



## Interim Report

# 2

Three and six-month periods  
ended May 31, 2020

### MESSAGE TO SHAREHOLDERS

The second quarter ended May 31, 2020 was marked by an unprecedented business environment caused by the COVID-19 pandemic. In such a context, Richelieu has nevertheless achieved an appreciable financial performance thanks notably to our *one-stop shop product approach*, the diversification of our market segments, our service, the positive impact of our acquisitions and the adjustment measures adopted in response to market conditions.

During the quarter, we also continued to identify new acquisition targets that meet our value creation criteria. On June 29, 2020, we completed the acquisition of the principal net assets of Central Wholesale Supply, a specialty hardware distributor operating a distribution centre in Richmond, Virginia. We are proud of this recent acquisition, which gives us access to this new strategic market. In addition, we recently signed an agreement in principle for another strategic acquisition in Canada.

The quarter started off strong in March, but our activities declined sharply in April due to the pandemic. However, a marked improvement was felt in May, and continued in June, particularly in the retailers and renovation superstores market, with the exception of cyclical sales, which were higher in the second quarter of 2019. Sales for the second quarter totalled \$248.3 million, down 11.7% - however noting that this quarter had one fewer business day than the same quarter in 2019. Sales totalled \$207.0 million in the manufacturer market and \$41.3 million in the retailer and renovation superstore market. Growth from acquisitions was 6.6%, partially offsetting the 18.3% internal decrease caused mainly by lower sales in the manufacturer market. Quebec, Ontario and the U.S. Northeast and Midwest markets were the hardest hit by the pandemic. For the first six months of the fiscal year, sales totalled \$497.7 million, down 1.9% from the first six months of 2019, including an internal decrease of 8.5%, partially offset by the 6.6% growth from acquisitions.

Under these circumstances, we acted promptly and adjusted our cost structure to better reflect the level of market activity. Approximately 600 of our employees are still working from their home. As a result, EBITDA amounted to \$33.8 million, compared to \$34.4 million for the same quarter in 2019, a decrease of 1.7% due to lower sales, which were partially offset by cost reduction measures and government grants. The EBITDA margin was 13.6% compared to 12.2% for the second quarter of 2019. Adjusted cash flow from operating activities amounted to \$26.7 million, the same level as in the corresponding quarter of 2019. We generated diluted net earnings per share attributable to shareholders of \$0.31, compared to \$0.33 for the second quarter of 2019. For the first six months, EBITDA margin was 11.8% compared to 10.9% for the first six months of 2019. Diluted net earnings per share attributable to shareholders were \$0.52 compared to \$0.50 for the first six months of 2019.

At the end of the first six months, our financial position remained solid and healthy. Net cash stood at \$31.2 million. Working capital amounted to \$358 million, up 6.7% for a current ratio of 3.7:1.

In these difficult times, we are proud to meet our customers' needs by providing the same high quality service with sufficient inventories and resources upon which Richelieu has built its reputation in the markets in which it operates. Although encouraged by the positive trend we are seeing in certain market segments, we are continuing to monitor the situation very closely in order to adjust to changing market conditions in a timely manner. Our innovation and acquisition strategies remain our key growth and long-term value creation drivers.

### NEXT DIVIDEND PAYMENT

On July 9, 2020, the Board of Directors approved the payment of a quarterly dividend of 6.67¢ per share. This dividend will be paid on August 7, 2020, to shareholders of record as at July 23, 2020.

# Management's discussion and analysis of operating results and financial position for the third quarter and first six months ended May 31, 2020



This management's discussion and analysis report ("MD&A") relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the second quarter and first six months ended May 31, 2020, compared with the second quarter and first six months ended May 31, 2019, as well as to Richelieu Hardware Ltd.'s financial position as at May 31, 2020, compared with November 30, 2019. This MD&A should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes for the second quarter and first six months of 2020 as well as the analysis and notes to the audited consolidated financial statements appearing in our 2019 Annual Report. In this MD&A, "Richelieu" or the "Corporation" refers to, 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 May 31, 2020, 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 MD&A accounts for any major event that occurred prior to July 9, 2020, on which date the unaudited consolidated interim financial statements and interim MD&A 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 second quarter and first six months ended May 31, 2020, 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 performance 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 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 a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS, it may not be comparable to the EBITDA of other companies.

Richelieu also uses adjusted cash flows from operating activities and adjusted cash flows from operating activities per share. Adjusted 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, adjusted 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 MD&A, including statements relating to the expected adequacy 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, that supplies will be sufficient to fulfil Richelieu's needs (including as a result of the global outbreak of COVID-19), 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 given, they could prove inaccurate. Forward-looking statements are also subject, by their nature, to known and unknown risks and uncertainties set forth in the Corporation's 2019 Annual Report (see the "Risk Factors" section on page 34 and 35 of the 2019 Annual Report available on SEDAR at [www.sedar.com](http://www.sedar.com)).

The following is an update to the risks and uncertainties the Corporation is facing since that date. The Corporation is closely monitoring the evolution of the COVID-19 situation. Several provinces in Canada and States in the United States have instituted closures of non-essential businesses. The Corporation has suspended all travel and taken active steps to implement physical distancing and other measures recommended by public health agencies.

COVID-19 pandemic is altering business and consumer activity in affected areas and beyond. Additional measures may be implemented by one or more governments in jurisdictions where the Corporation operates. Labour shortages due to illness, Corporation or government imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction of the Corporation's operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Corporation's business, affairs, operations, financial condition, liquidity, availability of credit and operating results will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. Potential impacts include, but are not limited to, an impairment of long-lived assets and a change in the expected credit loss on accounts receivable. Any of these developments, and others, could have a material adverse effect on our business, financial condition, operations and operating results. The Corporation is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

Richelieu's actual results could differ materially from those indicated in or underlying these forward-looking statements. The reader is therefore cautioned not to place undue reliance 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 as required by law.

## CHANGE IN ACCOUNTING POLICIES

The comparative figures have been restated following the adoption of IFRS16 on December 1, 2019. Refer to note 2 of the interim consolidated financial statements for the period ended May 31, 2020 for more details on the adoption of this new standard.

## GENERAL BUSINESS OVERVIEW

as at May 31, 2020

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, door and window 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 sources 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 130,000 different items targeting a base of more than 90,000 customers served by 82 centers across North America**, 40 distribution centers in Canada, 40 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 decorative products, ergonomic workstation components, kitchen and closet storage solutions, sliding door systems, decorative and functional panels, high-pressure laminates, railing and baluster, 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 edge banding 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 2,400 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 intrapreneurship.

