# MANAGEMENT'S REPORT

## HIGHLIGHTS OF THE YEAR ENDED NOVEMBER 30, 2020

The financial year ended with solid growth in sales, EBITDA, net earnings attributable to shareholders, strong liquidity, and a sound financial position.

Richelieu's growth in 2020 reflects its "one-stop shop" service approach, its innovation strategy, the diversification of its market segments, the substantial contribution of its acquisitions and rigorous cost control measures.

Most of the fiscal year unfolded within the context of the pandemic, requiring not only the implementation of extensive prevention measures, but also extra dedication and commitment at all levels of the organization. Building on its value-added service concept and the commitment and skills of its team, Richelieu has spared no effort and did its utmost to provide maximum support to its customers.

Over the year, the Corporation also actively pursued its acquisition strategy to seize opportunities consistent with its growth and long-term value creation objectives. It acquired five companies in Canada and the United States that will contribute more than $70 million in sales annually, in addition to diversifying its offering, opening up new geographic markets, strengthening its position in certain strategic markets, and adding expertise. In light of the strong earnings growth in 2020, the Board of Directors approved a 4.9% increase in the quarterly dividend, to $0,07 per share. In addition, a special dividend of $0,0667 per share will be paid to shareholders as compensation for the dividend that was not declared in the first quarter of 2020 in anticipation of the potentially negative financial impact of the COVID-19 crisis. Richelieu remains customer driven as well as, innovation, value-added and growth oriented. In 2021 the Corporation will continue to advance its business strategy, focused on product innovation and business acquisitions, in order to continue to strengthen its position, provide distinctive value-added service to its customers, and maintain its North American leadership.

- **Consolidated sales** totalled $1,128 million, up 8.3%, of which 0.7% came from internal growth and 7.6% from acquisitions.
- **Earnings before income taxes, interest and amortization (EBITDA)**(1) grew by 24.4% to $154.5 million, compared to $124.2 million. EBITDA margin stood at 13.7%, compared to 11.9 % in 2019.
- **Diluted net earnings per share** rose to $1.50**,** up by 29.3% compared to 1.16 $ in the previous year **and net earnings attributable to shareholders** amounted to $85.2 million compared to $66.5 million last year.
- **Adjusted cash flows from operating activities**(1) grew by 23.5% to $121.1 million compared to $98.0 million for fiscal 2019.
- **Working capital** increased by 12.5% to $377.4 million, with a current ratio of 3.6 : 1.
- **Cash and cash equivalents** totalled $73.9 million compared to $24.7 million as at November 30, 2019.
- **Total debt** was $5.8 million.
- **Repurchase** of 678,362 common shares for $25.0 million and payment of $11.3 million in dividends to shareholders. Richelieu thus distributed $36.3 million to shareholders in 2020 while retaining the financial resources necessary for growth in 2021.

**Five acquisitions realized during the year:**

* December 2, 2019: All the issued and outstanding shares of **Decotec Inc.**, a distributor of decorative panels and related products operating a distribution centre in North York, Ontario.
* December 9, 2019: The principal net assets of **Mibro**, a distributor of hardware and power tools accessories for the retailers' market in Canada and the United States. Mibro operates a distribution centre in Toronto, Ontario.
* February 3, 2020: The principal net assets of **O'Harco**, a distributor of specialized hardware operating three distributions centres in Omaha, NB, Des Moines, IA and Sioux Falls, SD.
* June 29, 2020: The principal net assets of **Central Wholesale Supply**, a distributor of specialized hardware operating a distribution centre in Richmond, VA.
* August 4, 2020: The principal net assets of **Lion Hardware**, a specialty hardware distributor serving a clientele of door and window manufacturers in Eastern Canada, operating a distribution centre in Saint-Jacques, New Brunswick.

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

This Management's Discussion and Analysis ("MD&A") relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the year ended November 30, 2020, in comparison with the year ended November 30, 2019, as well as the Corporation's financial position as at those dates. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended November 30, 2020. In this MD&A, "Richelieu" or the "Corporation" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, such as the Annual Information Form, interim MD&As, Management Proxy Circular, certificates signed by the Corporation's President and Chief Executive Officer and Vice-President and Chief Financial Officer, as well as press releases issued during the year ended November 30, 2020, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The information contained in this MD&A accounts for any major event that occurred prior to January 21, 2021, on which date the audited consolidated financial statements and 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").

## 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, 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 were prepared, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability.

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.

## NON-IFRS MEASURES

Richelieu uses earnings before, income taxes, interest 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 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 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.

## CHANGE IN ACCOUNTING POLICIES

The comparative figures have been restated following the adoption of IFRS 16 on December 1, 2019. Refer to note 2 of the consolidated financial statements for the year ended November 30, 2020, for more details on the adoption of this new standard.

# GENERAL BUSINESS OVERVIEW
as at November 30, 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 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 **84 centers across North America** with 41 distribution centers in Canada, 41 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 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 2,200 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 market, 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

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

| Years ended November 30 | **2020** **$** | 2019 (3) $ | 2018 $ | 2017 $ | 2016 $ |
|---|---|---|---|---|---|
| Sales | **1,127,840** | 1,041,647 | 1,004,400 | 942,545 | 844,473 |
| EBITDA(1) | **154,461** | 124,207 | 105,991 | 102,974 | 94,422 |
| *EBITDA margin* (%) | ***13.7*** | *11.9* | *10.6* | *10.9* | *11.2* |
| Net earnings | **85,611** | 66,671 | 67,964 | 67,932 | 63,013 |
| Net earnings attributable to shareholders of the Corporation | **85,222** | 66,471 | 67,777 | 67,704 | 62,814 |
| • per share - basic($) | **1.51** | 1.17 | 1.18 | 1.17 | 1.08 |
| • per share - diluted ($) | **1.50** | 1.16 | 1.17 | 1.15 | 1.07 |
| *Net margin attributable to the shareholders of the Corporation (%)* | ***7.6*** | *6.4* | *6.7* | *7.2* | *7.4* |
| Adjusted cash flows from operating activities (2) | **121,125** | 98,390 | 83,783 | 79,951 | 73,296 |
| • per share - diluted ($) | **2.14** | 1.72 | 1.45 | 1.36 | 1.25 |
| Dividends paid to Shareholders of the Corporation | **11,284** | 14,424 | 13,824 | 13,157 | 12,374 |
| • per share ($) | **0.200** | 0.253 | 0.240 | 0.227 | 0.213 |
| Weighted average number of shares outstanding (diluted) (in thousands) | **56,646** | 57,192 | 58,064 | 58,659 | 58,781 |
| **As at November 30** | | | | | |
| Total assets | **771,056** | 672,146 | 569,119 | 542,667 | 486,046 |
| Working capital | **377,408** | 335,467 | 329,343 | 300,116 | 280,747 |
| Current ratio | **3.6** | 4.1 | 4.6 | 4.0 | 4.4 |
| Equity attributable to shareholders of the Corporation | **551,094** | 498,384 | 470,278 | 434,092 | 394,268 |
| *Return on average shareholders' equity (%)* | ***16.2*** | *13.7* | *15.0* | *16.3* | *16.6* |
| Book value per share ($) | **9.86** | 8.86 | 8.23 | 7.51 | 6.81 |
| Total debt | **5,792** | 5,659 | 2,023 | 4,294 | 4,864 |
| Cash and cash equivalents | **73,928** | 24,701 | 7,408 | 29,162 | 42,969 |

*(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 consolidated financial statements for the year ended November 30, 2020 for more details on the adoption of this new standard.*

## ANALYSIS OF OPERATING RESULTS FOR THE YEAR ENDED NOVEMBER 30, 2020, COMPARED WITH THE YEAR ENDED NOVEMBER 30, 2019

### Consolidated sales

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

| Years ended November 30 | 2020 $ | 2019 $ | Δ (%) |
|---|---|---|---|
| Canada | **729,957** | 686,028 | +6.4 |
| United States (CA$) | **397,883** | 355,619 | +11.9 |
| (US$) | **296,328** | 267,567 | +10.7 |
| *Average exchange rates* | ***1.3427*** | *1.3291* | |
| Consolidated sales | **1,127,840** | 1,041,647 | +8.3 |

**Consolidated sales** reached $1,127.8 million, an increase of $86.2 million or 8.3% over 2019, of which 0.7% from internal growth and 7.6% from acquisitions. At comparable exchange rates to 2019, the consolidated sales growth would have been 7.9% for the year ended November 30, 2020.

