



## Interim Report

Three-month period  
ended February 28, 2018

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### MESSAGE TO SHAREHOLDERS

Richelieu continued to grow and expand in the first quarter as indicated by strong results and financial position, and by a new acquisition - Cabinet and Top Supply, Inc. - a distributor of specialized products based in Fort Myers, Florida, which became our ninth distribution center in this important market.

We highlight the strong sales growth in the first quarter ended February 28, 2018 - which totalled \$222 million, up by 13.3%, of which 6.2% from internal growth and 7.1% from acquisitions. At comparable exchange rate to the same quarter in 2017, the consolidated sales growth would have been 15.3%. Sales were up in both Canada and in the U.S. with respective increases of 14.4% and 17% (US\$).

Taking into account our 2017 acquisitions and our development and innovation strategies, we achieved an 11.3% increase in sales in the manufacturers market. Our sustained market development initiatives bore fruit in the retailers and renovation superstores market, resulting in a 24.1% sales increase in the first quarter. We are very pleased with our sales performance, especially for a first quarter, historically the weakest period of the year.

Net earnings attributable to shareholders were \$12.7 million, an increase of 5.6%.

Our financial position remained excellent, almost debt-free, with working capital totaling \$304.4 million, for a ratio of 4.7:1 as at February 28, 2018. During the quarter, we repurchased 148,200 common shares for cancellation totaling \$4.5 million, and paid dividends to our shareholders of \$3.5 million.

Creating synergies through acquisitions and optimizing their potential will remain priorities in 2018. We continue to focus on product innovation, market development initiatives, operational efficiency and acquisition opportunities in the North American market. We are confident we will produce good results in the coming quarters.

### NEXT DIVIDEND PAYMENT

On April 5, 2018, the Board of Directors approved the payment of a quarterly dividend of 6¢ per share. This dividend will be paid on May 3rd, 2018, to shareholders of record as at April 19, 2018.

## Management's discussion and analysis of operating results and financial position for the first quarter ended February 28, 2018



This management report relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the first quarter ended February 28, 2018 in comparison with the first quarter ended February 28, 2017, as well as the Corporation's financial position as at February 28, 2018 in comparison with November 30, 2017. This report should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes for the first quarter of 2018 as well as the analysis and notes to our audited consolidated financial statements appearing in our 2017 Annual Report. In this management's report, "Richelieu" or the "Corporation" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, including certificates for the interim period ended February 28, 2018 signed by the Corporation's President and Chief Executive Officer and the Vice-President and Chief Financial Officer, is available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

The information contained in this management's report accounts for any major event occurring prior to April 5, 2018, on which date the unaudited consolidated interim financial statements and interim management's report were approved by the Corporation's Board of Directors. Unless otherwise indicated, the financial information presented below, including amounts shown in tables, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the first quarter ended February 28, 2018 have not been audited or reviewed by the Corporation's auditors.

### NON-IFRS MEASURES

Richelieu uses earnings before interest, income taxes and amortization ("EBITDA") as we believe this measure enables management to assess the Corporation's operational performance. This measure is a widely accepted financial indicator of a Corporation's ability to service and incur debt. However, EBITDA should not be considered by an investor as an alternative to operating income or the net earnings attributable to shareholders of the Corporation, as an indicator of financial performance or cash flows, or as a measure of liquidity. Since EBITDA is not a standardized measurement prescribed by IFRS, it may not be comparable to the EBITDA of other companies.

Richelieu also uses cash flows from operating activities and cash flows from operating activities per share. Cash flows from operating activities are based on net earnings plus amortization of property, plant and equipment and intangible assets, deferred tax expense (or recovery) and share-based compensation expense. These additional measures do not account for net change in non-cash working capital items to exclude seasonality effects and are used by management in its assessments of cash flows from long-term operations. Therefore, cash flows from operating activities may not be comparable to the cash flows from operating activities of other companies.

### FORWARD-LOOKING STATEMENTS

Certain statements set forth in this management's report, including statements relating to the expected sufficiency of cash flows to cover contractual commitments, to maintain growth and to provide for financing and investing activities, growth outlook, Richelieu's competitive position in its industry, Richelieu's ability to weather the current economic context and access other external financing, the closing of new acquisitions, and other statements not pertaining to past events, constitute forward-looking statements. In some cases, these statements are identified by the use of terms such as "may", "could", "might", "intend", "should", "expect", "project", "plan", "believe", "estimate" or the negative form of these expressions or other comparable variants. These statements are based on the information available at the time they are written, on assumptions made by management and on the expectations of management, acting in good faith regarding future events. Assumptions are that economic conditions and exchange rates will not significantly deteriorate, the Corporation's deliveries will be sufficient to fulfill Richelieu's needs, the availability of credit will remain stable during the year and no extraordinary events will require supplementary capital expenditures.

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are written, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability, as well as other factors set forth in the Corporation's 2017 Annual Report (see the "Risk Factors" section on page 33 of the 2017 Annual Report available on SEDAR at [www.sedar.com](http://www.sedar.com)).

Richelieu's actual results could differ materially from those indicated or underlying these forward-looking statements. The reader is therefore recommended not to unduly rely on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items, any business combination or any other transaction that may be announced or occur subsequent to the date hereof. Richelieu undertakes no obligation to update or revise the forward-looking statements to account for new events or new circumstances, except where provided for by applicable legislation.

