Interim Report

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Three- and six-month periods ended May 31, 2022

## MESSAGE TO SHAREHOLDERS

The second quarter ended May 31, 2022 resulted in solid growth and a sustained strong financial position. This performance reflects among others the positive impact of our acquisitions and investments in recent years new our market segments. Our market penetration initiatives continued to bear fruit in every customer segment in Canada, as well as in the United States, where the three new acquisitions completed in the first quarter, located in six states, helped strengthen our position in the U.S. market which accounts for 40.1% of our total sales in the second quarter. In this regard, it is to be noted that sales in the United States rose a record 54.8% (US$). Combined with the diversification of our market segments, our innovation and acquisition strategies, as well as our value-added multi-access service, remain our internal and acquisition-based growth levers.

Second-quarter total sales climbed to $487.9 million, up 31.4% over the second quarter of 2021, with 16.1% from internal growth and 15.3% from acquisitions. This performance was driven by a 34.5% increase in the manufacturers' market with $417.1 million in sales, and a 15.3% increase in the retailers' market, with $70.8 million in sales. In Canada, our sales amounted to $292.3 million, up 17.8%, of which 11.3% was from internal growth and 6.5% from acquisitions, reflecting increases of 17.3% and 20.4% in sales to manufacturers and retailers, respectively. We are also very pleased with our U.S. sales, up 54.8% to US$154.0 million, of which 22.7% was from internal growth and 32.1% from acquisitions. For the first six months ended May 31, 2022, total sales were up 30.4% to $872.4 million, of which 16.2% was from internal growth and 14.2% from acquisitions.

EBITDA reached $77.9 million for the second quarter, up 27.7% over the same period in 2021 reflecting increased business volume and higher selling prices as well as ongoing cost control. The EBITDA margin stood at 16.0%. Net earnings attributable to shareholders totalled $47.0 million, or $0.83 diluted per share, up 25.8% over the same quarter in 2021. For the first half-year, EBITDA grew 32.8% to $131.6 million and the EBITDA margin reached 15.1% compared to 14.8% for the corresponding period in 2021. Net earnings attributable to shareholders rose to $77.1 million, or $1.37 diluted per share, up 33.0% over the first half of 2021.

With adjusted cash flow from operating activities of $103.2 million or $1.83 diluted per share, up 32.6%, working capital of $481.5 million (2.8:1 ratio), and average return on equity of 24.4%, Richelieu closed the first half-year with a healthy and strong financial position.

The ongoing expansion of several of our distribution centers in various strategic U.S. markets is progressing on schedule. While integrating our most recent acquisitions, we will pursue our growth strategy of innovation, compatible business acquisitions and value-added multi-access service to seize short and long-term growth opportunities in the coming periods.

## NEXT DIVIDEND PAYMENT

On July 7, 2022, the Board of Directors approved the payment of a quarterly dividend of $0.13 per share. This dividend will be paid on August 4, 2022, to shareholders of record as at July 21, 2022.

# Management's discussion and analysis
## of operating results and financial position for the second quarter and first six months ended May 31, 2022

This management's discussion and analysis ("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, 2022, compared with the second quarter and first six months ended May 31, 2021, as well as to Richelieu Hardware Ltd.'s financial position as at May 31, 2022, compared with that of November 30, 2021. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the second quarter and first six months of 2022 as well as the Corporation's fiscal 2021 MD&A and audited consolidated financial statements available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Corporation's website at www.richelieu.com. 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, 2022, signed by the Corporation's President and Chief Executive Officer and the Vice-President and Chief Financial Officer, is available on SEDAR. The information contained in this MD&A accounts for any major event that occurred prior to July 7, 2022, on which date the unaudited interim consolidated 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 period ended May 31, 2022, 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 cash flows or as a measure of liquidity. Since EBITDA 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 the amortization of property, plant and equipment, intangible assets and right-of-use asset, deferred tax expense (or recovery), share-based compensation expense and financial costs. These additional measures do not consider the net change in non-cash working capital items in order 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, including on the assumption that economic conditions and exchange rates will not significantly deteriorate, the operating costs will not increase significantly, that supplies will be sufficient to fulfil 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 given, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties set forth in the 2021 annual MD&A (see the "Risk Factors" section) available on SEDAR.

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.

# GENERAL BUSINESS OVERVIEW as at May 31, 2022

**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 100,000 active customers** served by **106 centers across North America**, of which 47 distribution centers in Canada, 57 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, floor protection products as well as accessories for power tools. 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. Many of the Corporation's products are manufactured according to its specifications and those of its customers.

The Corporation employs over 2,800 people at its head office and throughout its network, close to half of whom work in marketing, sales and customer service. Nearly 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 market, the Corporation continues to implement the strategy that has proved beneficial to date, with a particular focus on:

- strengthening 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 North America expansion by opening new distribution centers 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 the Corporation 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 2022 $** | 3 months 2021 $ | Δ (%) | **6 months 2022 $** | 6 months 2021 $ | Δ (%) |
|---|---|---|---|---|---|---|
| Sales | **487,935** | 371,384 | +31.4 | **872,401** | 668,965 | +30.4 |
| EBITDA(1) | **77,855** | 60,954 | +27.7 | **131,583** | 99,116 | +32.8 |
| *EBITDA margin (%)* | ***16.0*** | *16.4* | | ***15.1*** | *14.8* | |
| Net earnings | **47,210** | 37,551 | +25.7 | **77,510** | 58,593 | +32.3 |
| Net earnings attributable to shareholders of the Corporation | **46,984** | 37,425 | +25.5 | **77,082** | 58,409 | +32.0 |
| • basic per share ($) | **0.84** | 0.67 | +25.4 | **1.38** | 1.04 | +32.7 |
| • diluted per share ($) | **0.83** | 0.66 | +25.8 | **1.37** | 1.03 | +33.0 |
| *Net margin attributable to shareholders of the Corporation (%)* | ***9.6*** | *10.1* | | ***8.8*** | *8.7* | |
| Adjusted cash flows from operating activities(2) | **60,676** | 47,221 | +28.5 | **103,226** | 77,953 | +32.4 |
| • diluted per share ($) | **1.07** | 0.84 | +27.4 | **1.83** | 1.38 | +32.6 |
| Dividends paid to the shareholders of the Corporation (3) | **7,278** | 3,917 | +85.8 | **14,556** | 11,551 | +26.0 |
| • per share ($) (excluding the special dividend) (3) | **0.1300** | 0.0700 | +85.7 | **0.2600** | 0.1400 | +85.7 |
| Weighted average number of shares outstanding (diluted) (in thousands) | **56,445** | 56,540 | | **56,458** | 56,443 | |