Sales to **manufacturers** grew to $938.2 million, compared with $898.2 million for fiscal 2019, an increase of $40.0 million or 4.5%, of which 5.4% from acquisitions and 0.9% from internal decrease resulting from the slow down in the second quarter due to the pandemic. Sales to hardware **retailers** and renovation superstores grew by 32.2% or $46.2 million to total $189.7 million, of which 10.2% from internal growth and 22.0% from acquisitions. This increase in sales is attributable to the favourable fallout from strong demand in the renovation market in the context of the COVID-19 pandemic.

**In Canada**, Richelieu achieved sales of $730.0 million, compared with $686.0 million for fiscal 2019, up by $44.0 million or 6.4%, of which 5.0% resulted from acquisitions and 1.4% from internal growth. Sales to **manufacturers** rose to $581.0 million, up by $12.2 million or 2.1%, of which 4.1% from acquisitions and 2.0% from internal decrease. Sales to hardware **retailers** and renovation superstores reached $149.0 million, compared with $117.3 million, up by $31.7 million or 27.0% over fiscal 2019, of which 18.1% from internal growth and 8.9% from acquisitions. This increase is the result of major growth in the renovation market in Canada.

**In the United States**, the Corporation recorded sales of US$296.3 million, compared with US$267.6 million for fiscal 2019, an increase of US$28.8 million or 10.7%, of which 12.6% from acquisitions and 1.9% from an internal decrease. Sales to **manufacturers** totalled US$265.9 million, compared with US$247.7 million, an increase of US$18.2 million or 7.3% over fiscal 2019, resulting entirely from acquisitions. Sales to hardware **retailers** and renovation superstores were up by 53.5% compared to fiscal 2019, resulting mainly from acquisitions. Considering exchange rates, U.S. sales expressed in Canadian dollars amounted to $397.9 million, compared with $355.6 million for 2019, an increase of 11.9%. They accounted for 35.3% of consolidated sales in fiscal 2020, whereas they represented 34.1% of the year's consolidated sales in fiscal 2019.

### Consolidated EBITDA and EBITDA margin

*(in thousands of $, unless otherwise indicated)*

| Years ended November 30 | 2020 $ | 2019 *Restated* $ |
|---|---|---|
| Sales | **1,127,840** | 1,041,647 |
| EBITDA | **154,461** | 124,207 |
| *EBITDA margin* (%) | ***13.7*** | *11.9* |

**Earnings before income taxes, interest and amortization (EBITDA)** totalled $154.5 million, up by $30.3 million or 24.4% over 2019. The **gross margin** remained stable compared with 2019. As for the **EBITDA margin,** it stood at 13.7%, compared with 11.9% for 2019, resulting from increased sales as well as cost reduction measures and government grants.

**Amortization expenses** amounted to $34.0 million compared with $29.2 million for 2019, an increase of $4.8 million resulting from the increase in the amortization of intangible assets and right-of-use assets mainly relating to business acquisitions made in 2019 and in 2020. **Income taxes** amounted to $32.1 million, an increase of $6.9 million over 2019.

### Consolidated net earnings attributable to shareholders

*(in thousands of $, unless otherwise indicated)*

| Years ended November 30 | 2020 $ | 2019 *Restated* $ |
|---|---|---|
| EBITDA | **154,461** | 124,207 |
| Amortization of property, plant and equipment, intangible assets and right-of-use assets | **34,022** | 29,186 |
| Financial costs, net | **2,682** | 3,060 |
| Income taxes | **32,146** | 25,290 |
| Net earnings | **85,611** | 66,671 |
| Net earnings attributable to shareholders of the Corporation | **85,222** | 66,471 |
| *Net margin attributable to the shareholders of the Corporation (%)* | ***7.6*** | *6.4* |
| Non-controlling interests | **389** | 200 |
| Net earnings | **85,611** | 66,671 |

**Net earnings** rose 28.4%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled $85.2 million, an increase of 28.2% compared to 2019. **Net earnings per share** amounted to $1.51 basic and $1.50 diluted, compared with $1.17 basic and $1.16 diluted for 2019, an increase of 29.1% and 29.3% respectively.

**Comprehensive income** totalled $81.9 million, reflecting a negative adjustment of $3.7 million on translation of the financial statements of the subsidiary in the United States, compared with $66.5 million for 2019, which reflected a negative adjustment of $0.1 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 |
|---|---|---|---|---|
| **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** |
| 2019 (1) | | | | |
| o Sales | 226,351 | 281,067 | 269,243 | 264,986 |
| o EBITDA | 20,936 | 34,371 | 33,890 | 35,010 |
| 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 |
| 2018 | | | | |
| 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 IFRS 16 on December 1, 2019. Refer to note 2 of the consolidated financial statements for the year ended November 30, 2020 for more details on the adoption of this new standard.*

**Quarterly variations in earnings** - The first quarter closed 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 a 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.

Note: For further information about the Corporation's performance in the first, second and third quarters of 2020, the reader is referred to the interim management's reports available on SEDAR's website at www.sedar.com.

## FOURTH QUARTER ENDED NOVEMBER 30, 2020

**Fourth-quarter consolidated sales** amounted to $319.0 million, compared with $265.0 million for the corresponding quarter of 2019, an increase of $54.0 million or 20.4%, of which 12.0% resulting of internal growth and 8.4% from acquisitions. At comparable exchange rates to the fourth quarter of 2019, the consolidated sales growth would have been 20.5% for the quarter ended November 30, 2020.

Richelieu achieved sales of $270.2 million in the **manufacturers** market, compared with $233.6 million for the fourth quarter of 2019, an increase of $36.6 million or 15.7%, of which 9.8% from internal growth and 5.9% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at $48.8 million, up by $17.4 million or 55.4% over the fourth quarter of 2019, of which 28.5% resulting from internal growth and 26.9% from acquisitions.

**In Canada**, Richelieu recorded sales of $215.0 million, an increase of $35.9 million over the fourth quarter of 2019. Sales to **manufacturers** amounted to $174.5 million, an increase of 15.8% of which 11.6% resulting from internal growth and 4.2% from acquisitions. Sales to hardware **retailers** and renovation superstores reached $40.5 million, up by $12.1 million or 42.6%. The favourable growth experienced in this market during the third quarter of fiscal 2020 continued to have a positive effect on sales in the fourth quarter of 2020.

**In the United States**, sales totalled US$78.9 million, compared with US$64.9 million for the fourth quarter of 2019, an increase of US$14.0 million or 21.6%, of which 6.9% resulting from internal growth and 14.7% from acquisitions. Sales to **manufacturers** amounted to US$72.6 million, an increase of US$9.9 million or 15.8% over the fourth quarter of 2019. Sales to hardware **retailers** and renovation superstores were up by US$4.1 million, or 186.4%, from the corresponding quarter of 2019, resulting mainly from growth through the acquisitions. Considering exchange rates, total U.S. sales expressed in Canadian dollars stood at $104.0 million, an increase of 21.1%. They accounted for 32.6% of consolidated sales for the fourth quarter of 2020, whereas they had represented 32.4% of the period's consolidated sales for the fourth quarter of 2019.

**Earnings before income taxes, interest and amortization (EBITDA)** amounted to $46.7 million compared with $35.0 million in the fourth quarter of 2019, up 33.5 %. The **EBITDA margin** stood at 14.6%, compared with 13.2% for the fourth quarter of 2019, resulting from increased sales together with cost reduction measures implemented.

**Amortization expenses** amounted to $8.7 million compared with $7.8 million for the corresponding quarter of 2019, an increase of $0.9 million. **Income taxes** amounted to $10.2 million compared with $7.5 million for the fourth quarter of 2019.