## GENERAL BUSINESS OVERVIEW

as at February 28, 2018

**Richelieu is a leading North American importer, distributor and manufacturer of specialty hardware and related products.**

Its products are targeted to an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, residential and commercial woodworkers, as well as hardware retailers including renovation superstores. The residential and commercial renovation industry is one of the Corporation's principal source of growth.

Richelieu offers customers a broad mix of products sourced from manufacturers worldwide. The solid relationships Richelieu has built with the world's leading suppliers enable it to provide customers with the latest innovative products tailored to their business needs. The Corporation's product selection consists of over 110,000 different items targeted to a base of more than 80,000 customers served through 70 centers in North America – 36 distribution centers in Canada, 32 distribution centers in the United States and two manufacturing plants in Canada.

Main product categories include furniture, glass and building decorative and functional hardware, lighting systems, finishing and decorating products, ergonomic workstation components, kitchen and closet storage solutions, sliding door systems, decorative and functional panels, high-pressure laminates and floor protection products. This offering is completed by the Corporation's two manufacturing subsidiaries, Les Industries Cedan inc. and Menuiserie des Pins Ltée, which manufacture a variety of veneer sheets and edgbanding products as well as a broad selection of decorative mouldings and components for the window and door industry. In addition, many of the Corporation's products are manufactured according to its specifications and those of its customers.

The Corporation employs over 2,100 people at its head office and throughout its network, close to half of whom work in marketing, sales and customer service. More than 50% of the Corporation's employees are Richelieu shareholders.

## MISSION AND STRATEGY

Richelieu's mission is to create shareholder value and contribute to its customers' growth and success, while favouring a business culture focused on quality of service and results, partnership and entrepreneurship.

To sustain its growth and remain a leader in its specialty market, the Corporation continues to implement its strategy that has benefited it until now, with a focus on:

- continuing to strengthen its product selection by continuously introducing diversified products that meet its market segment needs and position it as the specialist in functional and decorative hardware for manufacturers and retailers;
- further developing its current markets in Canada and the United States with the support of a specialized sales and marketing force capable of providing customers with personalized service; and
- continue to expand in North America through the opening of new distribution centers through efficiently integrated, profitable acquisitions made at the right price, offering high growth potential and complementary to its product mix and expertise.

Richelieu's solid and efficient organization, highly diversified product selection and long-term relationships with leading suppliers worldwide, allows it to compete effectively in a fragmented market consisting mainly of a host of regional distributors offering a limited range of products.

### FINANCIAL HIGHLIGHTS

(unaudited)

#### Quarters ended February 28

(in thousands of \$, except per-share amounts, number of shares and data expressed as a %)

	2018	2017	
	\$	\$	Δ (%)
Sales	221,980	195,909	+13.3
EBITDA <sup>(1)</sup>	19,803	18,341	+8.0
EBITDA margin (%)	8.9	9.4	
Net earnings	12,632	11,957	+5.6
Net earnings attributable to shareholders of the Corporation	12,704	11,998	+5.9
• basic per share (\$)	0.22	0.21	+4.8
• diluted per share (\$)	0.22	0.20	+10.0
Net margin attributable to the shareholders of the Corporation (%)	5.7	6.1	
Cash flows from operating activities <sup>(2)</sup>	16,163	14,930	+8.3
• diluted per share (\$)	0.28	0.25	+12.0
Dividends paid to the shareholders of the Corporation	3,464	3,286	+5.4
• per share (\$)	0.0600	0.0567	+5.8
Weighted average number of shares outstanding (diluted) (in thousands)	58,524	58,995	

### Financial position data

As at	February 28 2018	November 30 2017	
	\$	\$	Δ (%)
Total assets	531,932	542,667	-2.0
Working capital	304,368	300,116	+1.4
Current ratio	4.7 : 1	4.0 : 1	
Equity attributable to shareholders of the Corporation	439,121	434,092	+1.2
Return on average equity (%)	16.3	16.3	
Book value (\$)	7.61	7.51	+1.3
Total debt	2,604	4,294	
Cash and cash equivalents	3,166	29,162	

(1) EBITDA is a non-IFRS measure, as indicated on page 2 of this report.

(2) Cash flows from operating activities and cash flows from operating activities per share are non-IFRS measures, as indicated on page 2 of this report.

# ANALYSIS OF OPERATING RESULTS FOR THE FIRST QUARTER ENDED FEBRUARY 28, 2018, COMPARED WITH THE FIRST QUARTER ENDED FEBRUARY 28, 2017

<b>Consolidated sales</b>			
(in thousands of \$, except exchange rates)			
Quarters ended February 28	2018 \$	2017 \$	Δ (%)
Canada	143,748	125,662	+14.4
United States(CA\$)	78,232	70,247	+11.4
(US\$)	62,209	53,186	+17.0
Average exchange rates	1.258	1.321	
Consolidated sales	221,980	195,909	+13.3

For the quarter ended February 28, 2018, consolidated sales reached \$222.0 million, compared with \$195.9 million for the corresponding quarter of 2017, an increase of 13.3%, of which 6.2% from internal growth and 7.1% from acquisitions. At comparable exchange rates to the first quarter of 2017, the consolidated sales growth would have been 15.3% for the quarter ended February 28, 2018.

Richelieu achieved sales of \$183.4 million in the **manufacturers** market, compared with \$164.8 million for the first quarter of 2017, an increase of \$18.6 million. All market segments contributed to this 11.3% increase, of which 2.8% resulted from internal growth and 8.5% from acquisitions. At comparable exchange rates to the first quarter of 2017, this internal growth would have been 4.8%. Sales to hardware **retailers** and renovation superstores stood at \$38.6 million, up by \$7.5 million or 24.1% over the first quarter of 2017.