**Financial position data**

| As at | **May 31 2022 $** | November 30 2021 $ | Δ (%) |
|---|---|---|---|
| Total assets | **1,099,401** | 964,180 | +14.0 |
| Working capital | **481,461** | 456,376 | +5.5 |
| *Current ratio* | ***2.8 : 1*** | *3.3 : 1* | |
| Equity attributable to shareholders of the Corporation | **725,791** | 666,442 | +8.9 |
| *Average return on Shareholders' equity (%)* | ***24.4*** | *23.3* | |
| Book value per share ($) | **12.99** | 11.93 | +8.9 |
| Total debt | **8,461** | 6,439 | |
| Cash and cash equivalents (bank overdraft) | **(64,226)** | 58,707 | |

(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 cumulative amount shown for 2021 included a special dividend of $0.0667 per share paid in the first quarter of 2021 in addition to the quarterly dividend of $0.07 per share.

## ANALYSIS OF OPERATING RESULTS FOR THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2022, COMPARED WITH THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2021

**Consolidated sales**
(in thousands of $, except exchange rates)

| Periods ended May 31 | 3 months 2022 $ | 2021 $ | Δ (%) | 6 months 2022 $ | 2021 $ | Δ (%) |
|---|---|---|---|---|---|---|
| Canada | **292,306** | 248,048 | +17.8 | **521,583** | 441,289 | +18.2 |
| United States (CA$) | **195,629** | 123,336 | +58.6 | **350,818** | 227,676 | +54.1 |
| (US$) | **153,967** | 99,452 | +54.8 | **276,119** | 181,331 | +52.3 |
| *Average exchange rate* | ***1.2706*** | *1.2402* | | ***1.2705*** | *1.2556* | |
| Consolidated sales | **487,935** | 371,384 | +31.4 | **872,401** | 668,965 | +30.4 |

**Second-quarter** consolidated sales reached $487.9 million, compared to $371.4 million for the corresponding quarter of 2021, an increase of $116.5 million or 31.4%, of which 16.1% from internal growth and 15.3% from acquisitions. At comparable exchange rates to the second quarter of 2021, the consolidated sales increase would have been 30.1% for the quarter ended May 31, 2022.

Richelieu achieved sales of $417.1 million in the **manufacturers** market, compared to $310.0 million for the second quarter of 2021, an increase of $107.1 million or 34.5%, of which 18.7% from internal growth and 15.8% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at $70.8 million, up $9.4 million or 15.3% over the second quarter of 2021, of which 3.1% from internal growth and 12.2% increase from acquisitions.

**In Canada**, Richelieu recorded sales of $292.3 million, an increase of $44.2 million or 17.8% over the second quarter of 2021, of which 11.3% from internal growth and 6.5% from acquisitions. Sales to **manufacturers** amounted to $237.3 million, compared to $202.3 million in the second quarter of 2021, an increase of 17.3%, of which 12.9% from internal growth and 4.4% from acquisitions. Sales to hardware **retailers** and renovation superstores reached $55.0 million, up $9.3 million or 20.4% over the corresponding quarter of 2021, of which 4.3% from internal growth and 16.1% from acquisitions.

**In the United States**, sales totalled US$154.0 million, compared to US$99.5 million for the second quarter of 2021, up US$54.5 million or 54.8%, of which 22.7% from internal growth and 32.1% from acquisitions. Sales to **manufacturers** amounted to US$141.5 million, compared to US$86.8 million, an increase of 63.0% over the second quarter of 2021, of which 26.4% from internal growth and 36.6% from acquisitions. Sales in US$ to hardware **retailers** and renovation superstores reached $12.5 million. Total U.S. sales in Canadian dollars stood at $195.6 million, compared to $123.3 million year over year, an increase of 58.6%. These sales accounted for 40.1% of consolidated sales for the second quarter of 2022, compared to 33.2% of consolidated sales for the second quarter of 2021.

**First-half consolidated sales** reached $872.4 million, an increase of $203.4 million or 30.4% over the first six months of 2021, of which 16.2% from internal growth and 14.2% from acquisitions. At comparable exchange rates to the first half of 2021, the consolidated sales increase would have been 29.8%.

Sales to **manufacturers** reached $743.8 million, compared to $551.6 million for the first six months of 2021, an increase of $192.2 million or 34.8%, of which 20.1% from internal growth and 14.7% from acquisitions. Sales to hardware **retailers** and renovation superstores grew by 9.5% or $11.2 million to total $128.6 million.

**In Canada**, Richelieu recorded sales of $521.6 million, compared to $441.3 million for the first six months of 2021, up $80.3 million or 18.2%, of which 11.9% from internal growth and 6.3% from acquisitions. Sales to **manufacturers** reached $422.8 million, up $67.3 million or 18.9%, of which 14.6% from internal growth and 4.3% from acquisitions. Sales to hardware **retailers** and renovation superstores reached $98.8 million, compared to $85.8 million, up $13.0 million or 15.2% over the first half of 2021.

**In the United States**, the Corporation recorded sales of US$276.1 million, compared to US$181.3 million for the first six months of 2021, an increase of US$94.8 million or 52.3%, of which 23.1% from internal growth and 29.2% from acquisitions. Sales to **manufacturers** totalled US$252.6 million, compared to US$156.1 million, an increase of US$96.5 million or 61.8% over the first half of 2021, of which 28.3% from internal growth and 33.5% from acquisitions. Sales to hardware **retailers** and renovation superstores were down 6.7% from the corresponding period of 2021. Total U.S. sales in Canadian dollars amounted to $350.8 million, compared to $227.7 million for the corresponding six months of 2021, an increase of 54.1%. They accounted for 40.2% of consolidated sales for the first half of 2022, compared to 34.0% of consolidated sales for the first six months of 2021.