**Net earnings** were up by 42.4%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to $27.1 million, up by 41.5% over the fourth quarter of 2019. **Net earnings per share** rose to $0.48 basic and diluted, compared with $0.34 basic and diluted for the fourth quarter of 2019, an increase of 41.2%.

**Comprehensive income** amounted to $26.4 million, reflecting a negative adjustment of $0.9 million on translation of the financial statements of the subsidiary in the United States, compared with $19.1 million for the fourth quarter of 2019, which reflected a negative adjustment of $0.1 million on translation of the financial statements of the subsidiary in the United States.

**Cash flows from operating activities** (before net change in non-cash working capital balances) amounted to $36.2 million or $0.64 per share, compared with $27.9 million or $0.49 per share for the fourth quarter of 2019, an increase of 29.5% resulting primarily from net earnings increase. Net change in non-cash working capital balances used cash flows of $2.7 million, reflecting the change in inventory of $5.9 million, whereas the change in accounts receivable, accounts payable and other items represented a cash inflow of $3.2 million. Consequently, operating activities provided cash flows of $33.5 million, compared with $35.8 million for the fourth quarter of 2019.

**Financing activities** used cash flows of $31.0 million, compared with $22.9 million for the fourth quarter of 2019. This change was primarily driven by common shares repurchases of $25.0 million in the fourth quarter of 2020 compared with $15.8 million for the same quarter in 2019.

**Investing activities** used cash flows of $3.2 million in the fourth quarter, mainly for equipment to maintain and improve operational efficiency.

# FINANCIAL POSITION

## Analysis of principal cash flows for the year ended November 30, 2020

**Change in cash and cash equivalents and capital resources**

*(in thousands of $, unless otherwise indicated)*

| | **2020** | 2019 |
|---|---|---|
| **Years ended November 30** | **$** | *Restated* $ |
| Cash flows provided by (used in): | | |
| Operating activities | **145,707** | 100,466 |
| Financing activities | **(50,836)** | (51,995) |
| Investing activities | **(45,515)** | (31,346) |
| Effect of exchange rate fluctuations | **(129)** | 167 |
| Net change in cash and cash equivalents | **49,227** | 17,293 |
| Cash and cash equivalents, beginning of year | **24,701** | 7,408 |
| Cash and cash equivalents end of year | **73,928** | 24,701 |

| **As at November 30** | **2020** | 2019 |
|---|---|---|
| Working capital | **377,408** | 335,467 |
| Renewable line of credit (CA$) | **65,000** | 65,000 |
| Renewable line of credit (US$) | **6,000** | 6,000 |

### Operating activities

**Cash flows from operating activities** (before net change in non-cash working capital balances) reached $121.1 million or $2.14 diluted per share, compared with $98.0 million or $1.71 diluted per share for 2019, an increase of 23.5% stemming primarily from net earnings increase. Net change in non-cash working capital balances represented a cash inflow of $24.6 million, primarily representing changes in inventory and accounts payable of $27.7 million whereas accounts receivables and other items used cash flows of $3.1 million. Consequently, operating activities provided cash flows of $145.7 million compared with $100.5 million for 2019.

### Financing activities

**Financing activities** used cash flows of $50.8 million, compared with $52.0 million for 2019. During the year, Richelieu repurchased common shares for cancellation for $25.0 million, compared with $25.2 million in 2019. The Corporation paid dividends to shareholders of $11.3 million, down by 21.8% over 2019 and made a debt repayment in the amount of $5.2 million compared to $1.1 million for the 2019 . The Corporation also issued shares for $5.6 million compared to $1.2 million in fiscal 2019.

### Investing activities

**Investing activities** used cash flows of $45.5 million, of which $33.1 million for business acquisitions and $12.4 million, mainly for equipment to maintain and improve operational efficiency and for IT equipment.

### Sources of financing

As at November 30, 2020, **cash and cash equivalents** amounted to $73.9 million, compared with $24.7 million as at November 30, 2019. The Corporation had a **working capital** of $377.4 million for a current ratio of 3.6 : 1, compared with $335.5 million (4.1 : 1 ratio) 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 and the financing and investing activities between now and the end of 2021. The Corporation continues to benefit from 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.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, the availability of credit will remain stable in 2021, and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under the "Risk Factors" section.

## Analysis of financial position as at November 30, 2020

**Summary of financial position**

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

| | **2020** | 2019 |
|---|---|---|
| **As at November 30** | **$** | *Restated* $ |
| Current assets | **522,702** | 445,345 |
| Non-current assets | **248,354** | 226,801 |
| Total | **771,056** | 672,146 |
| Current liabilities | **145,294** | 109,878 |
| Non-current liabilities | **71,307** | 60,647 |
| Equity attributable to shareholders of the Corporation | **551,094** | 498,384 |
| Non-controlling interests | **3,361** | 3,237 |
| Total | **771,056** | 672,146 |
| *Exchange rates on translation of a subsidiary in the United States* | ***1.297*** | *1.330* |

### Assets

**Total assets** amounted to $771.1 million as at November 30, 2020, compared with $672.1 million as at November 30, 2019. **Current assets** increased by 17.4% or $77.4 million from November 30, 2019 owing mainly to the business acquisitions made in fiscal 2020.

**Cash position**

| *(in thousands of $)* | **2020** | 2019 |
|---|---|---|
| **As at November 30** | **$** | *Restated* $ |
| Current portion of long-term debt | **3,592** | 5,659 |
| Long-term debt | **2,200** | — |
| **Total debt** | **5,792** | 5,659 |
| *Cash and cash equivalents* | ***73,928*** | *24,701* |

As at November 30, 2020, the Corporation continues to benefit from a healthy and solid financial position. **Total debt** was $5.8 million, representing balances payable on acquisitions.

**Equity** attributable to shareholders of the Corporation totalled $551.1 million as at November 30, 2020, compared with $498.4 million as at November 30, 2019, an increase of $52.7 million. That increase is mainly due to a rise of $49.5 million in retained earnings, which amounted to $480.8 million, and of $6.9 million in share capital and contributed surplus, while accumulated other comprehensive income was down by $3.7 million. As at November 30, 2020, **the book value per share** was $9.86, up by 11.3% over November 30, 2019, and the return on average shareholders' equity was 16.2%.

As at November 30, 2020, the Corporation's **share capital** consisted of 55,893,568 common shares (56,240,030 shares as at November 30, 2019). In 2020, upon the exercise of stock options under the stock option plan, Richelieu issued 331,900 common shares at an average price of $16.92 (113,275 in 2019 at an average price of $10.92). In addition, 678,362 common shares were repurchased for cancellation under the normal course issuer bid for a cash consideration of $25.0 million in 2020 (987,479 common shares for a cash consideration of $25.2 million in 2019). The Corporation granted 300,500 stock options in fiscal 2020 (232,000 in 2019). Consequently, as at November 30, 2020, 1,697,925 stock options were outstanding (1,770,700 as at November 30, 2019).

## CONTRACTUAL COMMITMENTS

**Summary of contractual financial commitments as at November 30, 2020**

*(in thousands of $)*

| | **Less than 1 year** | **Between 1 and 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|
| Long-term debt | 3,592 | 2,200 | — | 5,792 |
| Operating leases | 17,793 | 50,201 | 18,609 | 86,603 |
| Total | 21,385 | 52,401 | 18,609 | 92,395 |

For 2021 and for the foreseeable future, the Corporation expects that cash flows from operating activities and other sources of financing will be sufficient to meet its ongoing contractual commitments.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, the availability of credit will remain stable in 2021, and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under the "Risk Factors" section.

## FINANCIAL INSTRUMENTS

Richelieu periodically enters into foreign exchange forward contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated liabilities 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.