To sustain its growth and remain the leader in its specialty markets, the Corporation continues to implement the strategy which has been beneficial to date, with a focus on:

- continuing to strengthen its product selection by continuously introducing each year 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
- pursuing its expansion in North America with the opening of new distribution centres and 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)

Periods ended May 31

(in thousands of \$, except per-share amounts, number of shares and data expressed as a %)	3 months			6 months		
	2020	2019		2020	2019	
	\$ <sup>(3)</sup> Restated \$		Δ (%)	\$ <sup>(3)</sup> Restated \$		Δ (%)
Sales	248,253	281,067	(11.7)	497,654	507,418	(1.9)
EBITDA <sup>(1)</sup>	33,770	34,371	(1.7)	58,653	55,307	+6.0
EBITDA margin (%)	13.6	12.2		11.8	10.9	
Net earnings	17,783	19,189	(7.3)	29,577	29,123	+1.6
Net earnings attributable to shareholders of the Corporation	17,707	19,090	(7.2)	29,479	29,033	+1.5
• basic per share (\$)	0.31	0.33	(6.1)	0.52	0.51	+2.0
• diluted per share (\$)	0.31	0.33	(6.1)	0.52	0.50	+4.0
Net margin attributable to shareholders of the Corporation (%)	7.1	6.8		5.9	5.7	
Adjusted cash flows from operating activities <sup>(2)</sup>	26,726	26,722	—	46,860	43,623	+7.4
• diluted per share (\$)	0.47	0.47	—	0.83	0.76	+9.2
Dividends paid to the shareholders of the Corporation	—	3,607		3,754	7,224	-48.0
• per share (\$)	—	0.0633		0.0667	0.1266	-47.3
Weighted average number of shares outstanding (diluted) (in thousands)	56,538	57,266		56,580	57,625	

## Financial position data

As at May 31 November 30

	2020	2019	
	\$ <sup>(3)</sup> Restated \$		Δ (%)
Total assets	729,941	672,146	+8.6
Working capital	357,996	335,505	+6.7
Current ratio	3.7 : 1	4.1 : 1	
Equity attributable to shareholders of the Corporation	531,241	498,384	+6.6
Return on average equity (%)	13.1	13.7	
Book value per share (\$)	9.44	8.86	+6.5
Total debt	11,383	5,659	
Cash and cash equivalents	42,562	24,701	

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

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

(3) The comparative figures have been restated following the adoption of IFRS16 on December 1, 2019. Refer to note 2 of the interim consolidated financial statements for the period ended May 31, 2020 for more details on the adoption of this new standard.

## ANALYSIS OF OPERATING RESULTS FOR THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2020, COMPARED TO THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2019

<b>Consolidated sales</b>						
(in thousands of \$, except exchange rates)						
Periods ended May 31	3 months			6 months		
	2020	2019	Δ (%)	2020	2019	Δ (%)
	\$	\$		\$	\$	
Canada	155,217	183,144	(15.2)	311,930	326,846	(4.6)
United States (CA\$)	93,036	97,923	(5.0)	185,724	180,572	+2.9
(US\$)	66,511	73,057	-9.0	136,827	135,169	+1.2
Average exchange rates	1.3988	1.3404		1.3574	1.3359	
Consolidated sales	248,253	281,067	(11.7)	497,654	507,418	(1.9)

**Second-quarter** consolidated sales amounted to \$248.3 million, compared to \$281.1 million for the corresponding quarter of 2019, a decrease of \$32.8 million or 11.7%, of which 6.6% growth from acquisitions and 18.3% from an internal decrease. It should be noted that this quarter had one less business day than the second quarter of 2019. At comparable exchange rates to the second quarter of 2019, consolidated sales decrease would have been 13.1% for the quarter ended May 31, 2020.

Richelieu achieved sales of \$207.0 million in the **manufacturers** market, compared to \$238.3 million for the second quarter of 2019, a decrease of \$31.3 million or 13.1%, of which 4.5% growth from acquisitions and 17.6% from an internal decrease. Sales to hardware **retailers** and renovation superstores stood at \$41.3 million, down \$1.5 million or 3.5% over the second quarter of 2019. Due to the current pandemic and the restrictions imposed by governments beginning as of mid-March 2020, many of our distribution centers have seen their operations strongly impacted, and this particularly in Quebec, Ontario, as well as in the Northeast and Midwest American states, which had a negative impact on sales in our two main markets, both in Canada and in the United States. The Corporation continued to operate in all of its centers with a reduced workforce in order to further serve its customers. Operations gradually resumed their course towards the end of the quarter, and this in accordance with deconfinement rules specific to each province and state where Richelieu operates and with the applicable physical distancing rules.

**In Canada**, Richelieu recorded sales of \$155.2 million, a decrease of \$27.9 million or 15.2% over the second quarter of 2019, of which 4.1% growth from acquisitions and 19.3% from an internal decrease. Sales to **manufacturers** amounted to \$124.5 million, compared to \$152.2 million for the second quarter of 2019, a decrease of 18.2%, of which 3.5% growth from acquisitions and 21.7% from an internal decrease. Sales to hardware **retailers** and renovation superstores totalled \$30.8 million, down \$0.2 million or 0.6% over the corresponding quarter of 2019, of which 7.2% growth from acquisitions and 7.8% from an internal decrease.

**In the United States**, sales totalled US\$66.5 million, compared to US\$73.1 million for the second quarter of 2019, down US\$6.6 million or 9.0%, of which 10.7% growth from acquisitions and 19.7% from internal decrease. Sales to **manufacturers** amounted to US\$59.0 million, compared to US\$64.3 million, a decrease of 8.2% over the second quarter of 2019, of which 5.9% growth from acquisitions and 14.1% from an internal decrease. Sales in US\$ to hardware **retailers** and renovation superstores were down 14.8% from the corresponding quarter of 2019, including 45.0% growth from acquisitions and 59.8% from an internal decrease, resulting from higher cyclical sales in 2019. Excluding the cyclical sales effect, the internal increase in this market would have been 34%. Total U.S. sales in Canadian dollars stood at \$93.0 million, compared to \$97.9 million year over year, a decrease of 5.0%. They accounted for 37.5% of consolidated sales for the second quarter of 2020, compared to 34.8% of consolidated sales for the second quarter of 2019.

**First-half consolidated sales** reached \$497.7 million, a decrease of \$9.7 million or 1.9% over the first six months of 2019, of which 6.6% growth from acquisitions and 8.5% from an internal decrease. At comparable exchange rates to the first half of 2019, consolidated sales decrease would have been 2.5%.

Sales to **manufacturers** reached \$417.5 million, compared to \$430.6 million for the first six months of 2019, a decrease of \$13.1 million or 3.0%, of which 4.6% growth from acquisitions and 7.6% from an internal decrease. Sales to hardware **retailers** and renovation superstores grew by 4.4% or \$3.4 million to total \$80.2 million.

**In Canada**, Richelieu recorded sales of \$312.0 million, compared to \$326.9 million for the first six months of 2019, down by \$14.9 million or 4.6%, of which 5.0% growth from acquisitions and 9.6% from an internal decrease. Sales to **manufacturers** reached \$252.2 million, down by \$17.8 million or 6.6%, of which 4.7% growth from acquisitions and 11.3% from an internal decrease. Sales to hardware **retailers** and renovation superstores reached \$59.8 million, compared to \$56.9 million, up \$2.9 million or 5.1% over the first half of 2019.