**Consolidated EBITDA and EBITDA margin**
(in thousands of $, unless otherwise indicated)

| Periods ended May 31 | 3 months 2022 $ | 2021 $ | Δ (%) | 6 months 2022 $ | 2021 $ | Δ (%) |
|---|---|---|---|---|---|---|
| Sales | **487,935** | 371,384 | +31.4 | **872,401** | 668,965 | +30.4 |
| EBITDA | **77,855** | 60,954 | +27.7 | **131,583** | 99,116 | +32.8 |
| *EBITDA margin* (%) | ***16.0*** | *16.4* | | ***15.1*** | *14.8* | |

**Second quarter earnings before income taxes, interest and amortization ("EBITDA")** reached $77.9 million and were up $16.9 million or 27.7% over the second quarter of 2021, resulting mainly from increased sales. **Gross margin** decreased slightly from the second quarter of 2021 and **EBITDA margin** stood at 16.0%, compared to 16.4% for the corresponding quarter of 2021.

**Amortization expense** for the second quarter of 2022 amounted to $11.9 million, up $3.3 million compared to the corresponding quarter of 2021, resulting from the increase in amortizable intangibles as well as in right-of-use assets relating mainly to recent business acquisitions as well as to renewals and expansions carried out during the previous periods. **Income tax expense** amounted to $17.7 million, up $3.4 million from the second quarter of 2021. **Net financial costs and other** amounted to $1.1 million and includes a gain of $0.6 million on the disposal of a building in Quebec.

**First-half EBITDA** totalled $131.6 million, up $32.5 million or 32.8% over the first six months of 2021. **Gross margin** declined slightly over the corresponding six-month period of 2021. As for **EBITDA margin,** it stood at 15.1%, compared to 14.8% for the first six months of 2021 resulting from increased sales and cost control.

**Amortization expense** for the first half of 2022 amounted to $22.9 million, up $5.9 million compared to the same period of 2021, resulting from business acquisitions and expansions. **Income tax expense** amounted to $29.0 million, up $6.8 million from the first half of 2021. **Net financial costs and other** amounted to $2.2 million for the first half of 2022.

**Consolidated net earnings attributable to shareholders**

(in thousands of $, unless otherwise indicated)

| Periods ended May 31 | 3 months 2022 $ | 3 months 2021 $ | Δ (%) | 6 months 2022 $ | 6 months 2021 $ | Δ (%) |
|---|---|---|---|---|---|---|
| EBITDA | **77,855** | 60,954 | +27.7 | **131,583** | 99,116 | +32.8 |
| Amortization of property, plant and equipment, intangible assets and right-of-use assets | **11,870** | 8,525 | | **22,922** | 17,046 | |
| Net financial costs and other | **1,098** | 630 | | **2,180** | 1,287 | |
| Income taxes | **17,677** | 14,248 | | **28,971** | 22,190 | |
| Net earnings | **47,210** | 37,551 | +25.7 | **77,510** | 58,593 | +32.3 |
| Net earnings attributable to shareholders of the Corporation | **46,984** | 37,425 | +25.5 | **77,082** | 58,409 | +32.0 |
| *Net margin attributable to the shareholders of the Corporation (%)* | ***9.6*** | *10.1* | | ***8.8*** | *8.7* | |
| Non-controlling interests | **226** | 126 | | **428** | 184 | |
| Net earnings | **47,210** | 37,551 | +25.7 | **77,510** | 58,593 | +32.3 |

**Second quarter net earnings** grew 25.7%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to $47.0 million, up 25.5% over the second quarter of 2021. **Net earnings per share** rose to $0.84 basic and $0.83 diluted, compared to $0.67 basic and $0.66 diluted for the second quarter of 2021, increases of 25.4% and 25.8%, respectively.

**Second quarter comprehensive income** amounted to $46.2 million, considering a negative adjustment of $1.0 million on translation of the financial statements of the subsidiary in the United States, compared to $30.5 million for the second quarter of 2021, considering a negative adjustment of $7.1 million on translation of the financial statements of the subsidiary in the United States.

**First-half net earnings** increased 32.3%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled $77.1 million, up 32.0% over the corresponding six months of 2021. **Net earnings per share** amounted to $1.38 basic and $1.37 diluted, compared to $1.04 basic and $1.03 diluted for the first half of 2021, up 32.7% and 33.0%, respectively.

**First-half comprehensive income** totalled $75.0 million, considering a negative adjustment of $2.5 million on translation of the financial statements of the subsidiary in the United States, compared to $48.4 million for the first half of 2021, considering a negative adjustment of $10.1 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 |
|---|---|---|---|---|
| **2022** | | | | |
| **o Sales** | **384,466** | **487,935** | | |
| **o EBITDA** | **53,728** | **77,855** | | |
| **o Net earnings attributable to shareholders of the Corporation** | **30,098** | **46,984** | | |
| **• basic per share ($)** | **0.54** | **0.84** | | |
| **• diluted per share ($)** | **0.53** | **0.83** | | |
| 2021 | | | | |
| o Sales | 297,581 | 371,384 | 373,298 | 398,153 |
| o EBITDA | 38,162 | 60,954 | 63,937 | 71,345 |
| o Net earnings attributable to shareholders of the Corporation | 20,984 | 37,425 | 38,749 | 44,606 |
| • basic per share ($) | 0.38 | 0.67 | 0.69 | 0.80 |
| • diluted per share ($) | 0.37 | 0.66 | 0.69 | 0.79 |
| 2020 | | | | |
| o Sales | 249,401 | 248,253 | 311,171 | 319,015 |
| o EBITDA | 24,883 | 33,770 | 49,083 | 46,725 |
| o Net earnings attributable to shareholders of the Corporation | 11,772 | 17,707 | 28,651 | 27,092 |
| • basic per share ($) | 0.21 | 0.31 | 0.51 | 0.48 |
| • diluted per share ($) | 0.21 | 0.31 | 0.50 | 0.48 |