In notes 1 and 12 of the audited consolidated financial statements for the year ended November 30, 2020, the Corporation presents the information on the classification and fair value of its financial instruments, as well as on their value and management of the risks arising from their use.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 2020. 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 year ended November 30, 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 AND ESTIMATES

The Corporation's audited consolidated financial statements for the year ended November 30, 2020, have been prepared by management in accordance with International Financial Reporting Standards (IFRS). The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the 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 judgments made by management in applying the accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements and the assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that could potentially result in material adjustments to the carrying amount of assets and liabilities during the following period are summarized as follows:

Impairment of inventory, including inventory losses and obsolescence, requires the use of judgment and assumptions that may affect the amounts reported in the consolidated financial statements. The underlying estimates and assumptions are reviewed regularly. Revised accounting estimates, if any, are recognized in the period in which the estimates are revised, as well as in the future periods affected by the revisions. Actual results could differ from those estimates.

## NEW ACCOUNTING METHODS

**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 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.

The adoption of IFRS 16 did not have a significant impact on net earnings, but had a material impact on the consolidated statements 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 consolidated financial statements for the year ended November 30, 2020, for more details on the adoption of this new standard.

## RISK FACTORS

Richelieu is exposed to different risks that can have a material adverse effect on its profitability. To offset such risks, the Corporation has adopted various strategies adapted to the major risk factors below:

**Economic conditions**

The Corporation's business and financial results partly depend on general economic conditions and the economic factors specific to the renovation and construction industry. Any economic downturn could lead to a decline in sales and have an adverse impact on the Corporation's financial performance.

**Market and competition**

The specialty hardware and renovation products segment is highly competitive. Richelieu has developed a business strategy rooted in a diversified product offering in various targeted niche markets in North America and sourced from suppliers around the world, in creative marketing and in unparalleled expertise and quality of service. Up to now, this strategy has enabled it to benefit from a solid competitive edge. However, if Richelieu were unable to implement its business strategy with the same success in the future, it could lose market shares and its financial performance could be adversely affected.

**Foreign currency**

Richelieu is exposed to the risks related to currency fluctuations, primarily in regard to foreign-currency denominated purchases and sales made abroad.

The Corporation's products are regularly sourced from abroad. Thus, any increase in foreign currencies (primarily the U.S. dollar and euro) compared with the Canadian dollar tends to raise its supply cost and thereby affect its consolidated financial results. These currency fluctuations related risks are mitigated by the Corporation's ability to adjust its selling prices within a relatively short timeframe so as to protect its profit margins although significant volatility in foreign currencies may have an adverse impact on its sales.

Sales made abroad are mainly recorded in the United States and account for approximately 35% of Richelieu's total sales. Any volatility in the Canadian dollar therefore tends to affect consolidated results. This risk is partially offset by the fact that major purchases are denominated in U.S. dollars.

To manage its currency risk, the Corporation uses derivative financial instruments, more specifically forward exchange contracts in U.S. dollars and euros. There can be no assurance that the Corporation will not sustain losses arising from these financial instruments or fluctuations in foreign currency.

**Supply and inventory management**

Richelieu must anticipate and meet its customers' supply needs. To that end, Richelieu must maintain solid relationships with suppliers respecting its supply criteria. The inability to maintain such relationships or to efficiently manage the supply chain and inventories could affect the Corporation's financial position. Similarly, Richelieu must track trends and its customers' preferences and maintain inventories meeting their needs, failing which its financial performance could be adversely affected.

To mitigate its supply-related risks, Richelieu has built solid long-term relationships with numerous suppliers on several continents, most of whom are world leaders.

**Acquisitions**

Acquisitions in North America remain an important strategic focus for Richelieu. The Corporation will maintain its strict acquisition criteria and pay particular attention to the integration of its acquisitions. Nevertheless, there is no guarantee that a business matching Richelieu's acquisition criteria will be available and there can be no assurance that the Corporation will be able to make acquisitions at the same pace as in the past. However, the fact that the U.S. market remains highly fragmented and that acquisitions are generally of limited size reduces the inherent financial and operational risks.

**Credit**

The Corporation is exposed to the credit risk related to its accounts receivable. Richelieu has adopted a policy defining the credit conditions for its customers to safeguard against credit losses arising from doing business with them. For each customer, the Corporation sets a specific limit that is regularly reviewed. The diversification of its products, customers and suppliers reasonably safeguards the Corporation against a concentration of its credit risk. No customer of the Corporation accounts for more than 10% of its revenues.

**Labour relations and qualified employees**

To achieve its objectives, Richelieu must attract, train and retain qualified employees while controlling its payroll. The inability to attract, train and retain qualified employees and to control its payroll could have an impact on the Corporation's financial performance. Close to 18% of Richelieu's workforce is unionized. The Corporation's policy is to negotiate collective agreements at conditions enabling it to maintain its competitive edge and a positive and satisfactory working environment for its entire team. Richelieu has not experienced any major labour conflicts over the past five years. Any interruption in operations as a result of a labour conflict could have an adverse impact on the Corporation's financial results.

**Stability of key officers**

Richelieu offers a stimulating working environment and a competitive compensation plan, which help it retain a stable management team. Failure to retain the services of a highly qualified management team could compromise the success of Richelieu's strategic execution and expansion, which could have an adverse impact on its financial results. To adequately manage its future growth, the Corporation adjusts its organizational structure as needed and strengthens the teams at the various levels of its business. It should be noted that more than 50% of its employees, including senior officers, are Richelieu shareholders.

**Product liability**

In the normal course of business, Richelieu is exposed to various product liability claims that could result in major costs and affect the Corporation's financial position. Richelieu has agreements containing the usual limits with insurance companies to cover the risks of claims associated with its operations.

**IT contingency plan and data security**

The IT structure implemented by Richelieu enables it to support its operations and contributes to ensure their efficiency. As the occurrence of a disaster, including a major interruption of its computer systems, could affect its operations and financial performance, the Corporation has implemented a crisis management and IT contingency plan to reduce the extent of such a risk. This plan provides among others for an alternate physical location in the event of a disaster, generators in the event of power outages and a relief computer as powerful as the central computer.

A breach of the Corporation's IT security, loss of customer data or system disruption could adversely affect its business and reputation.

Richelieu's business is dependent on its payroll, transaction, financial, accounting and other data processing systems. The Corporation relies on these systems to process, on a daily basis, a large number of transactions. Any security breach in its business processes and/or systems has the potential to impact its customer information, which could result in the potential loss of business. If any of these systems fail to operate properly or become disabled, the Corporation could potentially lose control of customer data and suffer financial loss, a disruption of its businesses, liability to customers, regulatory intervention or damage to its reputation.

In addition, any issue of data privacy as it relates to unauthorized access to, or loss of, customers and/or employees information could result in the potential loss of business, damage to Richelieu's market reputation, litigation and regulatory investigation and penalties.

To reduce its risk, the Corporation continuously invests in the security of its IT systems, business processes improvements and enhancements to its culture of information security.

**Natural disasters, terrorist acts, civil unrest, pandemics and other disruptions and dislocations, such as the recent COVID-19 (coronavirus), may adversely affect the Corporation**

Upon the occurrence of a natural disaster, or upon an incident of war, riot or civil unrest, the impacted country, province, state or region may not efficiently and quickly recover from such event, which could have a materially adverse effect on the Corporation, its customers, and/or either of their businesses or operations. Terrorist attacks, public health crises including epidemics, pandemics or outbreaks of new infectious disease or viruses including, most recently, the COVID-19 outbreak, domestic and global trade disruptions, infrastructure disruptions, civil disobedience or unrest, natural disasters, national emergencies, acts of war, technological attacks and related events can result in volatility and disruption to local and global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Corporation, its customers, and/or either of their businesses or operations, which may have a material adverse effect on the Corporation's reputation, business, financial conditions or operating results.

## SHARE INFORMATION AS AT JANUARY 21, 2021

| | |
|---|---|
| Issued and outstanding common shares : | 1,973,925 |
| Outstanding stock options : | 55,901,068 |

## OUTLOOK

In 2021, Richelieu will continue to be customer oriented and focus on quality of service and innovation. Its two major sources of growth will remain innovation and business acquisition strategies in its sector. The Corporation will pursue its current market development in North America and its efforts to penetrate new territories, especially in the United States. It remains on the lookout for strategic acquisitions to further strengthen its positioning and create additional sales and operational synergies, while giving priority to operational efficiency and sound financial management.

## SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

**Richard Lord**

President and Chief Executive Officer

January 21, 2021

**Antoine Auclair**

Vice-President and Chief Financial Officer

# MANAGEMENT'S REPORT

Related to the consolidated financial statements

The consolidated financial statements of **Richelieu Hardware Ltd.** (the "Corporation") are the responsibility of the Corporation's management. These consolidated financial statements have been prepared by management in accordance with IFRS and approved by the Board of Directors.

The Corporation maintains accounting and internal control systems which, in management's opinion, reasonably ensure the accuracy of the financial information and maintain proper standards of conduct in the Corporation's activities.

The Board of Directors fulfills its responsibility regarding the consolidated financial statements, primarily through its Audit Committee. This committee which meets periodically with the Corporation's managers and external auditors, has reviewed the consolidated financial statements of the Corporation and has recommended that they be approved by the Board of Directors.

The consolidated financial statements have been audited by the Corporation's external auditors, Ernst & Young LLP, Chartered Professional Accountants.

Montreal, Canada, January 21, 2021

**Richard Lord**
President and Chief Executive Officer

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

# INDEPENDENT AUDITOR'S REPORT

To the shareholders of
**Richelieu Hardware Ltd.**

## Opinion

We have audited the consolidated financial statements of **Richelieu Hardware Ltd.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at November 30, 2020 and 2019, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at November 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

Management is responsible for the other information. The other information comprises:

• Management's discussion and analysis; and

• The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained management's discussion and analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Francis Guimond.

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

Montréal, Canada
January 21, 2021

[1] CPA auditor, CA, public accountancy permit no. A118111

Consolidated Financial Statements

# Richelieu Hardware Ltd.

November 30, 2020

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| [In thousands of dollars] | | **As at November 30, 2020** | As at November 30, 2019 | As at December 1, 2018 |
|---|---|---|---|---|
| | | | *(Restated, note 2)* | *(Restated, note 2)* |
| | | **$** | $ | $ |
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | **73,928** | 24,701 | 7,408 |
| Accounts receivable | | **156,908** | 137,589 | 138,767 |
| Income taxes receivable | | **—** | 1,336 | — |
| Inventories | | **287,344** | 275,154 | 270,275 |
| Prepaid expenses | | **4,522** | 6,565 | 3,394 |
| | | **522,702** | 445,345 | 419,844 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 4 | **40,920** | 41,309 | 41,725 |
| Intangible assets | 5 | **42,243** | 35,383 | 29,340 |
| Right-of-use assets | 2 | **73,076** | 63,642 | 53,853 |
| Goodwill | 5 | **85,197** | 80,164 | 71,984 |
| Deferred taxes | 9 | **6,918** | 6,303 | 6,836 |
| | | **771,056** | 672,146 | 623,582 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | 8 | **120,193** | 90,140 | 88,359 |
| Income taxes payable | | **4,031** | — | 119 |
| Current portion of long-term debt | 7 | **3,592** | 5,659 | 2,023 |
| Current portion of lease obligations | 2 | **17,478** | 14,079 | 12,466 |
| | | **145,294** | 109,878 | 102,967 |
| **Non-current liabilities** | | | | |
| Long-term debt | 7 | **2,200** | — | — |
| Lease obligations | 2 | **60,457** | 53,274 | 43,682 |
| Deferred taxes | 9 | **6,842** | 5,553 | 3,289 |
| Other liabilities | | **1,808** | 1,820 | 1,843 |
| | | **216,601** | 170,525 | 151,781 |
| **Equity** | | | | |
| Share capital | 8 | **48,522** | 42,190 | 41,398 |
| Contributed surplus | 8 | **6,280** | 5,700 | 4,122 |
| Retained earnings | | **480,808** | 431,313 | 403,760 |
| Accumulated other comprehensive income | 11 | **15,484** | 19,181 | 19,313 |
| Equity attributable to shareholders of the Corporation | | **551,094** | 498,384 | 468,593 |
| Non-controlling interests | | **3,361** | 3,237 | 3,208 |
| | | **554,455** | 501,621 | 471,801 |
| | | **771,056** | 672,146 | 623,582 |

Commitments and contingencies *[note 10]*
*See accompanying notes to the consolidated financial statements.*

On behalf of the Board of Directors :

Richard Lord
Director

Mathieu Gauvin
Director

## CONSOLIDATED STATEMENTS OF EARNINGS

Years ended November 30
[In thousands of dollars, except earnings per share]

| | Notes | 2020<br>$ | 2019<br>(Restated, note 2) $ |
|---|---|---|---|
| **Sales** | | **1,127,840** | 1,041,647 |
| Operating expenses excluding amortization | 8, 12 | **973,379** | 917,440 |
| **Earnings before amortization, financial costs and income taxes** | | **154,461** | 124,207 |
| Amortization of property, plant and equipment and right-of-use assets | 2, 4 | **27,261** | 24,006 |
| Amortization of intangible assets | 5 | **6,761** | 5,180 |
| Financial costs, net | | **2,682** | 3,060 |
| | | **36,704** | 32,246 |
| **Earnings before income taxes** | | **117,757** | 91,961 |
| Income taxes | 9 | **32,146** | 25,290 |
| **Net earnings** | | **85,611** | 66,671 |
| | | | |
| **Net earnings attributable to:** | | | |
| Shareholders of the Corporation | | **85,222** | 66,471 |
| Non-controlling interests | | **389** | 200 |
| | | **85,611** | 66,671 |
| | | | |
| **Net earnings per share attributable to shareholders of the Corporation** | 8 | | |
| Basic | | **1.51** | 1.17 |
| Diluted | | **1.50** | 1.16 |

*See accompanying notes to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended November 30
[In thousands of dollars]

| | Notes | 2020<br>$ | 2019<br>(Restated, note 2) $ |
|---|---|---|---|
| **Net earnings** | | **85,611** | 66,671 |
| | | | |
| **Other comprehensive loss that will be reclassified to net earnings** | | | |
| Exchange differences on translation of foreign operations | 11 | **(3,697)** | (132) |
| **Comprehensive income** | | **81,914** | 66,539 |
| **Comprehensive income attributable to:** | | | |
| Shareholders of the Corporation | | **81,525** | 66,339 |
| Non-controlling interests | | **389** | 200 |
| | | **81,914** | 66,539 |

*See accompanying notes to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended November 30
[In thousands of dollars]

| | Attributable to shareholders of the Corporation | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income | Total | Non-controlling interests | Total equity |
| | $ | $ | $ | $ | $ | $ | $ |
| **Notes** | 8 | 8 | | 11 | | | |
| 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 *[note 2]* | — | — | (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 | — | — | 66,471 | — | 66,471 | 200 | 66,671 |
| Other comprehensive loss | — | — | — | (132) | (132) | — | (132) |
| Comprehensive income | — | — | 66,471 | (132) | 66,339 | 200 | 66,539 |
| Shares repurchased | (730) | — | (24,494) | — | (25,224) | — | (25,224) |
| Stock options exercised | 1,522 | (286) | — | — | 1,236 | — | 1,236 |
| Share-based compensation expense | — | 1,864 | — | — | 1,864 | — | 1,864 |
| Dividends *[note 16]* | — | — | (14,424) | — | (14,424) | (193) | (14,617) |
| Other liabilities | — | — | — | — | — | 22 | 22 |
| | 792 | 1,578 | (38,918) | — | (36,548) | (171) | (36,719) |
| **Restated balance as at December 1, 2019** | **42,190** | **5,700** | **431,313** | **19,181** | **498,384** | **3,237** | **501,621** |
| **Net earnings** | **—** | **—** | **85,222** | **—** | **85,222** | **389** | **85,611** |
| **Other comprehensive loss** | **—** | **—** | **—** | **(3,697)** | **(3,697)** | **—** | **(3,697)** |
| **Comprehensive income** | **—** | **—** | **85,222** | **(3,697)** | **81,525** | **389** | **81,914** |
| **Shares repurchased** | **(587)** | **—** | **(24,443)** | **—** | **(25,030)** | **—** | **(25,030)** |
| **Stock options exercised** | **6,919** | **(1,305)** | **—** | **—** | **5,614** | **—** | **5,614** |
| **Share-based compensation expense** | **—** | **1,885** | **—** | **—** | **1,885** | **—** | **1,885** |
| **Dividends *[note 16]*** | **—** | **—** | **(11,284)** | **—** | **(11,284)** | **(277)** | **(11,561)** |
| **Other liabilities** | **—** | **—** | **—** | **—** | **—** | **12** | **12** |
| | **6,332** | **580** | **(35,727)** | **—** | **(28,815)** | **(265)** | **(29,080)** |
| **Balance as at November 30, 2020** | **48,522** | **6,280** | **480,808** | **15,484** | **551,094** | **3,361** | **554,455** |