**In the United States**, the Corporation recorded sales of US\$136.8 million, compared to US\$135.1 million for the first six months of 2019, an increase of US\$1.7 million or 1.2%, of which 9.6% growth from acquisitions and 8.3% from an internal decrease. Sales to **manufacturers** totalled US\$121.8 million, compared to US\$120.2 million, an increase of US\$1.6 million or 1.3% over the first half of 2019, of which 4.3% resulted from acquisitions and 3.0% from an internal decrease. Sales to hardware **retailers** and renovation superstores were up 0.7% from the corresponding period of 2019. Total U.S. sales in Canadian dollars amounted to \$185.7 million, compared to \$180.5 million for the corresponding six months of 2019, an increase of 2.9%. They accounted for 37.3% of consolidated sales for the first half of 2020, compared to 35.6% of the period's consolidated sales for the first six months of 2019.

<b>Consolidated EBITDA and EBITDA margin</b>						
(in thousands of \$, unless otherwise indicated)						
Periods ended May 31	3 months			6 months		
	2020	2019	Δ (%)	2020	2019	Δ (%)
	\$	restated \$		\$	restated \$	
Sales	248,253	281,067	(11.7)	497,654	507,418	(1.9)
EBITDA	33,770	34,371	(1.7)	58,653	55,307	+6.0
EBITDA margin (%)	13.6	12.2		11.8	10.9	

**Second quarter earnings before income taxes, interest and amortization (EBITDA)** amounted to \$33.8 million, down \$0.6 million or 1.7% over the second quarter of 2019, resulting from lower sales, partially offset by cost reduction measures and government grants. **Gross margin** remained stable from the second quarter of 2019. Consequently **EBITDA margin** stood at 13.6%, compared to 12.2% for the corresponding quarter of 2019.

**Amortization expense** for the second quarter of 2020 amounted to \$8.6 million, up \$1.6 million compared to the corresponding quarter of 2019. **Income tax expense** amounted to \$6.7 million, down \$0.5 million from the second quarter of 2019. **Financial costs** amounted to \$0.7 million.

**First-half earnings before income taxes, interest and amortization (EBITDA)** totalled \$58.7 million, up \$3.3 million or 6.0% over the first six months of 2019. The **gross margin** remained stable with the corresponding six-month period of 2019. As for the **EBITDA margin**, it stood at 11.8%, compared to 10.9% for the first six months of 2019 as a result of cost control measures.

**Amortization expense** for the first half of 2020 amounted to \$16.5 million, up \$2.7 million, compared to the same period of 2019, resulting from the increase in the amortization of intangible assets and right-to-use assets mainly relating to business acquisitions made in fiscal 2019 and in the first quarter of 2020.

**Income tax expense** amounted to \$11.2 million, up \$0.3 million from the first half of 2019. **Financial costs** amounted to \$1.4 million for the first half of 2020.

<b>Consolidated net earnings attributable to shareholders</b>						
(in thousands of \$, unless otherwise indicated)						
Periods ended	3 months			6 months		
	2020	2019		2020	2019	
May 31	\$	restated \$	Δ (%)	\$	restated \$	Δ (%)
EBITDA	33,770	34,371	(1.7)	58,653	55,307	+6.0
Amortization of property, plant and equipment and intangible assets	8,614	7,022		16,463	13,767	
Financial costs, net	708	979		1,441	1,563	
Income taxes	6,665	7,181		11,172	10,854	
Net earnings	17,783	19,189	(7.3)	29,577	29,123	+1.6
Net earnings attributable to shareholders of the Corporation	17,707	19,090	(7.2)	29,479	29,033	+1.5
Net margin attributable to the shareholders of the Corporation (%)	7.1	6.8		5.9	5.7	
Non-controlling interests	76	99		98	90	
Net earnings	17,783	19,189	(7.3)	29,577	29,123	+1.6

**Second quarter net earnings** were down 7.3%. Including non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to \$17.7 million, down 7.2% over the second quarter of 2019. **Net earnings per share** amounted to \$0.31 basic and diluted, compared to \$0.33 basic and diluted for the second quarter of 2019, a decrease of 6.1%.

**Comprehensive income** amounted to \$21.4 million, including a positive adjustment of \$3.6 million on translation of the financial statements of the United States subsidiary, compared to \$22.9 million for the second quarter of 2019, including a positive adjustment of \$3.8 million on translation of the financial statements of the United States subsidiary.

**First-half net earnings** increased 1.6%. Including non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled \$29.5 million, up 1.5% over the corresponding six months of 2019. **Net earnings per share** amounted to \$0.52 basic and diluted, compared to \$0.51 basic and \$0.50 diluted for the first half of 2019.

**Comprehensive income** totalled \$34.7 million, including a positive adjustment of \$5.1 million on translation of the financial statements of the United States subsidiary, compared to \$31.5 million for the first half of 2019, including a positive adjustment of \$2.4 million on translation of the financial statements of the United States subsidiary.

<b>SUMMARY OF QUARTERLY RESULTS</b>					
(unaudited)					
(in thousands of \$, except per-share amounts)					
Quarters	1	2	3	4	
<b>2020</b>					
o Sales	249,401	248,253			
o EBITDA	24,883	33,770			
o Net earnings attributable to shareholders of the Corporation	11,772	17,707			
• basic per share (\$)	0.21	0.31			
• diluted per share (\$)	0.21	0.31			
<b>2019 <sup>(1)</sup></b>					
o Sales	226,351	281,067	269,243	264,986	
o EBITDA	20,936	34,371	33,889	35,013	
o Net earnings attributable to shareholders of the Corporation	9,943	19,090	18,291	19,147	
• basic per share (\$)	0.17	0.33	0.32	0.34	
• diluted per share (\$)	0.17	0.33	0.32	0.34	
<b>2018 (not restated)</b>					
o Sales	221,893	263,268	260,461	258,778	
o EBITDA	19,803	28,080	28,926	29,182	
o Net earnings attributable to shareholders of the Corporation	12,704	18,174	18,389	18,510	
• basic per share (\$)	0.22	0.31	0.32	0.32	
• diluted per share (\$)	0.22	0.31	0.32	0.32	

(1) The comparative figures have been restated following the adoption of IFRS16 on December 1, 2019. Refer to note 2 of the interim consolidated financial statements for the period ended May 31, 2020 for more details on the adoption of this new standard.

**Quarterly variations in earnings** - The first quarter ending February 28 or 29, is generally the year's weakest period for Richelieu in light of the fewer 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 fewer business days due to the summer holidays, which can have an impact on the period's financial results. The second and fourth quarters ending May 31 and November 30, respectively, generally represent the fiscal year's most active periods.