**In Canada**, Richelieu recorded sales of \$143.7 million, an increase of \$18.1 million or 14.4% over the first quarter of 2017, of which 5.6% from internal growth and 8.8% from acquisitions. Sales to **manufacturers** amounted to \$113.6 million compared with \$98.5 million, an increase of 15.3% of which 4.1% from internal growth and 11.2% from acquisitions. Sales to hardware **retailers** and renovation superstores grew to \$30.2 million, up by \$3.1 million or 11.4% over the corresponding quarter of 2017, mainly caused by market share gains and the addition of new customers.

**In the United States**, sales totalled US\$62.2 million, compared with US\$53.2 million for the first quarter of 2017, an increase of US\$9.0 million or 17%, of which 12.7% from internal growth and 4.3% from acquisitions. Sales to **manufacturers** amounted to US\$55.5 million compared with US\$50.2 million over the first quarter of 2017, an increase of 10.6%, of which 6.1% from internal growth and 4.5% from acquisitions. Sales to hardware **retailers** and renovation superstores were up by 123.3% from the corresponding quarter of 2017. This increase is the result of our market development efforts including significant cyclical sales in the first quarter compared to the corresponding quarter of 2017. Considering applicable exchange rates, total U.S. sales expressed in Canadian dollars stood at \$78.3 million, compared with \$70.3 million for the first quarter of 2017, an increase of 11.4%. They accounted for 35.2% of consolidated sales for the first quarter of 2018, whereas they represented 35.9% of the period's consolidated sales for the first quarter of 2017.

<b>Consolidated EBITDA and EBITDA margin</b>			
(in thousands of \$, unless otherwise indicated)			
Quarters ended February 28	2018 \$	2017 \$	Δ (%)
Sales	221,980	195,909	+13.3
EBITDA	19,803	18,341	+8.0
EBITDA margin (%)	8.9	9.4	

**First-quarter earnings before income taxes, interest and amortization (EBITDA)** amounted to \$19.8 million, up by \$1.5 million or 8.0% over the first quarter of 2017. **Gross margin** was down from the first quarter of 2017, mainly influenced by lower gross margins of recent acquisitions due to different product mix as well as by a higher level of direct sales made in the first quarter at lower gross margins. These factors, combined with the increased costs incurred during the quarter related to market development, the reorganization of certain distribution centers and the implementation of new technologies, also affected the **EBITDA margin** downward. Consequently, the **EBITDA margin** stood at 8.9%, compared to 9.4% for the corresponding quarter of 2017.

**Amortization expenses** for the first quarter of 2018 amounted to \$3.2 million compared with \$2.6 million for the corresponding quarter of 2017, up by \$0.6 million, resulting mainly from the investments made in capital assets and intangible assets in fiscal 2017.

<b>Consolidated net earnings attributable to shareholders</b>			
(in thousands of \$, unless otherwise indicated)			
Quarters ended February 28	2018 \$	2017 \$	Δ (%)
EBITDA	19,803	18,341	+8.0
Amortization of property, plant and equipment and intangible assets	3,245	2,637	
Financial cost, net	(36)	(84)	
Income taxes	3,962	3,831	
Net earnings	12,632	11,957	+5.6
Net earnings attributable to shareholders of the Corporation	12,704	11,998	+5.9
Net margin attributable to the shareholders of the Corporation(%)	5.7	6.1	
Non-controlling interests	(72)	(41)	
Net earnings	12,632	11,957	+5.6

**First-quarter net earnings** grew by 5.6%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to \$12.7 million, up by 5.9% over the first quarter of 2017. **Net earnings per share** rose to \$0.22 basic and \$0.22 diluted, compared with \$0.21 basic and \$0.20 diluted for the first quarter of 2017, an increase of 4.8% and 10.0%.

**Comprehensive income** amounted to \$12.1 million, considering a negative adjustment of \$0.5 million on translation of the financial statements of the subsidiary in the United States, compared with \$10.7 million for the first quarter of 2017, considering a negative adjustment of \$1.2 million on translation of the financial statements of the subsidiary in the United States.

SUMMARY OF QUARTERLY RESULTS				
(unaudited)				
(in thousands of \$, except per-share amounts)				
Quarters	1	2	3	4
<b>2018</b>				
o Sales	221,980			
o EBITDA	19,803			
o Net earnings attributable to shareholders of the Corporation	12,704			
basic per share	0.22			
diluted per share	0.22			
<b>2017</b>				
o Sales	195,909	243,269	253,190	250,177
o EBITDA	18,341	26,648	27,924	30,061
o Net earnings attributable to shareholders of the Corporation	11,998	17,587	18,135	19,984
basic per share	0.21	0.30	0.31	0.34
diluted per share	0.20	0.30	0.31	0.34
<b>2016</b>				
o Sales	188,909	217,413	220,155	217,996
o EBITDA	16,710	23,074	25,942	28,696
o Net earnings attributable to shareholders of the Corporation	10,861	15,408	17,331	19,214
basic per share	0.19	0.27	0.30	0.33
diluted per share	0.18	0.26	0.30	0.33

**Quarterly variations in earnings** - The first quarter closed at the end of February is generally the year's weakest for Richelieu in light of the smaller number of business days due to the end-of-year holiday period and a wintertime slowdown in renovation and construction work. The third quarter ending August 31 also includes a smaller number of business days due to the summer holidays, which can be reflected in the period's financial results. The second and fourth quarters respectively ending May 31 and November 30 generally represent the year's most active periods.