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30
[In thousands of dollars]

| | Notes | 2020<br>$ | 2019<br>*(Restated, note 2)* $ |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net earnings | | **85,611** | 66,671 |
| Items not affecting cash and cash equivalent | | | |
| Amortization of property, plant and equipment and right-of-use assets | 2, 4 | **27,261** | 24,006 |
| Amortization of intangible assets | 5 | **6,761** | 5,180 |
| Deferred taxes | 9 | **(393)** | 317 |
| Share-based compensation expense | 8 | **1,885** | 1,864 |
| | | **121,125** | 98,038 |
| Net change in non-cash working capital balances | | **24,582** | 2,428 |
| | | **145,707** | 100,466 |
| **FINANCING ACTIVITIES** | | | |
| Repayment of long-term debt | | **(5,173)** | (1,090) |
| Dividends paid to Shareholders of the Corporation | 16 | **(11,284)** | (14,424) |
| Payment of lease obligations | 2 | **(14,686)** | (12,299) |
| Other dividends paid | | **(277)** | (193) |
| Common shares issued | 8 | **5,614** | 1,236 |
| Common shares repurchased for cancellation | 8 | **(25,030)** | (25,224) |
| | | **(50,836)** | (51,994) |
| **INVESTING ACTIVITIES** | | | |
| Business acquisitions | 3 | **(33,074)** | (20,788) |
| Additions to property, plant and equipment and intangible assets | 4, 5 | **(12,441)** | (10,558) |
| | | **(45,515)** | (31,346) |
| Effect of exchange rate changes on cash and cash equivalents | | **(129)** | 167 |
| **Net change in cash and cash equivalents** | | **49,227** | 17,293 |
| Cash and cash equivalents, beginning of year | | **24,701** | 7,408 |
| **Cash and cash equivalents, end of year** | | **73,928** | 24,701 |
| **Supplementary information** | | | |
| Income taxes paid | | **27,062** | 26,443 |
| Interest paid, net | | **2,682** | 3,060 |

*See accompanying notes to the consolidated financial statements.*

November 30, 2020 and 2019 (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 and office furniture manufacturers, residential and commercial woodworkers and hardware retailers including renovation superstores. The Corporation's head office is located at 7900 Henri-Bourassa Blvd. West, Montreal, Quebec, Canada, H4S 1V4.

## 1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's consolidated financial statements, presented in Canadian dollars, have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"]. With the exception of IFRS 16, "Leases", which has been adopted by the Corporation on December 1, 2019 using the full retrospective approach with restatement of comparative information, the Corporation's accounting policies have been applied consistently to all fiscal years presented in these consolidated financial statements. Refer to note 2 below for a summary of the significant accounting policies related to IFRS 16 and for additional information on the adoption of IFRS 16.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the 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 judgments made by management in applying the accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements and the assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that could potentially result in material adjustments to the carrying amount of assets and liabilities during the following period relate to impairment of inventory, including inventory losses and obsolescence, and require the use of judgment and assumptions that may affect the amounts reported in the consolidated financial statements. The underlying estimates and assumptions are reviewed regularly. Revised accounting estimates, if any, are recognized in the period in which the estimates are revised, as well as in future periods affected by the revisions. Actual results could differ from those estimates.

The Corporation's consolidated financial statements have been properly prepared within the reasonable limits of materiality, in accordance with the accounting policies summarized below :

**Consolidation**

The consolidated financial statements include the accounts of Richelieu Hardware Ltd. and its subsidiaries described in note 13. All significant intercompany balances and transactions have been eliminated upon consolidation.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and highly liquid investments with a term of three months or less. Cash and cash equivalents are measured at amortized cost.

**Accounts receivable**

Accounts receivable are carried at cost, which is equivalent to fair market value on initial recognition. Subsequent measurements are recorded at amortized cost using the effective interest method. For the Corporation, this measurement is usually equivalent to cost due to their short-term maturities. At each period-end, the Corporation estimates the expected credit losses. These expected losses are adjusted to reflect factors that are specific to the accounts receivable, general economic conditions as well as an assessment of both current and forecasted economic conditions prevailing at the reporting date. The evaluation is calculated using the simplified method. The net change in expected credit losses on accounts receivable is recognized in net earnings.

**Inventories**

Inventories, which consist primarily of finished goods, are valued at the lower of average cost and net realizable value. Net realizable value is the expected selling price in the normal course of business, less estimated costs to sell. The Corporation uses judgment when estimating the effect of certain factors on the net realizable value of inventory, such as inventory obsolescence and losses. The quantity, age and condition of inventory are measured and assessed regularly during the year.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives. The main components have different useful lives and are amortized separately. The amortization method and useful life estimates are reviewed annually.

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | Lease terms, maximum 5 years |
| Machinery and equipment | 5-10 years |
| Rolling stock | 5 years |
| Furniture and fixtures | 3-5 years |
| Computer equipment | 3-5 years |

**Intangible assets**

Intangible assets are acquired assets that lack physical substance and meet the specified criteria for recognition apart from property, plant and equipment. Intangible assets consist mainly of purchased or internally developed software, non-competition agreements, customer relationships, and trademarks. Software and customer relationships are amortized on a straight-line basis over their useful lives of 3 and 8-20 years, respectively, while non-competition agreements are amortized over the terms of the agreements. Trademarks have an indefinite useful life and are therefore not amortized.

**Goodwill**

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and corresponds to the development potential of the acquired businesses, combined with the Corporation's operations and from the expected synergies and expanding of the product offering and network. Goodwill is not amortized.

**Impairment of non-current assets**

At the end of each reporting period, the Corporation determines whether indicators of impairment exist for its non-current assets, excluding goodwill and intangible assets with indefinite useful lives. If such indicators exist, the non-current assets are tested for impairment. When the impairment test indicates that the carrying amount of the tangible or intangible asset exceeds its recoverable amount, an impairment loss is recognized in net earnings in an amount equal to the excess.

The Corporation is required to test goodwill and intangible assets with indefinite useful lives for impairment at least once a year, whether or not indicators of impairment exist. Impairment tests are carried out on the asset itself, the cash-generating unit ["CGU"] or group of CGUs as at November 30. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and the supporting assets that cannot be wholly allocated to a single CGU are tested for impairment at the group of CGUs level. Impairment tests consist in a comparison between the carrying and recoverable amounts of an asset, CGU or group of CGUs. The recoverable amount is the higher of value in use and fair value less costs to sell. Where the carrying amount exceeds the recoverable amount, an impairment loss equal to the excess is recognized in net earnings, however, the carrying amount of the assets is not reduced below the higher of their fair value less costs to sell and their value in use. Other than for goodwill, if a reversal of an impairment loss occurs, it must be recognized immediately in net earnings. On reversal of an impairment loss, the increased recoverable amount of an asset must not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized in respect of the asset in prior years. As part of goodwill impairment tests, the Corporation generally uses fair value less costs to sell to estimate the recoverable amount, which is calculated by multiplying earnings before depreciation, amortization, financial charges and taxes ["EBITDA"] of the CGU or group of CGUs by the multiple of the EBITDA from comparable companies whose activities are similar to those of the Corporation. As part of the impairment tests on intangible assets with indefinite useful lives, the Corporation also uses the fair value less costs to sell in order to estimate the recoverable amount, which is calculated according to the relief-from-royalty method. This method involves estimating the fair value of trademarks by reference to royalty levels payable for the use of comparable assets.