## FINANCIAL POSITION

### Analysis of principal cash flows for the second quarter and first six months ended May 31, 2020

<b>Change in cash and cash equivalents and capital resources</b>				
(in thousands of \$, unless otherwise indicated)				
<b>Periods ended</b>	<b>3 months</b>		<b>6 months</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>May 31</b>	<b>\$</b>	<b>restated \$</b>	<b>\$</b>	<b>restated \$</b>
Cash flows provided by (used for):				
Operating activities	49,400	27,909	58,182	17,303
Financing activities	(3,780)	(10,948)	(10,636)	(17,458)
Investing activities	(2,922)	(18,435)	(29,430)	(25,075)
Effect of exchange rate changes on cash and cash equivalents	(113)	164	(255)	69
Net change in cash and cash equivalents and bank overdraft	42,585	(1,310)	17,861	(25,161)
Cash and cash equivalents (bank overdraft), beginning of period	(23)	(16,443)	24,701	7,408
Cash and cash equivalents (bank overdraft) end of period	42,562	(17,753)	42,562	(17,753)
	<b>As at May 31, 2020</b>		<b>As at November 30, 2019</b>	
	<b>\$</b>		<b>\$</b>	
Working capital	357,996		335,505	
Renewable line of credit (CA\$)	65,000		65,000	
Renewable line of credit (US\$)	6,000		6,000	

### Operating activities

**Second quarter cash flows from operating activities** (before net change in working capital balances) amounted to \$26.7 million or \$0.47 per share diluted, the same level as in the corresponding quarter of 2019. Net change in non-cash working capital balances represented a cash inflow of \$22.7 million, reflecting the change in accounts receivable and accounts payable (\$19.9 million), whereas the change in other items represented cash inflows of \$2.8 million. Note that the Corporation has chosen to postpone certain payments as proposed by the relief measures implemented by Canadian government agencies in response to the COVID-19 pandemic. Consequently, operating activities provided cash flows of \$49.4 million, compared to \$27.9 million in the second quarter of 2019.

**First-half cash flows from operating activities** (before net change in working capital balances) reached \$46.9 million or \$0.83 per share diluted, compared to \$43.6 million or \$0.76 per share diluted for the first six months of 2019, an increase of 7.4%. Net change in non-cash working capital balances represented a cash inflow of \$11.3 million primarily representing changes in accounts receivable and accounts payable. Consequently, operating activities provided cash flows of \$58.2 million, compared to \$17.3 million for the first six months of 2019.

### Financing activities

**Second quarter financing activities** used cash flows of \$3.8 million, compared to \$10.9 million in the second quarter of 2019. This change mainly reflects the shares repurchase of \$4.5 million and dividends paid to shareholders of \$3.6 million in the second quarter of 2019. No dividends were declared during the second quarter of 2020.

**First-half financing activities** used cash flows of \$10.6 million, compared to \$17.5 million in the first half of 2019.

### Investing activities

**Second quarter investing activities** represented a cash outflow of \$2.9 million primarily for the purchase of new equipment to maintain and improve operational efficiency, including the addition of IT licenses.

**First-half, investing activities** represented a total cash outflow of \$29.4 million, comprising \$23.4 million for the three business acquisitions made during the current period and \$6.0 million primarily for the purchase of new equipment to maintain and improve operational efficiency.

### Sources of financing

As at May 31, 2020, cash and cash equivalents amounted to \$42.6 million, compared to \$24.7 million as at November 30, 2019. The Corporation posted **working capital** of \$358.0 million for a current ratio of 3.7:1, compared to \$335.5 million (current ratio of 4.1:1) as at November 30, 2019.

Richelieu believes it has the capital resources to fulfill its ongoing commitments and obligations and to assume the funding requirements needed for its growth, financing, and investing activities between now and the end of fiscal 2020. The Corporation has an authorized line of credit of \$65 million as well as a line of credit of US\$6 million renewable annually and bearing interest at prime and base rates respectively. In addition, Richelieu considers it could obtain access to other outside financing, if necessary.

### Analysis of financial position as at May 31, 2020

<b>Summary financial position</b>		
(in thousands of \$, except exchange rates)		
As at	<b>May 31, 2020</b>	November 30, 2019
	<b>\$</b>	restated \$
Current assets	492,896	445,345
Non-current assets	237,045	226,801
Total	729,941	672,146
Current liabilities	134,900	109,878
Non-current liabilities	60,724	60,647
Equity attributable to shareholders of the Corporation	531,241	498,384
Non-controlling interests	3,076	3,237
Total	729,941	672,146
Exchange rates on translation of a subsidiary in the United States	1.379	1.330

### Assets

**Total assets** amounted to \$729.9 million as at May 31, 2020, compared to \$672.1 million as at November 30, 2019, an increase of 8.6%. **Current assets** increased by 10.7% or \$47.6 million from November 30, 2019. **Non-current assets** rose 4.5%. These increases result mainly from business acquisitions made during the current fiscal year.

<b>Cash position</b>		
(in thousands of \$)		
As at	<b>May 31 2020</b>	November 30 2019
	<b>\$</b>	\$
Current portion of long-term debt	9,183	5,659
Long-term debt	2,200	—
Total debt	11,383	5,659
Cash and cash equivalents	42,562	24,701



The Corporation continues to benefit from a healthy and solid financial position. As at May 31, 2020, **total debt** was \$11.4 million, mostly short-term, representing mainly balances payable on acquisitions.

**Equity** attributable to shareholders of the Corporation totalled \$531.2 million as at May 31, 2020, compared to \$498.4 million as at November 30, 2019, an increase of \$32.9 million stemming primarily from growth of \$25.7 million in retained earnings which amounted to \$457.0 million, and \$2.0 million in share capital and contributed surplus, whereas accumulated other comprehensive income increased \$5.1 million. As at May 31, 2020, **book value per share** was \$9.44, up 6.5% over November 30, 2019.

As at May 31, 2020, at market close, the Corporation's **share capital** consisted of 56,300,430 common shares (56,240,030 shares as at November 30, 2019). During the first half of 2020, the Corporation issued 60,400 common shares at an average exercise price of \$16.84 (113,275 in fiscal 2019 at an average exercise price of \$10.92) upon the exercise of stock options under its stock option plan. As at May 31, 2020, 1,985,300 stock options were outstanding (1,770,700 as at November 30, 2019).

## 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 2019 Annual Report, available on SEDAR at [www.sedar.com](http://www.sedar.com). For 2020 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 trading 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 2019 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, 2019. 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 May 31, 2020, 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 May 31, 2020, have been prepared by management in accordance with IFRS. Note 2 accompanying the interim consolidated financial statements for the quarter ended May 31, 2020, presents the accounting policies adopted during the period, in particular IFRS 16.

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, 2019, and for the year

ended on that date, except for the accounting policy adopted as at December 1, 2019, 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.