## FINANCIAL POSITION

### Analysis of principal cash flows for the first quarter ended February 28, 2018

Change in cash and cash equivalents and capital resources		
(in thousands of \$, unless otherwise indicated)		
Quarters ended February 28	2018	2017
	\$	\$
Cash flows provided by (used for):		
Operating activities	(11,439)	2,537
Financing activities	(9,920)	(4,881)
Investing activities	(4,710)	(4,176)
Effect of exchange rate changes on cash and cash equivalents	73	(34)
Net change in cash and cash equivalents	(25,996)	(6,554)
Cash and cash equivalents, beginning of period	29,162	42,969
Cash and cash equivalents end of period	3,166	36,415
Working capital	304,368	286,129
Renewable line of credit (CA\$)	50,000	50,000
Renewable line of credit (US\$)	6,000	6,000

## Operating activities

**First-quarter cash flows from operating activities** (before net change in working capital balances) amounted to \$16.2 million or \$0.28 diluted per share, compared with \$14.9 million or \$0.25 diluted per share for the first quarter of 2017, an increase of 8.3% stemming primarily from the net earnings growth. Net change in non-cash working capital balances used cash flows of \$27.6 million, reflecting the change in inventories, accounts payable and other items (\$28.3 million), whereas the change in accounts receivable represented a cash inflow of \$0.7 million. Consequently, operating activities used cash flows of \$11.4 million, whereas they had represented a cash inflow of \$2.5 million for the first quarter of 2017.

## Financing activities

**First-quarter financing activities** used cash flows of \$9.9 million, compared with \$4.9 million for the first quarter of 2017. This change mainly results from the repurchase of 148,200 common shares amounting to \$4.5 million in the first quarter of 2018 compared with \$1.3 million in the first quarter of 2017, plus \$2.0 million in long-term debt repayment compared to \$0.7 million in the same quarter of 2017.

## Investing activities

**First-quarter investing activities** represented a cash outflow of \$4.7 million, of which \$2.0 million for a business acquisition and \$2.7 million primarily for the purchase of new equipment to improve operational efficiency and for IT equipment.

## Sources of financing

As at February 28, 2018, cash and cash equivalents amounted to \$3.2 million, compared with \$29.2 million as at November 30, 2017. This change mainly results from the increase in inventories, the common share repurchase and the investing activities made during the first quarter of 2018. The Corporation posted a **working capital** of \$304.4 million for a current ratio of 4.7:1, compared with \$300.1 million (4.0:1 ratio) as at November 30, 2017.

Richelieu believes it has the capital resources to fulfill its ongoing commitments and obligations and to assume the funding requirements needed for its growth and the financing and investing activities between now and the end of 2018. The Corporation benefits from an authorized line of credit of \$50 million as well as a line of credit of US\$6 million renewable annually and bearing interest respectively at prime and base rates. In addition, Richelieu considers it could obtain access to other outside financing if necessary.

### Analysis of financial position as at February 28, 2018

Summary financial position		
(in thousands of \$, except exchange rates)		
As at	February 28	November 30
	2018	2017
	\$	\$
Current assets	387,698	399,187
Non-current assets	144,234	143,480
Total	531,932	542,667
Current liabilities	83,330	99,071
Non-current liabilities	5,730	5,392
Equity attributable to shareholders of the Corporation	439,121	434,092
Non-controlling interests	3,751	4,112
Total	531,932	542,667
Exchange rates on translation of a subsidiary in the United States	1.281	1.289

## Assets

**Total assets** amounted to \$531.9 million as at February 28, 2018, compared with \$542.7 million as at November 30, 2017. **Current assets** are down from November 30, 2017 mainly due to the decrease in cash resulting from investments in operating and financing activities for the period.

<b>Cash position</b>		
(in thousands of \$)		
As at	<b>February 28</b>	November 30
	<b>2018</b>	<b>2017</b>
	\$	\$
Current portion of long-term debt	<b>2,244</b>	4,294
Long-term debt	<b>360</b>	—
<b>Total debt</b>	<b>2,604</b>	4,294
<i>Cash and cash equivalents</i>	<b>3,166</b>	29,162

The Corporation continues to benefit from a healthy and solid financial position. As at February 28, 2018, **total debt** was \$2.6 million, of which \$0.4 million in long-term debt and \$2.2 million in short-term debt representing balances payable on acquisitions and financing contract for equipment.

**Equity** attributable to shareholders of the Corporation totalled \$439.1 million as at February 28, 2018, compared with \$434.1 million as at November 30, 2017, an increase of \$5.0 million stemming primarily from a growth of \$4.8 million in retained earnings which amounted to \$381.7 million, and of \$0.8 million in share capital and contributed surplus, whereas accumulated other comprehensive income was down by \$0.5 million. As at February 28, 2018, **the book value per share** was \$7.61, up by 1.3% over November 30, 2017.

As at February 28, 2018, at the close of markets, the Corporation's **share capital** consisted of 57,700,914 common shares (57,795,603 shares as at November 30, 2017). During the first quarter ended February 28, 2018, the Corporation issued 53,511 common shares at an average price of \$8.14 (333,225 in 2017 at an average price of \$8.34) upon the exercise of options under its stock option plan. Furthermore, during the first quarter of 2018, the Corporation repurchased 148,200 common shares for cancellation for a cash consideration of \$4.5 million, compared with 458,088 common share repurchase for an amount of \$14.8 million during the year of 2017. As at February 28, 2018, 1,948,475 stock options were outstanding (1,637,361 as at November 30, 2017).