**Quarterly variations in earnings** - The first quarter closing at the end of February is generally the year's weakest for Richelieu in light of fewer number of business days due to the end-of-year holiday period and the wintertime slowdown in renovation and construction work. The third quarter ending August 31 also includes fewer 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 second quarter and first six months ended May 31, 2022

| (in thousands of $, unless otherwise indicated) | 3 months | | 6 months | |
|---|---|---|---|---|
| **Periods ended May 31** | **2022 $** | 2021 $ | **2022 $** | 2021 $ |
| Cash flows provided by (used in): | | | | |
| Operating activities | **(3,019)** | 48,151 | **(40,546)** | 55,904 |
| Financing activities | **(21,468)** | (7,391) | **(29,761)** | (23,856) |
| Investing activities | **(6,292)** | (13,876) | **(52,443)** | (16,728) |
| Effect of exchange rate changes on cash and cash equivalents | **88** | 306 | **(183)** | 338 |
| Net change in cash and cash equivalents (bank overdraft) | **(30,691)** | 27,190 | **(122,933)** | 15,658 |
| Cash and cash equivalents (bank overdraft), beginning of period | **(33,535)** | 62,396 | **58,707** | 73,928 |
| Cash and cash equivalents (bank overdraft) end of period | **(64,226)** | 89,586 | **(64,226)** | 89,586 |

| | **As at May 31, 2022 $** | As at November 30, 2021 $ |
|---|---|---|
| Working capital | **481,461** | 456,376 |
| Renewable line of credit (CA$) | **100,000** | 65,000 |
| Renewable line of credit (US$) | **36,000** | 6,000 |

### Operating activities

**Second quarter cash flows from operating activities** (before net change in non-cash working capital balances) amounted to $60.7 million or $1.07 diluted per share, an increase of 28.5%, compared to $47.2 million, or $0.84 diluted per share for the corresponding quarter of 2021, stemming primarily from the net earnings growth. Net change in non-cash working capital balances used cash flows of $63.7 million, reflecting change in inventories of $44.1 million, whereas change in accounts receivable and other items used cash flows of $19.6 million. Consequently, operating activities used cash flows of $3.0 million, compared to a cash inflow of $48.2 million in the second quarter of 2021.

**First-half cash flows from operating activities** (before net change in non-cash working capital balances) reached $103.2 million or $1.83 diluted per share, compared to $78.0 million or $1.38 diluted per share for the first six months of 2021, an increase of 32.4%. Net change in non-cash working capital balances used cash flows of $143.8 million, primarily representing changes in inventories that used cash flows of $117.3 million whereas accounts receivable and other items used cash flows of $26.5 million. Consequently, operating activities used cash flows of $40.5 million, compared to a cash inflow of $55.9 million for the first six months of 2021.

### Financing activities

**Second quarter cash flows from financing activities** used cash flows of $21.5 million, compared to $7.4 million for the second quarter of 2021. The Corporation paid lease obligations of $6.2 million and dividends to shareholders of $7.3 million compared to lease obligation payments of $4.7 million, dividends payments of $3.9 million, a share issuance for $3.1 million and a long-term debt repayment of $1.8 million in the second quarter of 2021. The Corporation also repurchased common shares for an amount of $7.9 million in the second quarter of 2022, while it did not make any share repurchases in 2021.

**First-half cash flows from financing activitie**s used cash flows of $29.8 million, compared to $23.9 million in the first half of 2021. The Corporation repaid long-term debt of $1.3 million, paid lease obligations of $12.0 million and issued shares for $5.9 million, compared to a long-term debt repayment of $3.2 million, lease obligations payments of $9.3 million and a $3.9 million share issue in the first half of 2021. Dividends paid to shareholders of the Corporation amounted to $14.6 million compared to $11.6 million in the same period of 2021 and common shares repurchased amounted to $7.9 million in the first half of 2022, compared to $3.3 million in 2021.

### Investing activities

**Second quarter cash flows from investing activities** represented a cash outflow of $6.3 million primarily for the purchase of new equipment to maintain and improve operational efficiency, as well as further investments in IT infrastructure.

**First-half cash flows from investing activities** represented a total cash outflow of $52.4 million, including $42.4 million for the three business acquisitions made during the first quarter and $10.0 million primarily for the purchase of new equipment to maintain and improve operational efficiency.

### Sources of financing

As at May 31, 2022, the bank overdraft amounted to $64.2 million, compared with cash of $58.7 million as at November 30, 2021. The Corporation posted a **working capital** of $481.5 million for a current ratio of 2.8:1, compared with $456.4 million (current ratio of 3.3:1) as at November 30, 2021.

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 expected financing and investing activities between now and the end of 2022. The Corporation continues to benefit from an authorized line of credit of $100 million [$65 million as at November 30, 2021] as well as a line of credit of US$36 million [$6 million as at November 30, 2021] renewable annually and bearing interest at prime and base rates, respectively. In addition, Richelieu considers it could obtain additional external financing if necessary.

# Analysis of financial position as at May 31, 2022

| (in thousands of $, except exchange rates) | | |
|---|---|---|
| As at | **May 31, 2022** | November 30, 2021 |
| | **$** | $ |
| Current assets | **744,120** | 659,179 |
| Non-current assets | **355,281** | 305,001 |
| Total | **1,099,401** | 964,180 |
| Current liabilities | **262,659** | 202,803 |
| Non-current liabilities | **108,191** | 92,440 |
| Equity attributable to shareholders of the Corporation | **725,791** | 666,442 |
| Non-controlling interests | **2,760** | 2,495 |
| Total | **1,099,401** | 964,180 |
| *Exchange rates on translation of a subsidiary in the United States* | ***1.265*** | *1.279* |

## Assets

**Total assets** amounted to $1.1 billion as at May 31, 2022, compared with $964.2 million as at November 30, 2021, an increase of 14.0%. **Current assets** grew by 12.9% or $84.9 million over November 30, 2021. This increase stems from the addition of current assets following the business acquisitions made during the first quarter and from the rise in inventories resulting from the increase in demand and in supply costs. **Non-current assets** increased 16.5% mainly due to the addition of intangible assets and goodwill related to the business acquisitions.

| **Cash position** | | |
|---|---|---|
| (in thousands of $) | | |
| As at | **May 31 2022** | November 30 2021 |
| | **$** | $ |
| Current portion of long-term debt | **8,331** | 5,339 |
| Long-term debt | **130** | 1,100 |
| Total debt | **8,461** | 6,439 |
| *Cash and cash equivalents (bank overdraft)* | **(64,226)** | *58,707* |

The Corporation continues to benefit from a healthy and solid financial position. As at May 31, 2022**, total debt** was $8.5 million, mainly representing balances payable on acquisitions.