## Adopted during the period

### IFRS 16, Leases

Effective December 1, 2019, the Corporation adopted IFRS 16. This new standard requires the lessee to recognize most leases in the statement of financial position using a single model, eliminating the current distinction between finance leases and operating leases. According to IFRS 16, the expenses related to leases are recognized in the consolidated statements of earnings mainly as amortization expense of the asset related to the right-to-use, accompanied by an interest expense on the lease obligation. Since the expenses related to operating leases were previously recognized in operating expenses as incurred, adoption of IFRS 16 affected the timing of their recognition over the lease term as well as the presentation of expenses in the consolidated statement of earnings. IFRS 16 was applied using the full retrospective approach with restatement of comparative financial statements for the year ended November 30, 2019 as if IFRS 16 had always been applied. The Corporation opted for all the practical expedients and applies the exemption for short term leases and contracts for which the value of the underlying assets is low.

The adoption of IFRS 16 did not have a significant impact on net earnings. The adoption of IFRS 16 however did have a material impact on the consolidated statement of financial position related to the recording of a right-to-use asset and related lease obligation. The comparative figures have been restated following the adoption of IFRS 16 on December 1, 2019. Refer to note 2 of the interim consolidated financial statements for the period ended May 31, 2020 for more details on the adoption of this new standard.

Risk factors are described in the "Risk Factors" section on page 34 et 35 of Richelieu's 2019 Annual Report, available on SEDAR at [www.sedar.com](http://www.sedar.com). See page 2 for an update to the risks and uncertainties the Corporation is facing since that date.

## SUPPLEMENTARY INFORMATION

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



**Richard Lord**  
President and Chief Executive  
Officer



**Antoine Auclair**  
Vice-President and Chief  
Financial Officer

July 9, 2020

Interim Consolidated Financial Statements

**Richelieu Hardware Ltd.**

For the three and six-month periods ended May 31, 2020

[Unaudited]



# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars] [Unaudited]

		As at May 31, 2020	As at November 30, 2019 <i>(Restated, note 2)</i>	As at December 1, 2018 <i>(Restated, note 2)</i>
	Notes	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		42,562	24,701	7,408
Accounts receivable		141,767	137,589	138,767
Income taxes receivable		3,792	1,336	—
Inventories		298,332	275,154	270,275
Prepaid expenses		6,443	6,565	3,394
		492,896	445,345	419,844
<b>Non-current assets</b>				
Property, plant and equipment		40,579	41,309	41,725
Intangible assets		42,479	35,383	29,340
Right-of-use assets		62,403	63,642	53,853
Goodwill		84,977	80,164	71,984
Deferred taxes		6,607	6,303	6,836
		729,941	672,146	623,582
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		109,307	90,140	88,359
Income taxes payable		—	—	119
Current portion of long-term debt		9,183	5,659	2,023
Current portion of lease obligations		16,410	14,079	12,466
		134,900	109,878	102,967
<b>Non-current liabilities</b>				
Long-term debt		2,200	—	—
Lease obligations		50,215	53,274	43,682
Deferred taxes		6,507	5,553	3,289
Other liabilities		1,802	1,820	1,843
		195,624	170,525	151,781
<b>Equity</b>				
Share capital	4	43,477	42,190	41,398
Contributed surplus		6,443	5,700	4,122
Retained earnings		457,038	431,313	403,760
Accumulated other comprehensive income	5	24,283	19,181	19,313
Equity attributable to shareholders of the Corporation		531,241	498,384	468,593
Non-controlling interests		3,076	3,237	3,208
		534,317	501,621	471,801
		729,941	672,146	623,582

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 and six-month periods ended May 31 [In thousands of dollars, except earnings per share] [Unaudited]

		For the three months ended May 31,		For the six months ended May 31,	
		2020	2019	2020	2019
			(Restated, note 2)		(Restated, note 2)
	Notes	\$	\$	\$	\$
<b>Sales</b>		<b>248,253</b>	281,067	<b>497,654</b>	507,418
Operating expenses excluding amortization	6	<b>214,483</b>	246,696	<b>439,001</b>	452,111
<b>Earnings before amortization, financial costs and income taxes</b>		<b>33,770</b>	34,371	<b>58,653</b>	55,307
Amortization of property, plant and equipment and right-of-use assets		<b>6,779</b>	5,816	<b>13,190</b>	11,475
Amortization of intangible assets		<b>1,835</b>	1,206	<b>3,273</b>	2,292
Financial costs, net		<b>708</b>	979	<b>1,441</b>	1,563
		<b>9,322</b>	8,001	<b>17,904</b>	15,330
<b>Earnings before income taxes</b>		<b>24,448</b>	26,370	<b>40,749</b>	39,977
Income taxes		<b>6,665</b>	7,181	<b>11,172</b>	10,854
<b>Net earnings</b>		<b>17,783</b>	19,189	<b>29,577</b>	29,123
<b>Net earnings attributable to:</b>					
Shareholders of the Corporation		<b>17,707</b>	19,090	<b>29,479</b>	29,033
Non-controlling interests		<b>76</b>	99	<b>98</b>	90
		<b>17,783</b>	19,189	<b>29,577</b>	29,123
<b>Net earnings per share attributable to shareholders of the Corporation</b>					
Basic		<b>0.31</b>	0.33	<b>0.52</b>	0.51
Diluted		<b>0.31</b>	0.33	<b>0.52</b>	0.50

See accompanying notes to the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six-month periods ended May 31 [In thousands of dollars] [Unaudited]

		For the three months ended May 31,		For the six months ended May 31,	
		2020	2019	2020	2019
			(Restated, note 2)		(Restated, note 2)
	Notes	\$	\$	\$	\$
<b>Net earnings</b>		<b>17,783</b>	19,189	<b>29,577</b>	29,123
<b>Other comprehensive income that will be reclassified to net earnings</b>					
Exchange differences on translation of foreign operations	5	<b>3,646</b>	3,759	<b>5,102</b>	2,351
<b>Comprehensive income</b>		<b>21,429</b>	22,948	<b>34,679</b>	31,474
<b>Comprehensive income attributable to:</b>					
Shareholders of the Corporation		<b>21,353</b>	22,849	<b>34,581</b>	31,384
Non-controlling interests		<b>76</b>	99	<b>98</b>	90
		<b>21,429</b>	22,948	<b>34,679</b>	31,474

See accompanying notes to the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended May 31 [In thousands of dollars] [Unaudited]