## CONTRACTUAL COMMITMENTS

There were no major changes in Richelieu's contractual commitments outside the normal course of business, compared with those set forth on page 32 of the Corporation's 2017 Annual Report, available on SEDAR at [www.sedar.com](http://www.sedar.com). For 2018 and the foreseeable future, the Corporation expects cash flows from operating activities and other sources of financing to meet its ongoing contractual commitments.

## FINANCIAL INSTRUMENTS

Richelieu periodically enters into forward exchange contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables or to hedge forecasted purchase transactions. The Corporation has a policy of not entering into derivatives for speculative or negotiation purposes and to enter into these contracts only with major financial institutions.

Richelieu also uses equity swaps to reduce the effect of fluctuations in its share price on net earnings in connection with its deferred share unit plan.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

As indicated in the 2017 Annual Report, available on SEDAR at [www.sedar.com](http://www.sedar.com), management has designed and evaluated internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P) to provide reasonable assurance that the Corporation's financial reporting is reliable and that its publicly-disclosed financial statements are prepared in accordance with IFRS. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have assessed, within the meaning of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings*, the design and the effectiveness of internal controls over financial reporting as at November 30, 2017. In light of this assessment, they concluded that the design and the effectiveness of internal controls over financial reporting (ICFR and DC&P) were effective. During the quarter ended February 28, 2018, management ensured that there were no material changes in the Corporation's procedures that were reasonably likely to have a material impact on its internal control over financial reporting. No such changes were identified.

Due to their intrinsic limits, internal controls over financial reporting only provide reasonable assurance and may not prevent or detect misstatements. In addition, projections of an assessment of effectiveness in future periods carry the risk that controls will become inappropriate as a result of changes in conditions or if the degree of conformity with standards and methods should deteriorate.

## SIGNIFICANT ACCOUNTING POLICIES

The Corporation's interim consolidated financial statements for the quarter ended February 28, 2018, have been prepared by management in accordance with IFRS. Note 2 accompanying the interim consolidated financial statements for the quarter ended February 28, 2018, presents the accounting policies recently released and applicable in the future.

The interim consolidated financial statements were prepared in accordance with the accounting methods that the Corporation adopted for the establishment of its consolidated financial statements as at November 30, 2017, and for the year ended on that date and require management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and appearing in the accompanying notes, which could be modified. The estimates are based on management's knowledge of current events, on the measures the Corporation could take in the future and on other factors deemed relevant and reasonable.

Risk factors are described in the "Risk Factors" section on page 33 of Richelieu's 2017 Annual Report, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

President and Chief  
Executive Officer



Richard Lord

Vice-President and Chief  
Financial Officer



Antoine Auclair

April 5, 2018

Interim Consolidated Financial Statements

**Richelieu Hardware Ltd.**

For the period of three months ended February 28, 2018

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars]

[Unaudited]

	Notes	As at February 28, 2018 \$	As at November 30, 2017 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,166	29,162
Accounts receivable		133,700	134,187
Income taxes receivable		1,446	
Inventories		245,456	233,585
Prepaid expenses		3,930	2,253
		<b>387,698</b>	<b>399,187</b>
<b>Non-current assets</b>			
Property, plant and equipment		39,329	38,558
Intangible assets		28,674	29,282
Goodwill		69,229	68,931
Deferred taxes		7,002	6,709
		<b>531,932</b>	<b>542,667</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		81,086	91,858
Income taxes payable		—	2,919
Current portion of long-term debt		2,244	4,294
		<b>83,330</b>	<b>99,071</b>
<b>Non-current liabilities</b>			
Long-term debt		360	—
Deferred taxes		3,511	3,511
Other liabilities		1,859	1,881
		<b>89,060</b>	<b>104,463</b>
<b>Equity</b>			
Share capital	4	39,672	39,230
Contributed surplus		2,682	2,358
Retained earnings		381,730	376,922
Accumulated other comprehensive income	5	15,037	15,582
Equity attributable to shareholders of the Corporation		<b>439,121</b>	<b>434,092</b>
Non-controlling interests		3,751	4,112
		<b>442,872</b>	<b>438,204</b>
		<b>531,932</b>	<b>542,667</b>

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board of Directors :



**Richard Lord**  
Director



**Mathieu Gauvin**  
Director

## CONSOLIDATED STATEMENTS OF EARNINGS

For the three-month periods ended February 28 [In thousands of dollars, except earnings per share]  
[Unaudited]

	Notes	2018 \$	2017 \$
<b>Sales</b>		<b>221,980</b>	195,909
Operating expenses excluding amortization	6	<b>202,177</b>	177,568
<b>Earnings before amortization, financial costs and income taxes</b>		<b>19,803</b>	18,341
Amortization of property, plant and equipment		<b>2,227</b>	1,816
Amortization of intangible assets		<b>1,018</b>	821
Financial costs, net		<b>(36)</b>	(84)
		<b>3,209</b>	2,553
<b>Earnings before income taxes</b>		<b>16,594</b>	15,788
Income taxes		<b>3,962</b>	3,831
<b>Net earnings</b>		<b>12,632</b>	11,957
<b>Net earnings attributable to:</b>			
Shareholders of the Corporation		<b>12,704</b>	11,998
Non-controlling interests		<b>(72)</b>	(41)
		<b>12,632</b>	11,957
<b>Net earnings per share attributable to shareholders of the Corporation</b>			
Basic		<b>0.22</b>	0.21
Diluted		<b>0.22</b>	0.20