**Other financial liabilities**

Accounts payable, accrued liabilities and long-term debt are initially recorded at fair value. They are subsequently measured at amortized cost using the effective interest method. For the Corporation, this measurement is usually equivalent to cost. Options to purchase non-controlling interests that correspond to the definition of a financial liability are measured at fair value and presented under other liabilities.

**Revenue recognition**

Revenues are measured at the fair value of the consideration received or receivable, net of returns and discounts granted, and are recognized when control of the goods is transferred to the customer, which occurs when the Corporation satisfies its performance obligation, generally upon delivery of the goods to the customer.

**Income taxes**

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the years in which the temporary differences are expected to reverse. Changes in these balances are recognized in net earnings in the year in which they arise.

Deferred tax assets are recognized to the extent that it is probable that the Corporation will have future taxable income against which these tax assets may be offset. In determining these deferred tax assets, assumptions are considered, such as the period for tax loss carrying forwards to be completely used up and the level of future taxable income in accordance with tax planning strategies.

**Foreign currency translation**

Monetary assets and liabilities of the Corporation are translated at the exchange rate in effect at the end of the reporting period and the other items in the statements of financial position and earnings are translated at the exchange rates in effect at the date of transaction. Foreign exchange gains and losses are recognized in net earnings in the year in which they arise.

The assets and liabilities of the U.S. subsidiary are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenues and expenses are translated at the rate in effect at the date of transaction. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income.

**Derivative financial instruments**

The Corporation periodically enters into foreign exchange forward contracts with financial institutions to partially hedge the effects of fluctuations in foreign exchange rates related to foreign currency liabilities, as well as to hedge anticipated purchase transactions.

The Corporation enters into equity swaps to reduce its exposure on net earnings related to the fluctuations in the Corporation's share price relating to its deferred share unit plan.

The Corporation does not use derivatives for speculative purposes. The Corporation uses hedge accounting only when IFRS documentation criteria are met. Derivative financial instruments designated as cash flow hedges are measured at fair value, which is the instruments' approximate settlement value at market rates. Gains and losses on remeasurement at each year-end are recorded in comprehensive income. If the instrument is not designated and documented as a hedge, changes in fair value are recognized in the statement of consolidated earnings for the year. Assets or liabilities related to derivative financial instruments are included in Accounts receivable or Accounts payable and accrued liabilities in the consolidated statements of financial position.

**Fair value measurements hierarchy**

Fair value measurements of financial asset and liabilities recognized at fair value in the consolidated statements of financial position or whose fair value is presented in the notes to the consolidated financial statements are categorized in accordance with the following hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Share-based payment**

The Corporation offers a stock option plan to its officers and key employees. The subscription price of each share issuable under the plan is equal to the weighted average market price of the shares five (5) business days prior to the day the option was granted and must be paid in full at the time the option is exercised. Options vest at a rate of 25% per year starting one year after grant date and expire on the tenth anniversary of the grant date. The Corporation recognizes stock-based compensation and other share-based payments in net earnings using the fair value method for stock options granted with a corresponding increase recorded in contributed surplus. The Black & Scholes model is used to determine the grant date fair value of stock options. The application of this method is based on different assumptions such as risk-free interest rate, expected life, volatility and dividend yield as described in note 8.

**Deferred share unit plan**

The Corporation offers a deferred share unit ["DSU"] plan to its directors who can elect to receive part or all of their compensation in DSUs. The value of DSUs is redeemable for cash only when a director ceases to be a member of the Board. The number of DSUs granted to a director equals the compensation amount to be converted in DSUs divided by the average closing price of the shares on the Toronto Stock Exchange for the five (5) business days immediately preceding the date of the payment. The DSU liability is measured at fair value at each closing date on the basis of the number of outstanding share units and the market price of the Corporation's common shares is included in *Accounts payable and accrued liabilities*. The Corporation has entered into equity swaps to reduce its exposure on net earnings related to the fluctuations of the Corporation's share price. The net effect of the equity swaps mostly offsets the impact of the change in the Corporation's share price and is included in the *Operating expenses excluding amortization*.

November 30, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

**Net earnings per share**

Net earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

## 2. CHANGES IN ACCOUNTING METHODS

### Recently adopted

**IFRS 16, Leases**

Effective December 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, Leases. 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 IFRS 16 had always been applied. The Corporation opted for all the practical expedients and applies the exemption for short-term leases and leases of low-value assets.

**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 obligation 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**

| Consolidated statement of earnings | For the year ended November 30, 2019 | | |
|---|---|---|---|
| | As previously reported under IAS 17 $ | Adjustments | As reported under IFRS 16 $ |
| **Earnings before amortization and financial costs** | 109,513 | 14,694 | 124,207 |
| Amortization of property, plant and equipment and right-of-use assets | 10,293 | 13,713 | 24,006 |
| Amortization of intangible assets | 5,180 | — | 5,180 |
| Financial costs, net | 665 | 2,395 | 3,060 |
| | 16,138 | 16,108 | 32,246 |
| **Earnings before income taxes** | 93,375 | (1,414) | 91,961 |
| Income taxes | 25,642 | (352) | 25,290 |
| **Net earnings** | 67,733 | (1,062) | 66,671 |
| **Net earnings attributable to:** | | | |
| Shareholders of the Corporation | 67,534 | (1,063) | 66,471 |
| Non-controlling interests | 199 | 1 | 200 |
| | 67,733 | (1,062) | 66,671 |
| **Net earnings per share attributable to shareholders of the Corporation** | | | |
| Basic | 1.19 | (0.02) | 1.17 |
| Diluted | 1.18 | (0.02) | 1.16 |

November 30, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

| Consolidated statements of financial position | As at As at November 30, 2019 | | |
|---|---|---|---|
| | As previously reported under IAS 17 $ | Adjustments | As reported under IFRS 16 $ |
| **Current assets** | 445,345 | — | 445,345 |
| **Non-current assets** | | | |
| 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 |
| **Total assets** | 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 |
| **Non-current liabilities** | | | |
| Lease obligations | — | 53,274 | 53,274 |
| Deferred taxes | 5,553 | — | 5,553 |
| Other liabilities | 1,820 | — | 1,820 |
| **Equity** | | | |
| 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 |
| **Total liabilities and equity** | 607,542 | 64,604 | 672,146 |

| Consolidated statements of cash flows | For the year ended November 30, 2019 | | |
|---|---|---|---|
| | As previously reported under IAS 17 $ | Adjustments | As reported under IFRS 16 $ |
| Net earnings | 67,733 | (1,062) | 66,671 |
| Items not affecting cash and cash equivalent | | | |
| Amortization of property, plant and equipment and right-of-use assets | 10,293 | 13,713 | 24,006 |
| Amortization of intangible assets | 5,180 | — | 5,180 |
| Deferred taxes | 669 | (352) | 317 |
| Share-based compensation expense | 1,864 | — | 1,864 |
| | 85,739 | 12,299 | 98,038 |
| Net change in non-cash working capital balances | 2,428 | — | 2,428 |
| | 88,167 | 12,299 | 100,466 |
| **FINANCING ACTIVITIES** | | | |
| Payment of principal portion of lease obligations | — | (12,299) | (12,299) |
| Interest paid, net | 665 | 2,395 | 3,060 |

| Consolidated statements of financial position | As at As at December 1, 2019 | | |
|---|---|---|---|
| | As previously reported under IAS 17 $ | Adjustments | As reported under IFRS 16 $ |
| **Current assets** | 419,844 | — | 419,844 |
| **Non-current assets** | | | |
| 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 |
| **Total assets** | 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 |
| **Non-current liabilities** | | | |
| Lease obligations | — | 43,682 | 43,682 |
| Deferred taxes | 3,289 | — | 3,289 |
| Other liabilities | 1,843 | — | 1,843 |
| **Equity** | | | |
| 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 |
| **Total liabilities and equity** | 569,119 | 54,463 | 623,582 |

**Lease obligations**

| As at November 30, 2020 | $ |
|---|---|
| Less than one year | 17,793 |
| Between 1 and 5 years | 50,201 |
| More than 5 years | 18,609 |
| | 86,603 |

During fiscal 2020, right-of-use assets additions amounted to $26,076 [$23,599 in 2019]. Depreciation of right-of-use assets of $15,891 [$13,713 in 2019] and Interest on lease liabilities of $2,806 [$2,347 in 2019] are included in the consolidated statement of net earnings.