Notes	Attributable to shareholders of the Corporation				Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income			
	\$	\$	\$	\$	\$	\$	\$
4			2	5			
Balance as at November 30, 2018	41,398	4,122	405,445	19,313	470,278	3,208	473,486
Impact of change in accounting policy	—	—	(1,685)	—	(1,685)	—	(1,685)
Restated balance as at December 1, 2018	41,398	4,122	403,760	19,313	468,593	3,208	471,801
Net earnings	—	—	29,033	—	29,033	90	29,123
Other comprehensive	—	—	—	2,351	2,351	—	2,351
Comprehensive income	—	—	29,033	2,351	31,384	90	31,474
Shares repurchased	(152)	—	(4,360)	—	(4,512)	—	(4,512)
Stock options exercised	654	(126)	—	—	528	—	528
Share-based compensation expense	—	824	—	—	824	—	824
Dividends [note 9]	—	—	(7,224)	—	(7,224)	(193)	(7,417)
Other liabilities	—	—	—	—	—	18	18
	502	698	(11,584)	—	(10,384)	(175)	(10,559)
Balance as at May 31, 2019	41,900	4,820	421,209	21,664	489,593	3,123	492,716
Balance as at November 30, 2019 as initially presented	42,190	5,700	434,061	19,182	501,133	3,237	504,370
Impact of change in accounting policy [note 2]	—	—	(2,748)	(1)	(2,749)	—	(2,749)
Restated balance as at December 1, 2019	42,190	5,700	431,313	19,181	498,384	3,237	501,621
Net earnings	—	—	29,479	—	29,479	98	29,577
Other comprehensive income	—	—	—	5,102	5,102	—	5,102
Comprehensive income	—	—	29,479	5,102	34,581	98	34,679
Stock options exercised	1,287	(238)	—	—	1,049	—	1,049
Share-based compensation expense	—	981	—	—	981	—	981
Dividends [note 9]	—	—	(3,754)	—	(3,754)	(277)	(4,031)
Other liabilities	—	—	—	—	—	18	18
	1,287	743	(3,754)	—	(1,724)	(259)	(1,983)
Balance as at May 31, 2020	43,477	6,443	457,038	24,283	531,241	3,076	534,317

See accompanying notes to the interim consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six-month periods ended May 31 [In thousands of dollars] [Unaudited]

		For the three months ended May 31,		For the six months ended May 31,	
		2020	2019 (Restated, note 2)	2020	2019 (Restated, note 2)
	Notes	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>					
Net earnings		17,783	19,189	29,577	29,123
Items not affecting cash					
Amortization of property, plant and equipment and right-of-use assets		6,779	5,816	13,190	11,475
Amortization of intangible assets		1,835	1,206	3,273	2,292
Deferred taxes		(161)	(47)	(161)	(91)
Share-based compensation expense	4	490	558	981	824
		26,726	26,722	46,860	43,623
Net change in non-cash working capital balances		22,674	1,187	11,322	(26,320)
		49,400	27,909	58,182	17,303
<b>FINANCING ACTIVITIES</b>					
Repayment of long-term debt		(308)	—	(482)	—
Dividends paid to shareholders of the Corporation	9	—	(3,607)	(3,754)	(7,224)
Payment of principal portion of lease obligations		(3,725)	(3,059)	(7,172)	(6,057)
Other dividends paid		—	—	(277)	(193)
Common shares issued		253	230	1,049	528
Common shares repurchased for cancellation		—	(4,512)	—	(4,512)
		(3,780)	(10,948)	(10,636)	(17,458)
<b>INVESTING ACTIVITIES</b>					
Business acquisitions	3	683	(15,985)	(23,398)	(20,788)
Additions to property, plant and equipment and intangible assets		(3,605)	(2,450)	(6,032)	(4,287)
		(2,922)	(18,435)	(29,430)	(25,075)
Effect of exchange rate changes on cash and cash equivalents		(113)	164	(255)	69
<b>Net change in cash and cash equivalents and bank overdraft</b>		<b>42,585</b>	<b>(1,310)</b>	<b>17,861</b>	<b>(25,161)</b>
Cash and cash equivalents (bank overdraft), beginning of period		(23)	(16,443)	24,701	7,408
<b>Cash and cash equivalents (bank overdraft), end of period</b>		<b>42,562</b>	<b>(17,753)</b>	<b>42,562</b>	<b>(17,753)</b>
<b>Supplementary information</b>					
Income taxes paid		6,776	6,329	13,793	14,490
Interest paid, net		708	979	1,441	1,563

See accompanying notes to the interim consolidated financial statements.

## NATURE OF BUSINESS

Richelieu Hardware Ltd. [the "Corporation"] is incorporated under the laws of the Province of Quebec, Canada. The Corporation is a distributor, importer, and manufacturer of specialty hardware and complementary products. Its products target to an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, door and window, 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, 2019 and for the year then ended with the exception of the new accounting policy adopted on December 1, 2019 (see note 2), and which 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. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Corporation's business, affairs, operations, financial condition, liquidity, availability of credit and operating results will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. Potential impacts include, but are not limited to, an impairment of long-lived assets and a change in the expected credit loss on accounts receivable. 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 2019.

## 2. CHANGES IN ACCOUNTING POLICIES

### Recently adopted

#### IFRS 16, Leases

Effective December 1, 2019, the Corporation adopted IFRS 16. This new standard requires the lessee to recognize most leases in the statement of financial position using a single model, eliminating the current distinction between finance leases and operating leases. According to IFRS 16, the expenses related to leases are recognized in the consolidated statements of earnings mainly as amortization expense of the right-of-use assets, accompanied by an interest expense on the lease obligations. Since the expenses related to operating leases were previously recognized in operating expenses as incurred, adoption of IFRS16 affected the timing of their recognition over the lease term as well as the presentation of expenses in the consolidated statement of earnings. IFRS 16 was applied using the full retrospective approach with restatement of comparative financial statements for the year ended November 30, 2019 as if IFRS16 had always been applied. The Corporation opted for all the practical expedients and applies the exemption for short term leases and contracts for which the value of the underlying assets is low.

## Accounting policy

### i) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (i.e., the date the underlying asset is available for use) and are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of the lease obligations. The cost of right-of-use assets includes the amount of lease obligations recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, which is currently between 2 and 11 years.

### ii) Lease obligations

At the commencement date of the lease, the lease obligations is measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating the lease, if applicable. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

## Financial implications on application

<b>Consolidated statement of earnings</b>	May 31, 2019		May 31, 2019
	For the six month period ended	Adjustments	restated
	\$		\$
<b>Earnings before amortization and financial costs</b>	48,169	7,138	55,307
Amortization of property, plant and equipment and right-of-use assets	4,997	6,478	11,475
Amortization of intangible assets	2,292	—	2,292
Financial costs, net	480	1,083	1,563
	7,769	7,561	15,330
<b>Earnings before income taxes</b>	40,400	(423)	39,977
Income taxes	10,947	(93)	10,854
<b>Net earnings</b>	29,453	(330)	29,123
<b>Net earnings attributable to:</b>			
Shareholders of the Corporation	29,364	(331)	29,033
Non-controlling interests	89	1	90
	29,453	(330)	29,123
<b>Net earnings per share attributable to shareholders of the Corporation</b>			
Basic	0.51	0.00	0.51
Diluted	0.51	(0.01)	0.50

