June 30, 2023, income tax expense decreased to $3.6 million from $13.3 million in the same period last year, primarily reflecting lower taxable income.

We generated second quarter Adjusted EBITDA of $46.2 million, as compared to $78.6 million during the same period in 2022. The $32.4 million, or 41.3%, year-over-year change largely reflects the $34.4 million decrease in gross profit, partially offset by the $1.9 million decrease in operating expenses (before changes in depreciation and amortization, LTIP expense, and transaction expenses).

Net income for the second quarter of 2023 was $9.4 million, as compared to $41.9 million in Q2 2022. The $32.5 million, or 77.7%, decrease primarily reflects $34.7 million lower EBITDA, the $6.3 million increase in net finance expense, and the $1.2 million increase in depreciation and amortization, partially offset by the $9.7 million decrease in income tax expense.

For the three months ended June 30, 2023, we generated basic earnings per share of $0.42, as compared to $1.77

in Q2 2022. Adjusted net income was $12.5 million, as compared to $43.0 million in Q2 2022, and Adjusted basic earnings per share were $0.56, as compared to $1.81 in Q2 2022.

Results from Operations - Six Months Ended June 30, 2023

For the six months ended June 30, 2023, we generated total sales of $1.17 billion, as compared to $1.35 billion in the same period in 2022. The $179.4 million, or 13.3%, decrease primarily reflects a $201.4 million reduction in organic sales, partially offset by $27.3 million of incremental revenue from our acquisitions of Mid-Am and Rojo. An unfavorable foreign exchange impact related to the translation of Canadian sales to US dollars for reporting purposes accounted for the remaining $5.3 million of sales impact.

First half sales from our U.S. operations were $1.08 billion, as compared to $1.24 billion in the same period in 2022. The $159.9 million, or 12.9%, decrease reflects a $187.3 million year-over-year market-driven reduction in organic sales following the record-setting pace achieved in 2022. This was partially offset by $26.4 million of incremental revenue from a full six months of Mid-Am's results, as compared to just under five months' contribution in the same period last year. First half 2023 revenue also includes $1.0 million of contribution from the Rojo business acquired in the first quarter.

In Canada, sales for the first six months decreased by C$17.9 million to C$119.4 million, from C$137.4 million in the same period in 2022. This 13.0% change primarily reflects lower volumes, and to a lesser extent, product price deflation.

We generated gross profit of $236.4 million in the first half of 2023, as compared to $301.6 million in the same period last year. The $65.2 million, or 21.6%, year-over-year decrease reflects lower organic sales and a gross profit percentage of 20.3%, as compared to 22.4% in the same period in 2022. Our gross profit percentage in the prior-year period was temporarily elevated due to favorable market dynamics, including strong demand and tight supply.

For the six months ended June 30, 2023, operating expenses increased by $9.2 million to $186.8 million, from $177.6 million in the same period last year. As a percentage of sales, operating expenses were 16.0%, as compared to 13.2% in the same period last year.

The $9.2 million increase in operating expenses includes $3.2 million related to incremental operating expenses from the inclusion of a full six months' results from the recently-acquired Mid-Am operations, $1.0 million of amortization on intangible assets acquired in connection with the Mid-Am acquisition, and $5.0 million relating to organic increases in operating expenses.

For the six months ended June 30, 2023, depreciation and amortization increased to $34.7 million, from $31.7

million in the same period in 2022. This $3.0 million increase includes $1.5 million of incremental depreciation and amortization related to the Mid-Am acquisition with the remaining $1.5 million attributed to our organic business driven by higher depreciation on premise leases. Included in this total depreciation and amortization of $34.7 million is $11.1 million of amortization on acquired intangible assets, as compared to $10.2 million in the prior-year period.

For the six months ended June 30, 2023, net finance expense increased to $24.3 million, from $11.2 million in the same period last year. This increase was primarily driven by higher interest rates on bank indebtedness.

For the six months ended June 30, 2023, income tax expense decreased to $6.3 million, from $27.4 million in the same period in 2022, primarily reflecting lower taxable income.

We generated Adjusted EBITDA of $89.0 million in the first half of 2023, as compared to $158.4 million during the same period in 2022. The $69.4 million, or 43.8%, change primarily reflects the $65.2 million decrease in gross profit and the $4.2 million increase in operating expenses (before changes in depreciation and amortization, LTIP expense, and transaction expenses).

Net income for the first half of 2023 was $19.0 million, as compared to $85.4 million in the same period in 2022. The $66.4 million, or 77.8%, decrease primarily reflects $71.3 million lower EBITDA, the $3.0 million increase in depreciation and amortization, and the $13.2 million increase in net finance expense, partially offset by the $21.1 million decrease in income tax expense.

For the six months ended June 30, 2023, we generated basic earnings per share of $0.85, as compared to $3.60 in the same period last year. Adjusted net income was $23.3 million, as compared to $87.7 million in the first half of 2022, and Adjusted basic earnings per share were $1.04, as compared to $3.70 in the same period last year.

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 currently operates a network of 86 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 this news release, reference is made to the following non-GAAP financial measures:

- "Adjusted EBITDA" is EBITDA before long term incentive plan ("LTIP") expense, professional fees and transaction expenses. 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, professional fees and transaction expenses. We believe adjusted profit is a useful supplemental measure for investors, and is used by management, for 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.
- "Organic growth" and "acquisition-based growth" consists of quantifying the change in total sales as either related to organic growth or acquisition-based growth, or the impact of foreign exchange related to the translation of Canadian sales to U.S. dollars. Total sales earned by acquired companies in the first 12 months following an acquisition is reported as acquisition-based growth and thereafter as organic growth. Organic growth excludes the impact of acquisitions and foreign exchange impact related to the translation of Canadian sales to U.S. dollars. From time to time, we also quantify the impacts of certain unusual events to organic growth to provide useful information to investors to help better understand our financial results.

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 year ended December 31, 2022 (which is incorporated by reference herein).

Such non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under International Financial Reporting Standards ("IFRS") and might not be comparable to similar financial measures disclosed by other issuers. For reconciliation between non-GAAP measures 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 includes, but is not limited to: Looking forward, market headwinds are expected to persist in the near term but our business model and strategies are designed for success; we are confident in our ability to continue generating steady performance and strong operating cash flow through the balance of 2023; the combined impact of recent inflation and interest rate hikes is expected to have a continued near-term negative effect on economic activity; this could lead to a continuation of the softer product pricing and volumes that we have experienced thus far in 2023; we expect third quarter 2023 adjusted results will be similar to what we achieved in Q2 2023; we do not expect our overall 2023 financial performance to match the record-setting levels achieved in 2022; 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 will continue to convert a high proportion of EBITDA to operating cash flows before changes in working capital; our investment in working capital typically decreases during periods of reduced activity, resulting in an additional source of cash; over the longer term we anticipate a return to robust demand levels, 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 the repair and remodel, residential, and commercial markets we participate in.

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 U.S. 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 U.S. dollar could affect our performance; our results are dependent upon the general state of the economy; 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 ended December 31, 2022, 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 management as of the date of this news release. The financial outlook is provided for the purpose of providing readers with an understanding of the Company's 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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