See accompanying notes to the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended February 28 [In thousands of dollars]  
[Unaudited]

	Notes	2018 \$	2017 \$
<b>Net earnings</b>		<b>12,632</b>	11,957
<b>Other comprehensive income that will be reclassified to net earnings</b>			
Exchange differences on translation of foreign operations	5	<b>(545)</b>	(1,222)
<b>Comprehensive income</b>		<b>12,087</b>	10,735
<b>Comprehensive income attributable to:</b>			
Shareholders of the Corporation		<b>12,159</b>	10,776
Non-controlling interests		<b>(72)</b>	(41)
		<b>12,087</b>	10,735

See accompanying notes to the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three-month periods ended February 28 [In thousands of dollars]  
[Unaudited]

	Attributable to shareholders of the Corporation				Total	Non- controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income			
	\$	\$	\$	\$	\$	\$	\$
<b>Notes</b>	<b>4</b>			<b>5</b>			
Balance as at November 30, 2016	36,050	1,417	336,835	19,966	394,268	4,043	398,311
Net earnings	—	—	11,998	—	11,998	(41)	11,957
Other comprehensive income	—	—	—	(1,222)	(1,222)	—	(1,222)
Comprehensive income	—	—	11,998	(1,222)	10,776	(41)	10,735
Shares repurchased	(29)	—	(1,222)	—	(1,251)	—	(1,251)
Stock options exercised	677	(146)	—	—	531	—	531
Share-based compensation expense	—	412	—	—	412	—	412
Dividends [note 9]	—	—	(3,286)	—	(3,286)	(190)	(3,476)
Other liabilities	—	—	—	—	—	15	15
	648	266	(4,508)	—	(3,594)	(175)	(3,769)
Balance as at February 28, 2017	36,698	1,683	344,325	18,744	401,450	3,827	405,277
Balance as at November 30, 2017	39,230	2,358	376,922	15,582	434,092	4,112	438,204
Net earnings	—	—	12,704	—	12,704	(72)	12,632
Other comprehensive income	—	—	—	(545)	(545)	—	(545)
Comprehensive income	—	—	12,704	(545)	12,159	(72)	12,087
Shares repurchased	(102)	—	(4,432)	—	(4,534)	—	(4,534)
Stock options exercised	544	(107)	—	—	437	—	437
Share-based compensation expense	—	431	—	—	431	—	431
Dividends [note 9]	—	—	(3,464)	—	(3,464)	(311)	(3,775)
Other liabilities	—	—	—	—	—	22	22
	442	324	(7,896)	—	(7,130)	(289)	(7,419)
Balance as at February 28, 2018	39,672	2,682	381,730	15,037	439,121	3,751	442,872

See accompanying notes to the interim consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended February 28 [In thousands of dollars]  
[Unaudited]

	Notes	2018 \$	2017 \$
<b>OPERATING ACTIVITIES</b>			
Net earnings		12,632	11,957
Items not affecting cash			
Amortization of property, plant and equipment		2,227	1,816
Amortization of intangible assets		1,018	821
Deferred taxes		(315)	(197)
Share-based compensation expense	4	601	533
		16,163	14,930
Net change in non-cash working capital balances		(27,602)	(12,393)
		(11,439)	2,537
<b>FINANCING ACTIVITIES</b>			
Repayment of long-term debt		(2,048)	(685)
Dividends paid to shareholders of the Corporation	9	(3,464)	(3,286)
Other dividends paid		(311)	(190)
Common shares issued		437	531
Common shares repurchased for cancellation		(4,534)	(1,251)
		(9,920)	(4,881)
<b>INVESTING ACTIVITIES</b>			
Business acquisitions	3	(2,041)	—
Additions to property, plant and equipment and intangible assets		(2,669)	(4,176)
		(4,710)	(4,176)
Effect of exchange rate changes on cash and cash equivalents		73	(34)
<b>Net change in cash and cash equivalents</b>		<b>(25,996)</b>	<b>(6,554)</b>
Cash and cash equivalents, beginning of period		29,162	42,969
<b>Cash and cash equivalents, end of period</b>		<b>3,166</b>	<b>36,415</b>
<b>Supplementary information</b>			
Income taxes paid		8,646	6,513
Interest received, net		(36)	(84)

See accompanying notes to the interim consolidated financial statements.

## Notes to interim consolidated financial statements (Unaudited)

February 28, 2018 and 2017 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

## NATURE OF BUSINESS

Richelieu Hardware Ltd. [the "Corporation"] is incorporated under the laws of Quebec, Canada. The Corporation is a distributor, importer, and manufacturer of specialty hardware and complementary products. Its products are targeted to an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, residential and commercial woodworkers and hardware retailers including renovation superstores. The Corporation's head office is located at 7900 Henri-Bourassa Blvd. West, Montreal, Quebec, Canada, H4S 1V4.

## 1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's interim consolidated financial statements, presented in Canadian dollars, have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"], more specifically with IAS 34, *Interim Financial Reporting*.

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing the annual consolidated financial statements as at November 30, 2017 and for the year ended at this date, and requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future and other factors deemed relevant and reasonable. In management's opinion, these interim consolidated financial statements reflect all the adjustments required for a fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year as the operating level of the Corporation is subject to seasonal fluctuations. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the Corporation's annual report for the fiscal year 2017.