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

May 31, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

Consolidated statements of financial position	November 30, 2019	Adjustments	November 30, 2019 <i>restated</i>
	\$	\$	\$
<b>Current assets</b>	445,345	—	445,345
<b>Non-current assets</b>			
Property, plant and equipment	41,309	—	41,309
Intangible assets	35,383	—	35,383
Right-of-use assets	—	63,642	63,642
Goodwill	80,164	—	80,164
Deferred taxes	5,341	962	6,303
<b>Total assets</b>	607,542	64,604	672,146
Accounts payable and accrued liabilities	90,140	—	90,140
Current portion of long-term debt	5,659	—	5,659
Current portion of lease obligations	—	14,079	14,079
<b>Non-current liabilities</b>			
Lease obligations	—	53,274	53,274
Deferred taxes	5,553	—	5,553
Other liabilities	1,820	—	1,820
<b>Equity</b>			
Share capital	42,190	—	42,190
Contributed surplus	5,700	—	5,700
Retained earnings	434,061	(2,748)	431,313
Accumulated other comprehensive income	19,182	(1)	19,181
Non-controlling interests	3,237	—	3,237
<b>Total liabilities and equity</b>	607,542	64,604	672,146

Consolidated statements of cash flows	May 31, 2019	Adjustments	May 31, 2019 <i>restated</i>
	\$	\$	\$
For the six month period ended			
Net earnings	29,453	(330)	29,123
Items not affecting cash and cash equivalent			
Amortization of property, plant and equipment and right-of-use assets	4,997	6,478	11,475
Amortization of intangible assets	2,292	—	2,292
Deferred taxes	—	(91)	(91)
Share-based compensation expense	824	—	824
	37,566	6,057	43,623
Net change in non-cash working capital balances	(26,320)	—	(26,320)
	11,246	6,057	17,303
<b>FINANCING ACTIVITIES</b>			
Payment of principal portion of lease obligations	—	(7,172)	(7,172)
Interest paid, net	480	1,083	1,563

Consolidated statements of financial position	December 1, 2018	Adjustments	December 1, 2018 <i>restated</i>
	\$	\$	\$
<b>Current assets</b>	419,844	—	419,844
<b>Non-current assets</b>			
Property, plant and equipment	41,725	—	41,725
Intangible assets	29,340	—	29,340
Right-of-use assets	—	53,853	53,853
Goodwill	71,984	—	71,984
Deferred taxes	6,226	610	6,836
<b>Total assets</b>	569,119	54,463	623,582
Accounts payable and accrued liabilities	88,359	—	88,359
Income taxes payable	119	—	119
Current portion of long-term debt	2,023	—	2,023
Current portion of lease obligations	—	12,466	12,466
<b>Non-current liabilities</b>			
Lease obligations	—	43,682	43,682
Deferred taxes	3,289	—	3,289
Other liabilities	1,843	—	1,843
<b>Equity</b>			
Share capital	41,398	—	41,398
Contributed surplus	4,122	—	4,122
Retained earnings	405,445	(1,685)	403,760
Accumulated other comprehensive income	19,313	—	19,313
Non-controlling interests	3,208	—	3,208
<b>Total liabilities and equity</b>	569,119	54,463	623,582

**3. BUSINESS ACQUISITIONS**
**2020**

Effective December 2, 2019, the Corporation acquired all of the issued and outstanding shares of Decotec Inc, a distributor of decorative panels and related products operating a distribution centre in North York, Ontario.

Effective December 9, 2019, the Corporation acquired the principal net assets of Mibro, a distributor of hardware and accessories for power tools for the retailers' market in Canada and the United States. Mibro operates a distribution centre in Toronto, Ontario.

Effective February 3, 2020, the Corporation acquired the principal net assets of Omaha Hardwood Lumber Company ("O'Harco"), a distributor of specialized hardware operating three distribution centres in Omaha, NB, Des Moines, IA and Sioux Falls, SD.

Sales of \$29.5 million have been generated by these acquisitions. Had those acquisitions been made on December 1, 2019, management believes that sales included in the consolidated statement of earnings would have totalled approximately \$33 million.

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

May 31, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

**2019**

Effective January 1, 2019, the Corporation acquired all issued and outstanding shares of Lion Industries Inc., a specialty hardware distributor serving a clientele of door and window manufacturers in Western Canada, operating a distribution centre in Calgary, Alberta.

Effective February 4, 2019, the Corporation acquired all issued and outstanding shares of Blackstone Building Products Inc., a specialty hardware distributor serving a clientele of door and window manufacturers in Ontario, operating a distribution centre in Concord, Ontario.

Effective February 4, 2019, the Corporation acquired all issued and outstanding shares of Truform Building Products Inc., a specialty hardware distributor serving a clientele of door and window manufacturers, operating two distribution centres in Concord, Ontario and Calgary, Alberta.

Effective May 1, 2019, the Corporation acquired all issued and outstanding shares of Euro Architectural Components Inc., a distributor operating two distribution centres (Toronto, Ontario and Montreal, Quebec) in the stainless steel stair and railing components and architectural and glass hardware markets.

**Summary of acquisitions**

The preliminary purchase price allocations, at the transaction dates, are summarized as follows:

	2020 \$
Current assets acquired	24,356
Property, plant and equipment and right-of-use assets	3,223
Intangible assets	7,858
Goodwill	4,269
	39,706
Current liabilities assumed	(6,229)
Lease obligations	(2,754)
Deferred taxes	(955)
<b>Net assets acquired</b>	<b>29,768</b>
<b>Consideration</b>	
Cash, net of cash acquired	23,398
Consideration payable	6,370
	29,768

Goodwill deductible for tax purposes with regards to these acquisitions amounts to \$1,068.

**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:

	Number of shares (in thousands)	\$
Outstanding, November 30, 2018	57,114	41,398
Issued	113	1,522
Repurchased	(987)	(730)
<b>Outstanding, November 30, 2019</b>	<b>56,240</b>	<b>42,190</b>
<b>Issued</b>	<b>60</b>	<b>1,287</b>
<b>Repurchased</b>	<b>—</b>	<b>—</b>
<b>Outstanding, May 31, 2020</b>	<b>56,300</b>	<b>43,477</b>

During the six-month period ended May 31, 2020, the Corporation issued 60,400 common shares [FY2019 - 113,275] at an average exercise price of \$16.84 per share [2019 - \$10.92] pursuant to the exercise of options under the share option plan.

**Stock option plan**

Changes in stock options are summarized as follows:

	Number of stock options (in thousands)	Weighted average exercise price \$
Outstanding, November 30, 2018	1,669	21.69
Granted	232	25.27
Exercised	(113)	10.92
Cancelled	(18)	26.27
<b>Outstanding, November 30, 2019</b>	<b>1,770</b>	<b>22.80</b>
<b>Granted</b>	<b>304</b>	<b>28.48</b>
<b>Exercised</b>	<b>(60)</b>	<b>16.84</b>
<b>Cancelled</b>	<b>(29)</b>	<b>29.15</b>
<b>Outstanding, May 31, 2020</b>	<b>1,985</b>	<b>22.90</b>

Stock options granted during the six-month period ended May 31, 2020 have an average fair value of \$6.43 per option [FY2019 - \$4.54] as determined using the Black & Scholes option pricing model with a expected dividend yield of 0.9% [2019 - 1.1%], expected volatility of 22% [2019 - 20%], a risk free interest rate of 1.70% [2019 - 1.96%] and an expected life of 7 years [2019 - 7 years]. For the three and six-month periods ended May 31, 2020, the compensation expense related to stock options amounted to \$491 and \$981 [2019 - \$266 and \$824] and is recognized under *Operating expenses excluding amortization*. As at May 31, 2020, exercise price of stock options outstanding varied between \$7.79 and \$32.77 [Stock option exercise price as at November 30, 2019, varied between \$7.79 and \$32.77].