**Equity** attributable to shareholders of the Corporation totalled $725.8 million as at May 31, 2022, compared with $666.4 million as at November 30, 2021, an increase of $59.3 million stemming primarily from growth of $54.9 million in retained earnings to $645.4 million and of $7.0 million in share capital and contributed surplus, whereas accumulated other comprehensive income was down by $2.5 million. As at May 31, 2022, the **book value per share** was $12.99, up by 3.7% over November 30, 2021.

As at May 31, 2022, at the close of markets, the Corporation's **share capital** consisted of 55,891,940 common shares [55,841,119 shares as at November 30, 2021]. Weighted average of diluted outstanding shares for the three and six-month periods ended May 31, 2022, were 56,445,300 and 56,457,660 [2021 - 56,539,960 and 56,442,680]. During the first half of 2022, the Corporation issued 258,150 common shares at an average exercise price of $22.97 [263,925 in fiscal 2021 at an average exercise price of $19.54] upon the exercise of stock options under its stock option plan. In addition, the Corporation repurchased for cancellation 207,329 common shares in the normal course of operations for a cash consideration of $7.9 million [316,374 common shares for a cash consideration of $13.1 million in fiscal 2021].

During the first half ended May 31, 2022, the Corporation granted 276,000 stock options [289,000 in fiscal 2021] and cancelled 7,375 stock options. As at May 31, 2022, 1,701,600 stock options were outstanding [1,691,125 as at November 30, 2021].

## CONTRACTUAL COMMITMENTS

There were no major changes in Richelieu's contractual commitments outside the normal course of business, compared with those set forth in the Corporation's 2021 annual MD&A, available on SEDAR. For 2022 and the foreseeable future, the Corporation expects cash flows from operating activities and other sources of financing to be sufficient 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 2021 annual MD&A, available on SEDAR**,** 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, 2021. 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, 2022, 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, 2022, have been prepared by management in accordance with IFRS.

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing its consolidated financial statements as at November 30, 2021 and for the year then ended, which 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 of Richelieu's 2021 annual report and MD&A, available on SEDAR and on the Corporation's website at www.richelieu.com.

## SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on SEDAR at www.sedar.com and on the Corporation's website at www.richelieu.com.

**Richard Lord**

President and Chief Executive Officer

**Antoine Auclair**

Vice-President and Chief Financial Officer

July 7, 2022

Interim Consolidated Financial Statements

# Richelieu Hardware Ltd.

For the three and six-month periods ended May 31, 2022

[Unaudited]

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| [In thousands of dollars] [Unaudited] | Notes | **As at May 31, 2022** | As at November 30, 2021 |
|---|---|---|---|
| | | **$** | $ |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **—** | 58,707 |
| Accounts receivable | | **231,799** | 199,585 |
| Inventories | | **504,926** | 395,464 |
| Prepaid expenses | | **7,395** | 5,423 |
| | | **744,120** | 659,179 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **48,697** | 46,239 |
| Intangible assets | | **68,588** | 53,910 |
| Right-of-use assets | | **106,626** | 87,013 |
| Goodwill | | **124,060** | 110,776 |
| Deferred taxes | | **7,310** | 7,063 |
| | | **1,099,401** | 964,180 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Bank overdraft | | **64,226** | — |
| Accounts payable and accrued liabilities | | **156,453** | 155,009 |
| Income taxes payable | | **8,423** | 21,281 |
| Current portion of long-term debt | | **8,331** | 5,339 |
| Current portion of lease obligations | | **25,226** | 21,174 |
| | | **262,659** | 202,803 |
| **Non-current liabilities** | | | |
| Long-term debt | | **130** | 1,100 |
| Lease obligations | | **88,538** | 71,880 |
| Deferred taxes | | **9,768** | 9,868 |
| Other liabilities | | **9,755** | 9,592 |
| | | **370,850** | 295,243 |
| **Equity** | | | |
| Share capital | 3 | **61,524** | 54,610 |
| Contributed surplus | | **7,119** | 7,046 |
| Retained earnings | | **645,375** | 590,522 |
| Accumulated other comprehensive income | 4 | **11,773** | 14,264 |
| Equity attributable to shareholders of the Corporation | | **725,791** | 666,442 |
| Non-controlling interests | | **2,760** | 2,495 |
| | | **728,551** | 668,937 |
| | | **1,099,401** | 964,180 |

*See accompanying notes to the interim consolidated financial statements.*

**On behalf of the Board of Directors:**

**Richard Lord**
Director

**Luc Martin**
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, | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| | **Notes** | **$** | $ | **$** | $ |
| **Sales** | | **487,935** | 371,384 | **872,401** | 668,965 |
| Operating expenses excluding amortization | 5 | **410,080** | 310,430 | **740,818** | 569,849 |
| **Earnings before amortization, financial costs and income taxes** | | **77,855** | 60,954 | **131,583** | 99,116 |
| Amortization of property, plant and equipment and right-of-use assets | | **9,182** | 6,948 | **17,717** | 13,876 |
| Amortization of intangible assets | | **2,688** | 1,577 | **5,205** | 3,170 |
| Net financial costs and other | | **1,098** | 630 | **2,180** | 1,287 |
| | | **12,968** | 9,155 | **25,102** | 18,333 |
| **Earnings before income taxes** | | **64,887** | 51,799 | **106,481** | 80,783 |
| Income taxes | | **17,677** | 14,248 | **28,971** | 22,190 |
| **Net earnings** | | **47,210** | 37,551 | **77,510** | 58,593 |
| **Net earnings attributable to:** | | | | | |
| Shareholders of the Corporation | | **46,984** | 37,425 | **77,082** | 58,409 |
| Non-controlling interests | | **226** | 126 | **428** | 184 |
| | | **47,210** | 37,551 | **77,510** | 58,593 |
| **Net earnings per share attributable to shareholders of the Corporation** | | | | | |
| Basic | | **0.84** | 0.67 | **1.38** | 1.04 |
| Diluted | | **0.83** | 0.66 | **1.37** | 1.03 |