## 2. CHANGES IN ACCOUNTING METHODS

### Recently issued

#### IFRS 9, Financial Instruments

IFRS 9, *Financial instruments* replaces IAS 39 *Financial instruments : Recognition and Measurement* and includes a single approach to determine whether a financial asset is measured at amortized cost or fair value, a new hedge accounting model to enable financial statement users to better understand an entity's risk exposure and its risk management activities, and a new impairment model for financial assets based on expected credit losses. IFRS 9 is effective for fiscal year beginning on or after January 1<sup>st</sup>, 2018, thus for fiscal year beginning on December 1<sup>st</sup>, 2018 for the Corporation. The Corporation has made a preliminary assessment the adoption of this new standard will have on its consolidated financial statements and does not anticipate any significant impact.

#### IFRS 15, Revenue from contracts with customers

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue*, IAS 11, *Construction Contracts* and related interpretations. Under IFRS 15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 shall be applied to fiscal year beginning on or after January 1<sup>st</sup>, 2018, thus for fiscal year beginning on December 1<sup>st</sup>, 2018 for the Corporation. The Corporation has made a preliminary assessment the adoption of this new standard will have on its consolidated financial statements and does not anticipate any significant impact.

## IFRS 16, Leases

IFRS 16 *Leases* replaces IAS 17 *Leases* and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1<sup>st</sup>, 2019, thus for fiscal year beginning on December 1<sup>st</sup>, 2019 for the Corporation. Earlier adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

The Corporation being committed under operating leases for warehouse and office premises, it expects that the adoption of IFRS 16 will result in the recognition, in the consolidated statement of financial position, of a related asset and a liability and, in the consolidated statement of earnings, of a reduction in rent expense and an increase in financial costs and amortization of property, plant and equipment. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

## 3. BUSINESS ACQUISITIONS

### 2018

On February 26, 2018, the Corporation purchased the principal net assets of Cabinet & Top Supply Inc., a distributor of specialized products located in Fort Myers, Florida.

### 2017

On August 1<sup>st</sup>, 2017, the Corporation purchased the principal net assets of Tamarack Distributors Inc., a distributor of specialized products located in Cincinnati, Ohio.

On April 18, 2017, the Corporation purchased the principal net assets of Weston Premium Woods Inc., a distributor of materials, decorative products and hardwoods located in Brampton, Ontario.

## 4. SHARE CAPITAL

### Authorized

Unlimited number of:

Common shares, participating, entitling the holder to one vote per share.

Non-voting first and second ranking preferred shares issuable in series, the characteristics of which are to be determined by the Board of Directors.

Changes in common shares are summarized as follows:

(in thousands)	Number of shares	\$
Outstanding, November 30, 2016	57,920	36,050
Issued	333	3,483
Repurchased	(458)	(303)
<b>Outstanding, November 30, 2017</b>	<b>57,795</b>	<b>39,230</b>
<b>Issued</b>	<b>54</b>	<b>544</b>
<b>Repurchased</b>	<b>(148)</b>	<b>(102)</b>
<b>Outstanding, February 28, 2018</b>	<b>57,701</b>	<b>39,672</b>

During the three-month period ended February 28, 2018, the Corporation issued 53,511 common shares [2017 - 333,225] at an average price of \$8.14 per share [2017 - \$8.34] pursuant to the exercise of stock options under the stock option plan. In addition, during the three-month period ended February 28, 2018, the Corporation repurchased 148,200 common shares for cancellation in consideration of \$4,534, which resulted in a premium on the redemption in the amount of \$4,432, recorded in reduction of retained earnings [For the year 2017 - 458,088 common shares in consideration of \$14,763 which resulted in a premium on the redemption in the amount of \$14,460].

**Notes to interim consolidated financial statements (Unaudited)**

February 28, 2018 and 2017 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

**Stock option plan**

Changes in stock options are summarized as follows:

	Number of options (in thousands)	Weighted average share price \$
Outstanding, November 30, 2016	1,650	13.58
Granted	330	25.71
Exercised	(333)	8.34
Cancelled	(9)	22.93
<b>Outstanding, November 30, 2017</b>	<b>1,638</b>	<b>13.58</b>
<b>Granted</b>	<b>370</b>	<b>32.77</b>
<b>Exercised</b>	<b>(54)</b>	<b>8.14</b>
<b>Cancelled</b>	<b>(5)</b>	<b>22.25</b>
<b>Outstanding, February 28, 2018</b>	<b>1,949</b>	<b>20.25</b>

Stock options granted during the three-month period ended February 28, 2018 has an average fair value of \$7.39 per option [2017 - \$5.93] as determined using the Black & Scholes option pricing model using an expected dividend yield of 0.8% [2017 - 0.9%], a volatility of 19.80% [2017 - 20%], a risk free interest rate of 2.25% [2017 - 1.86%] and an expected life of 7 years [2017 - 7 years]. For the three-month period ended February 28, 2018, the compensation expense related to stock options amounted to \$431 [2017 - \$412] and is recognized under *Operating expenses excluding amortization*. As at February 28, 2018, outstanding stock options had an exercise price varying from \$5.57 to \$32.77 [Stock options as at November 30, 2017 had an exercise price varying from \$5.57 to \$26.29].