**Deferred Share Unit Plan (DSU)**

The financial liability resulting from the DSU plan of \$7,754 [November 30, 2019 - \$7,296] is recognized under the *Accounts payable and accrued liabilities*. As at May 31, 2020, the fair value of the swaps on share amounted to an asset of \$1,293 [November 30, 2019 - amounted to an asset of \$18] and is recognized under *Accounts receivable*. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data. Compensation expense for the DSUs for the three and six-month periods ended May 31, 2020 amounted to \$149 and \$333 [2019 - \$169 and \$344] and is recognized under *Operating expenses excluding amortization*.

**Share Purchase Plan**

Compensation expense related to the share purchase plan amounted to \$168 and \$353 for the three and six-month periods ended May 31, 2020 [2019 - \$191 and \$361] and is recognized under *Operating expenses excluding amortization*.



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

May 31, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

**Net earnings per share**

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

(in thousands)	For the three months ended May 31,		For the six months ended May 31,	
	2020	2019	2020	2019
Weighted average number of shares outstanding - Basic	56,289	57,053	56,274	57,092
Dilutive effect under stock option plan	249	213	306	533
Weighted average number of shares outstanding - Diluted	56,538	57,266	56,580	57,625

For the three and six-month periods ended May 31, 2020, the computation of diluted net earnings per share excludes the weighted average of 1,142,000 and 624,500 outstanding stock options with an exercise price exceeding the average market share price for the period because of their anti-dilutive effect (2019 – 1,186,875 and 880,375).

**5. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income, including the following items and their variances, was as follows:

	For the three months ended May 31,		For the six months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Balance at the beginning of the period	20,637	17,905	19,181	19,313
Exchange differences on translation of foreign operations	3,646	3,759	5,102	2,351
<b>Balance at the end of the period</b>	<b>24,283</b>	<b>21,664</b>	<b>24,283</b>	<b>21,664</b>

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

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

As at May 31, 2020, the fair value of the foreign exchange forward contracts amounted to an asset of \$40 [a liability of \$18 as at November 30, 2019] representing the amount the Corporation would collect on settlement of these contracts at spot rates. The Corporation classified 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 to a lesser extent in the United States. Credit risk refers to the possibility that customers will be unable to assume their liabilities toward the Corporation. The average collection period for accounts receivable, as at May 31, 2020, 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 increased by \$997 and \$2,031 [2019 - \$720 and \$1,313] during the three and six-month periods ended May 31, 2020, for a total of \$8,794 as at May 31, 2020 [November 30, 2019 - \$6,763].

**Market Risk**

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and in euro. Operating expenses included, for the three and six-month periods ended May 31, 2020, an exchange gain of \$1,169 and a gain of \$1,997 [2019 - an exchange gain of \$552 and a gain of \$882].

The Corporation's policy is to maintain the purchase costs and selling prices of its commercial activities by mitigating its exposure through the use of derivative financial instruments. To protect its operations from exposure to exchange rate fluctuations, foreign exchange forward contracts are used. Significant exchange risks are hedged through centralized management of cash. 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 operating results by reducing exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at May 31, 2020, a decrease of 5% in 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 \$244 [May 31, 2019 - \$297] and would have increased consolidated comprehensive income by \$7,574 [May 31, 2019 - \$7,769]. The exchange rate sensitivity is calculated by aggregating the net foreign exchange rate exposure of the Corporation's financial instruments as at May 31, 2020.

**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, as required. During the previous years, the Corporation financed its growth, its acquisitions, and its payout to shareholders using cash generated by operating activities.

**Operating expenses excluding amortization**

	For the three months ended May 31,		For the six months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Inventories from distribution, imports and manufacturing activities recognized as an expense	181,659	203,473	366,138	370,854
Salaries and related charges	26,882	37,386	62,535	70,748
Other charges	5,942	5,837	10,328	10,509
	<b>214,483</b>	<b>246,696</b>	<b>439,001</b>	<b>452,111</b>

For the three and six-month periods ended May 31, 2020, an expense of \$923 and \$1,829 [2019 - \$1,047 and \$1,882] for inventory obsolescence is included in Inventories from distribution, imports and manufacturing activities recognized as an expense.

**Government Grant**

For the three and six-month periods ended May 31, 2020, the Corporation recognized an amount of \$3,267 as a reduction of Salaries and related charges, included under *Operating expenses excluding amortization*, in connection with the Canada Emergency Wage Subsidy ("CEWS") program. This amount is included in *Accounts receivables* as at May 31, 2020.

## **7. CAPITAL MANAGEMENT**

The Corporation's objectives are:

- Maintain a low debt ratio to preserve the 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 May 31, 2020, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 2.1 % [1.1 % as at November 30, 2019] [Long-term debt/Equity]
- Return on average shareholders' equity of 13.1% over the last 12 months [13.7% Year ended November 30, 2019]

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

## **8. GEOGRAPHIC INFORMATION**

During the three and six-month periods ended May 31, 2020, nearly 63% of sales were made in Canada [2019 - 64%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to \$93,036 and \$185,724 [2019 - \$97,923 and \$180,572] in Canadian dollars, and to \$66,511 and \$136,827 [2019 - \$73,057 and \$135,169] in US dollars.

As at May 31, 2020, of the total amount of property, plant and equipment, \$7,481 [November 30, 2019 - \$7,606] were located in the United States. In addition, intangible assets located in the United States amounted to \$15,848 [November 30, 2019 - \$12,864] and goodwill to \$15,188 [November 30, 2019 - \$13,890] in Canadian dollars and to \$11,495 [November 30, 2019 - \$9,680] and goodwill to \$11,016 [November 30, 2019 - \$10,452] in US dollars.

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

For the six-month period ended May 31, 2020, the Corporation paid a dividend of \$3,754 [2019 - \$7,224].

## **10. APPROVAL OF FINANCIAL STATEMENTS**

The interim consolidated financial statements for the three and six-month periods ended May 31, 2020 (including the comparative figures) were approved for issue by the Board of Directors on July 9, 2020.

## **11. SUBSEQUENT EVENTS**

Effective June 29, 2020, the Corporation acquired the principal net assets of Central Wholesale Supply, a specialty hardware distributor operating a distribution centre in Richmond, Virginia.