*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, | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| | **Notes** | **$** | $ | **$** | $ |
| **Net earnings** | | **47,210** | 37,551 | **77,510** | 58,593 |
| **Other comprehensive income (loss) that will be reclassified to net earnings** | | | | | |
| Exchange differences on translation of foreign operations | 4 | **(971)** | (7,057) | **(2,491)** | (10,149) |
| **Comprehensive income** | | **46,239** | 30,494 | **75,019** | 48,444 |
| **Comprehensive income attributable to:** | | | | | |
| Shareholders of the Corporation | | **46,013** | 30,368 | **74,591** | 48,260 |
| Non-controlling interests | | **226** | 126 | **428** | 184 |
| | | **46,239** | 30,494 | **75,019** | 48,444 |

*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]

| | Attributable to shareholders of the Corporation | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital<br>$ | Contributed surplus<br>$ | Retained earnings<br>$ | Accumulated other comprehensive income (loss)<br>$ | Total<br>$ | Non-controlling interests<br>$ | Total equity<br>$ |
| **Notes** | 3 | | | 4 | | | |
| Balance as at November 30, 2020 | 48,522 | 6,280 | 480,808 | 15,484 | 551,094 | 3,349 | 554,443 |
| Net earnings | — | — | 58,409 | — | 58,409 | 184 | 58,593 |
| Other comprehensive loss | — | — | — | (10,149) | (10,149) | — | (10,149) |
| Comprehensive income (loss) | — | — | 58,409 | (10,149) | 48,260 | 184 | 48,444 |
| Shares repurchased | (71) | — | (3,186) | — | (3,257) | — | (3,257) |
| Stock options exercised | 4,839 | (914) | — | — | 3,925 | — | 3,925 |
| Share-based compensation expense | — | 976 | — | — | 976 | — | 976 |
| Dividends *[note 8]* | — | — | (11,551) | — | (11,551) | (511) | (12,062) |
| Other liabilities | — | — | — | — | — | (19) | (19) |
| Acquisition of non controlling interest | — | — | 123 | — | 123 | (725) | (602) |
| | 4,768 | 62 | (14,614) | — | (9,784) | (1,255) | (11,039) |
| Balance as at May 31, 2021 | 53,290 | 6,342 | 524,603 | 5,335 | 589,570 | 2,278 | 591,848 |
| **Balance as at November 30, 2021** | **54,610** | **7,046** | **590,522** | **14,264** | **666,442** | **2,495** | **668,937** |
| **Net earnings** | **—** | **—** | **77,082** | **—** | **77,082** | **428** | **77,510** |
| **Other comprehensive loss** | **—** | **—** | **—** | **(2,491)** | **(2,491)** | **—** | **(2,491)** |
| **Comprehensive income (loss)** | **—** | **—** | **77,082** | **(2,491)** | **74,591** | **428** | **75,019** |
| **Shares repurchased** | **(229)** | **—** | **(7,673)** | **—** | **(7,902)** | **—** | **(7,902)** |
| **Stock options exercised** | **7,143** | **(1,217)** | **—** | **—** | **5,926** | **—** | **5,926** |
| **Share-based compensation expense** | **—** | **1,290** | **—** | **—** | **1,290** | **—** | **1,290** |
| **Dividends *[note 8]*** | **—** | **—** | **(14,556)** | **—** | **(14,556)** | **—** | **(14,556)** |
| **Other liabilities** | **—** | **—** | **—** | **—** | **—** | **(163)** | **(163)** |
| | **6,914** | **73** | **(22,229)** | **—** | **(15,242)** | **(163)** | **(15,405)** |
| **Balance as at May 31, 2022** | **61,524** | **7,119** | **645,375** | **11,773** | **725,791** | **2,760** | **728,551** |

*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, | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| | **Notes** | **$** | $ | **$** | $ |
| **OPERATING ACTIVITIES** | | | | | |
| Net earnings | | **47,210** | 37,551 | **77,510** | 58,593 |
| Items not affecting cash | | | | | |
| Amortization of property, plant and equipment and right-of-use assets | | **9,182** | 6,948 | **17,717** | 13,876 |
| Amortization of intangible assets | | **2,688** | 1,577 | **5,205** | 3,170 |
| Deferred taxes | | **(177)** | (131) | **(303)** | (131) |
| Share-based compensation expense | 3 | **840** | 555 | **1,290** | 976 |
| Financial costs | | **933** | 721 | **1,807** | 1,469 |
| | | **60,676** | 47,221 | **103,226** | 77,953 |
| Net change in non-cash working capital balances | | **(63,695)** | 930 | **(143,772)** | (22,049) |
| | | **(3,019)** | 48,151 | **(40,546)** | 55,904 |
| **FINANCING ACTIVITIES** | | | | | |
| Increase in debt | | | | | |
| Repayment of long-term debt | | **(179)** | (1,833) | **(1,258)** | (3,161) |
| Dividends paid to shareholders of the Corporation | 8 | **(7,278)** | (3,917) | **(14,556)** | (11,551) |
| Payment of lease obligations | | **(6,229)** | (4,718) | **(11,971)** | (9,301) |
| Other dividends paid | | **—** | — | **—** | (511) |
| Common shares issued | | **120** | 3,077 | **5,926** | 3,925 |
| Common shares repurchased for cancellation | | **(7,902)** | — | **(7,902)** | (3,257) |
| | | **(21,468)** | (7,391) | **(29,761)** | (23,856) |
| **INVESTING ACTIVITIES** | | | | | |
| Business acquisitions | 2 | **—** | (9,842) | **(42,432)** | (9,842) |
| Additions to property, plant and equipment and intangible assets | | **(6,292)** | (4,034) | **(10,011)** | (6,886) |
| | | **(6,292)** | (13,876) | **(52,443)** | (16,728) |
| Effect of exchange rate changes on cash and cash equivalents | | **88** | 306 | **(183)** | 338 |
| **Net change in cash and cash equivalents (bank overdraft)** | | **(30,691)** | 27,190 | **(122,933)** | 15,658 |
| Cash and cash equivalents (bank overdraft), beginning of period | | **(33,535)** | 62,396 | **58,707** | 73,928 |
| **Cash and cash equivalents (bank overdraft), end of period** | | **(64,226)** | 89,586 | **(64,226)** | 89,586 |
| **Supplementary information** | | | | | |
| Income taxes paid | | **20,015** | 10,681 | **42,029** | 21,331 |
| Net interest paid | | **1,734** | 630 | **2,816** | 1,287 |