**Deferred share unit plan**

The financial liability resulting from the DSU plan of \$7,399 [November 30, 2017 - \$7,914] is presented under the *Accounts payable and accrued liabilities*. As at February 28, 2018, the fair value of the equity swaps amounted to a liability of \$600 [November 30, 2017 - amounted to an asset of \$157] and is presented under *Accounts payable and accrued liabilities*. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data. The compensation expense for the DSUs during the three-month period ended February 28, 2018, amounted to \$170 [2017 - \$121] and is recognized under *Operating expenses excluding amortization*.

**Share purchase plan**

Compensation expense related to the share purchase plan amounted to \$188 for the three-month period ended February 28, 2018 [2017 - \$170] and is recognized under *Operating expenses excluding amortization*.

**Net earnings per share**

Net earnings per share, basic and diluted, were calculated based on the following number of shares:

(in thousands)	2018	2017
Weighted average number of shares outstanding - Basic	57,784	57,933
Dilutive effect under stock option plan	740	1,062
Weighted average number of shares outstanding - Diluted	58,524	58,995

**5. ACCUMULATED COMPREHENSIVE INCOME**

The accumulated other comprehensive income, including the following items and their variances, were as follows:

	2018 \$	2017 \$
Balance at the beginning of the period	15,582	19,966
Exchange differences on translation of foreign operations	(545)	(1,222)
Balance at the end of the period	15,037	18,744

**6. FINANCIAL INSTRUMENTS AND OTHER INFORMATION****Fair value**

The carrying value of long-term debt approximates their fair value because of the short maturity on balances of sale payable. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data.

As at February 28, 2018, the fair value of the foreign exchange forward contracts amounted to an asset of \$38 [a liability of \$83 as at November 30, 2017] representing the amount the Corporation would collect on settlement of these contracts at spot rates. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data.

**Credit risk**

The Corporation sells its products to numerous customers in Canada, and in a lesser proportion in the United States. The credit risk refers to the possibility that customers will be unable to assume their liabilities towards the Corporation. The average days outstanding of accounts receivable, as at February 28, 2018 is acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluation of customers and generally does not require collateral. The allowance for doubtful accounts has increased by \$695 [2017 - \$594] during the three-month period ended February 28, 2018 for a total of \$7,181 as at February 28, 2018 [November 30, 2017 - \$6,486].

**Market risk**

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and euro. Operating expenses included, for the three-month period ended February 28, 2018, an exchange gain of \$208 [2017 - gain of \$526].

The Corporation's policy is to maintain its purchase price and selling prices of its commercial activities by mitigating its exposure by use of derivative financial instruments. To protect its operations from exposure to exchange rate fluctuations, foreign exchange contracts are used. Major exchange risks are covered by a centralized cash flow management. Exchange rate risks are managed in accordance with the Corporation's policy on exchange risk management. The goal of this policy is to protect the Corporation's profits by reducing the exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at February 28, 2018, a decrease of 5% of the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased consolidated net earnings by \$443 [ \$336 as at February 28, 2017] and would have increased the consolidated comprehensive income by \$5,804 [\$6,086 as at February 28, 2017]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at February 28, 2018.

**Notes to interim consolidated financial statements (Unaudited)**

February 28, 2018 and 2017 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

**Liquidity risk**

The Corporation manages its risk of not being able to settle its financial liabilities when required by taking into account its operational needs and by using different financing tools, if required. During the previous years, the Corporation has financed its growth, its acquisitions, and its payout to shareholders by using the cash generated by the operating activities.

**Operating expenses excluding amortization**

	2018 \$	2017 \$
Inventories from the distribution, imports and manufacturing activities	166,404	143,560
Salaries and related charges	30,884	29,550
Other charges	4,889	4,458
	202,177	177,568

For the three-month period ended February 28, 2018, an expense of \$811 [2017 - \$746] for inventory obsolescence is included in Inventories from the distribution, imports and manufacturing activities.

**7. CAPITAL MANAGEMENT**

The Corporation's objectives are:

- Maintain a low debt ratio to preserve its capacity to pursue its growth both internally and through acquisitions;
- Provide an adequate return to shareholders.

The Corporation manages and makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. As at February 28, 2018 the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.6 % [1.0 % as at November 30, 2017] [Long-term debt/Equity]
- Return on average shareholder's equity of 16.3% over the last 12 months [16.3% for the year ended November 30, 2017]

The Corporation's capital management objectives remained unchanged from the previous fiscal year.

**8. GEOGRAPHIC INFORMATION**

During the three-month period ended February 28, 2018, near 65% of sales had been made in Canada [2017 - 64%]. The Corporation's sales to foreign countries, almost entirely directed to the United States, amounted to \$78,232 [2017 - \$70,247] in Canadian dollars and to \$62,209 [2017 - \$53,186] in US dollars.

As at February 28, 2018, out of the total amount in property, plant and equipment, \$4,591 [November 30, 2017 - \$3,830] are located in the United States. In addition, intangible assets located in the United States amounted to \$13,209 [November 30, 2017 - \$13,302] and goodwill to \$11,115 [November 30, 2017 - \$10,818] in Canadian dollars and to \$10,312 [November 30, 2017 - \$10,321] and goodwill to \$8,678 [November 30, 2017 - \$8,394] in US dollars.

**9. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION**

For the three-month period ended February 28, 2018, the Corporation paid a quarterly dividend of 6.00¢ per share to common shareholders [2017 - quarterly dividend of 5.67¢ per share] for a total amount of \$3,464 [2017 - \$3,286].

**10. APPROVAL OF FINANCIAL STATEMENTS**

The interim consolidated financial statements for the three-month period ended February 28, 2018 (including the comparative figures) were approved for issue by the Board of Directors on April 5, 2018.