*See accompanying notes to the interim consolidated financial statements.*

As at May 31, 2022 and 2021 (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 target an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing, office furniture and door and window 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"], and more specifically with IAS34, *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, 2021 and for the year then ended, and their preparation 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 ended November 30, 2021.

## 2. BUSINESS ACQUISITIONS

### 2022

Effective December 31, 2021, the Corporation acquired the principal net assets of Compi Distributors, a distributor of specialized hardware operating four distribution centres in St. Louis, MO, Kansas City, MO, Ozark, MO and Springfield, IL.

Effective December 31, 2021, the Corporation acquired the principal net assets of HGH Hardware Supply, a distributor of specialized hardware operating four distribution centres in Birmingham, AL, Nashville, TN and two in Atlanta, GA

Effective December 31, 2021, the Corporation acquired the principal net assets of National Builders Hardware, a distributor of specialized hardware operating one distribution centre in Portland, OR.

Sales of $50.2 million have been generated by these acquisitions. Had those acquisitions been made on December 1, 2021, management believes that sales included in the consolidated statement of earnings would have totalled approximately $60.7 million.

### 2021

Effective March 29, 2021, the Corporation acquired the principal net assets of Ontario Building Supply, a decorative panel and related products distributor operating a distribution centre in Rochester, New York.

Effective April 5, 2021, the Corporation acquired all issued and outstanding shares of Caplan Industries Inc. doing business as Task Tools, a distributor of power tool accessories and related products serving retailers in Canada and the U.S. from two centres in British Columbia and Ontario.

Effective as of June 1, 2021, the Corporation acquired all of the issued and outstanding shares of Uscan Industrial Fasteners Ltd, a distributor of industrial screws, bolts and industrial fasteners for the retailer's market in Canada, which operates one distribution centres located in Quebec.

Effective as of July 5, 2021, the Corporation acquired, through a newly incorporated subsidiary ("Newco"), 100% of the issued and outstanding shares of Inter-Co Inc., in partial consideration of which a participation equivalent to 25% of the share capital of Newco has been issued in the name of the sellers. Inter-Co Inc. is a distributor of Division 10 products intended for the construction industry operating five distribution centres, three in the United States (Arizona, Ohio and Texas) and two in Canada (Ontario).

Effective September 1, 2021, the Corporation acquired all of the issued and outstanding shares of Cook Fasteners Inc., an industrial fastener distributor operating a distribution centre in Mississauga, Ontario.

Effective September 20, 2021, the Corporation acquired the principal net assets of Industrial Plywood, a distributor of panels and related products operating two distribution centres in Pennsylvania.

**Summary of acquisitions**

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

| | **2022** |
|---|---|
| | $ |
| Current assets acquired | **20,872** |
| Property, plant and equipment and right-of-use assets | **10,979** |
| Intangible assets | **18,641** |
| Goodwill | **13,536** |
| | **64,028** |
| Current liabilities assumed | **(7,768)** |
| Lease obligations | **(10,530)** |
| **Net assets acquired** | **45,730** |
| **Consideration** | |
| Cash, net of cash acquired | **42,432** |
| Consideration payable | **3,298** |
| | **45,730** |

Goodwill deductible for tax purposes with regard to these acquisitions amounted to $13,536 [$648 as at November 30, 2021].

Preliminary purchase price allocations are subject to fair value adjustments to assets, liabilities and goodwill until the estimation process is complete. The final purchase price allocation should be completed as soon as management has gathered all the information available and deemed necessary to finalize the calculation, in particular for intangible assets, no later than 12 months after the acquisition date.

## 3. 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, as at November 30, 2020 | 55,894 | 48,522 |
| Issued | 264 | 6,383 |
| Repurchased | (316) | (295) |
| **Outstanding, as at November 30, 2021** | **55,842** | **54,610** |
| **Issued** | **258** | **7,143** |
| **Repurchased** | **(207)** | **(229)** |
| **Outstanding, as at May 31, 2022** | **55,893** | **61,524** |

During the six-month period ended May 31, 2022, the Corporation issued 258,150 common shares [in fiscal year 2021 - 263,925] at an average exercise price of $22.97 per share [in fiscal year 2021 - $19.54] pursuant to the exercise of stock options under the stock option plan. In addition, the Corporation, through a normal course issuer bid, repurchased 207,329 common shares for cancellation in consideration of $7,902 [316,374 common shares for a consideration of $13,094 in fiscal 2021], which resulted in a premium on the redemption in the amount of $7,673 recognized as a reduction of retained earnings [premium of $12,799 in fiscal 2021].

### Stock option plan

Changes in stock options are summarized as follows:

| | Number of options *(in thousands)* | Weighted average exercise price $ |
|---|---|---|
| Outstanding, as at November 30, 2020 | 1,699 | 24.81 |
| Granted | 289 | 34.84 |
| Exercised | (264) | 19.54 |
| Cancelled | (33) | 30.25 |
| **Outstanding, as at November 30, 2021** | **1,691** | **27.14** |
| **Granted** | **276** | **43.57** |
| **Exercised** | **(258)** | **22.97** |
| **Cancelled** | **(7)** | **31.51** |
| **Outstanding, as at May 31, 2022** | **1,702** | **30.51** |

Stock options granted during the six-month period ended May 31, 2022 have an average fair value of $12.37 per option [2021 - $9.04] as determined using the Black & Scholes option pricing model with an expected dividend yield of 1.2% [2021 - 0.8%], expected volatility of 23.1% [2021 - 22.9%], a risk-free interest rate of 1.84% [2021 - 0.80%] and an expected life of 6.2 years [2021 - 6.9 years]. For the three and six-month periods ended May 31, 2022, the compensation expense related to stock options amounted to $840 and $1,290 [2021 - $555 and $976] and is recognized under *Operating expenses excluding amortization*. As at May 31, 2022, the exercise price of stock options outstanding varied between $12.71 and $43.57 [between $9.14 and $34.84 as at November 30, 2021].

### Deferred Share Unit Plan (DSU)

The liability resulting from the DSU plan of $8,237 [November 30, 2021 - $8,949] is recognized under the *Accounts payable and accrued liabilities*. As at May 31, 2022, the fair value of the swaps amounted to a liability of $297 [November 30, 2021 - a liability of $164] and is recognized under *Accounts payable*. 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, 2022 amounted to $186 and $386 [2021 - $179 and $443] and is recognized under *Operating expenses excluding amortization*.

### Share Purchase Plan

Compensation expense related to the share purchase plan amounted to $345 and $619 for the three and six-month periods ended May 31, 2022 [2021 - $187 and $362] and is recognized under *Operating expenses excluding amortization*.

### Net earnings per share

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

| | For the three months ended May 31, | | For the six months ended May 31, | |
|---|---|---|---|---|
| *In thousands* | **2022** | 2021 | **2022** | 2021 |
| Weighted average number of shares outstanding - Basic | **55,997** | 55,931 | **55,957** | 55,905 |
| Dilutive effect under stock option plan | **448** | 609 | **501** | 538 |
| Weighted average number of shares outstanding - Diluted | **56,445** | 56,540 | **56,458** | 56,443 |

For the three and six-month periods ended May 31, 2022, the calculation of the diluted earnings per share does not take into account the weighted average of 273,500 stock options since their exercise price is higher than the average share price for the periods and would have an anti-dilutive effect. [No anti-dilutive stock option in 2021].

## 4. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income includes the following items and its variances are detailed as follows:

| | For the three months ended May 31, | | For the six months ended May 31, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$** | $ | **$** | $ |
| Balance at the beginning of the period | **12,744** | 12,392 | **14,264** | 15,484 |
| Exchange differences on translation of foreign operations | **(971)** | (7,057) | **(2,491)** | (10,149) |
| **Balance at the end of the period** | **11,773** | 5,335 | **11,773** | 5,335 |

## 5. 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, 2022, the fair value of the foreign exchange forward contracts amounted to a liability of approximately $85 [a liability of $59 as at November 30, 2021] representing the amount the Corporation would have paid 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.

As at May 31, 2022 and 2021 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

## 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, 2022, 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 $619 and $1,467 [2021 - $588 and $1,283] during the three and six-month periods ended May 31, 2022, to a total of $7,638 as at May 31, 2022 [November 30, 2021 - $6,171].

## Market Risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and in euros. Operating expenses included, for the three and six-month periods ended May 31, 2022, exchange gains of $1,373 and $2,413 [2021 - foreign exchange losses of $472 and $181].

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 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 operating results by reducing exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at May 31, 2022, 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 $1,489 [as at May 31, 2021 - $304] and would have increased the consolidated comprehensive income by $9,046 [as at May 31, 2021 - $6,624]. The exchange rate sensitivity is calculated by aggregating the net foreign exchange rate exposure of the Corporation's financial instruments as at May 31, 2022.

## 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. In recent years, the Corporation has financed its growth, its acquisitions, and its payout to shareholders using mainly cash generated by operating activities.

The Corporation amended the credit agreement and now benefits from an authorized line of credit of $100 million [$65 million as at November 30, 2021] as well as a line of credit of US$36 million [US$6 million as at November 30, 2021]. The restrictive conditions and covenants remain unchanged.

## Operating expenses excluding amortization

| | For the three months ended May 31, | | For the six months ended May 31, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$** | $ | **$** | $ |
| Inventories expensed as a result of distribution, importation and manufacturing activities | **347,568** | 263,965 | **629,784** | 484,914 |
| Salaries and related expenses | **57,102** | 42,201 | **103,201** | 78,172 |
| Other expenses | **5,410** | 4,264 | **7,833** | 6,763 |
| | **410,080** | 310,430 | **740,818** | 569,849 |

For the three and six-month periods ended May 31, 2022, expense of $1,586 and $2,859 [2021 - $1,325 and $2,420] for inventory obsolescence is included in Inventories expensed as a result of distribution, importation and manufacturing activities.

## 6. 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, 2022, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 1.2 % [1.0 % as at November 30, 2021] [Long-term debt/ Equity]
- Average return on shareholders' equity of 24.4% over the last 12 months [23.3% for the year ended November 30, 2021]

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

## 7. GEOGRAPHIC INFORMATION

During the three and six-month periods ended May 31, 2022, nearly 60% of sales were made in Canada [2021 - 66%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to $195,629 and $350,818 [2021 - $123,336 and $227,676] in Canadian dollars, and to $153,967 and $276,119 [2021 - $99,452 and $181,331] in US dollars.

As at May 31, 2022, property, plant and equipment in the amount of, $12,656 [November 30, 2021 - $9,582] were located in the United States. In addition, intangible assets located in the United States amounted to $30,032 [November 30, 2021 - $13,514] and goodwill to $28,238 [November 30, 2021 - $14,954] in Canadian dollars and to $23,744 [November 30, 2021 - $10,565] and to $22,326 [November 30, 2021 - $11,690] respectivly, in US dollars. Of the total amount of right-of-use assets, $65,202 [November 30, 2021 - $45,993] were located in the United States.

## 8. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three and six-month periods ended May 31, 2022, the Corporation paid dividends of $7,278 and $14,556 to holders of common shares [2021 - $3,917 and $11,551], representing a quarterly dividend of $0.1300 per common share [quarterly dividend of $0.0700 per share and a special quarterly dividend of $0.0667 in the first quarter of 2021].

## 9. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and six-month periods ended May 31, 2022 (including the comparative figures) were approved for issue by the Board of Directors on July 7, 2022.