November 30, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

## 3. BUSINESS ACQUISITIONS

### 2020

Effective December 2, 2019, the Corporation acquired all 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 power tools accessories 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 distributions centres in Omaha, NB, Des Moines, IA and Sioux Falls, SD.

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

Effective August 4, 2020, the Corporation acquired the principal net assets of Lion Hardware, a specialty hardware distributor serving a clientele of door and window manufacturers in Eastern Canada, operating a distribution centre in Saint-Jacques, New Brunswick.

Sales of $72.3 million have been generated by these acquisitions since their completion. Had these acquisitions been made on December 1, 2019, management believes that sales included in the consolidated statement of earnings would have totalled approximately $81 million.

### 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** | **2019** |
|---|---|---|
| | **$** | **$** |
| Current assets acquired | **27,324** | 11,632 |
| Property, plant and equipment and right-of-use assets | **4,758** | 257 |
| Intangible assets [Note 5] | **11,849** | 10,302 |
| Goodwill | **6,187** | 8,193 |
| | **50,118** | 30,384 |
| Current liabilities assumed | **(5,455)** | (1,373) |
| Non current liabilities assumed | **(4,890)** | (2,589) |
| **Net assets acquired** | **39,773** | 26,422 |
| **Consideration** | | |
| Cash, net of cash acquired | **33,074** | 20,788 |
| Consideration payable [Note 7] | **6,699** | 5,634 |
| | **39,773** | 26,422 |

Goodwill deductible for tax purposes with regard to these acquisitions amounts to $3,629. [Nil in 2019]

November 30, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Leasehold improvements | Machinery and equipment | Rolling stock | Furniture and fixtures | Computer equipment | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Cost | 3,652 | 29,584 | 8,012 | 42,380 | 16,022 | 20,971 | 15,380 | 136,001 |
| Accumulated amortization | — | (19,656) | (5,977) | (28,009) | (10,145) | (18,036) | (12,453) | (94,276) |
| Net carrying amount as at November 30, 2018 | 3,652 | 9,928 | 2,035 | 14,371 | 5,877 | 2,935 | 2,927 | 41,725 |
| Acquisitions | 91 | 662 | 857 | 3,870 | 2,125 | 593 | 1,427 | 9,625 |
| Business acquisitions *[note 3]* | — | — | — | 109 | 81 | 25 | 42 | 257 |
| Amortization | — | (1,379) | (750) | (3,157) | (2,223) | (1,430) | (1,354) | (10,293) |
| Effect of changes in foreign exchange rates | — | — | (1) | — | (3) | (1) | — | (5) |
| Net carrying amount as at November 30, 2019 | 3,743 | 9,211 | 2,141 | 15,193 | 5,857 | 2,122 | 3,042 | 41,309 |
| Cost | 3,743 | 30,246 | 8,861 | 45,494 | 17,894 | 21,400 | 16,454 | 144,092 |
| Accumulated amortization | — | (21,035) | (6,720) | (30,301) | (12,037) | (19,278) | (13,412) | (102,783) |
| **Net carrying amount as at November 30, 2019** | **3,743** | **9,211** | **2,141** | **15,193** | **5,857** | **2,122** | **3,042** | **41,309** |
| **Acquisitions** | **17** | **323** | **728** | **4,866** | **2,497** | **735** | **1,181** | **10,347** |
| **Business acquisitions *[note 3]*** | **—** | **—** | **—** | **410** | **353** | **59** | **—** | **822** |
| **Amortization** | **—** | **(1,377)** | **(855)** | **(3,775)** | **(2,485)** | **(1,322)** | **(1,556)** | **(11,370)** |
| **Effect of changes in foreign exchange rates** | **—** | **—** | **(22)** | **(69)** | **(77)** | **(15)** | **(5)** | **(188)** |
| **Net carrying amount as at November 30, 2020** | **3,760** | **8,157** | **1,992** | **16,625** | **6,145** | **1,579** | **2,662** | **40,920** |
| **Cost** | **3,760** | **30,568** | **8,555** | **49,505** | **19,694** | **17,604** | **16,728** | **146,414** |
| **Accumulated amortization** | **—** | **(22,411)** | **(6,563)** | **(32,880)** | **(13,549)** | **(16,025)** | **(14,066)** | **(105,494)** |
| **Net carrying amount as at November 30, 2020** | **3,760** | **8,157** | **1,992** | **16,625** | **6,145** | **1,579** | **2,662** | **40,920** |

## 5. INTANGIBLE ASSETS AND GOODWILL

| | Software | Non-competition agreements | Customer relationships | Trademarks | Total | Goodwill |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Cost | 8,119 | 4,680 | 45,637 | 6,129 | 64,565 | 71,984 |
| Accumulated amortization | (6,932) | (3,850) | (24,443) | — | (35,225) | — |
| Net carrying amount as at November 30, 2018 | 1,187 | 830 | 21,194 | 6,129 | 29,340 | 71,984 |
| Acquisitions | 933 | — | — | — | 933 | — |
| Business acquisitions *[note 3]* | 8 | 717 | 9,161 | 416 | 10,302 | 8,193 |
| Amortization | (678) | (807) | (3,695) | — | (5,180) | — |
| Effect of changes in foreign exchange rates | — | — | (12) | — | (12) | (13) |
| Net carrying amount as at November 30, 2019 | 1,450 | 740 | 26,648 | 6,545 | 35,383 | 80,164 |
| Cost | 9,008 | 5,396 | 54,788 | 6,545 | 75,737 | 80,164 |
| Accumulated amortization | (7,558) | (4,656) | (28,140) | — | (40,354) | — |
| **Net carrying amount as at November 30, 2019** | **1,450** | **740** | **26,648** | **6,545** | **35,383** | **80,164** |
| **Acquisitions** | **2,094** | **—** | **—** | **—** | **2,094** | **—** |
| **Business acquisitions *[note 3]*** | **—** | **501** | **11,186** | **162** | **11,849** | **6,187** |
| **Amortization** | **(981)** | **(852)** | **(4,839)** | **(89)** | **(6,761)** | **—** |
| **Effect of changes in foreign exchange rates** | **—** | **(1)** | **(212)** | **(109)** | **(322)** | **(1,154)** |
| **Net carrying amount as at November 30, 2020** | **2,563** | **388** | **32,783** | **6,509** | **42,243** | **85,197** |
| **Cost** | **11,100** | **5,791** | **64,956** | **6,509** | **88,356** | **85,197** |
| **Accumulated amortization** | **(8,537)** | **(5,403)** | **(32,173)** | **—** | **(46,113)** | **—** |
| **Net carrying amount as at November 30, 2020** | **2,563** | **388** | **32,783** | **6,509** | **42,243** | **85,197** |

For impairment test purposes, the carrying amounts of goodwill and intangible assets have been allocated to CGUs or groups of CGUs. The carrying amounts of goodwill for the two groups of CGUs that are significant in comparison with the total carrying amount of goodwill are $68.7 million and $14.5 million, while $2.0 million is allocated to another CGU. The carrying amounts of intangible assets with indefinite useful lives are allocated across multiple CGUs or groups of CGUs and the amount allocated is not individually significant in comparison with the total carrying amount.

## 6. BANK INDEBTEDNESS

As at November 30, 2020 and 2019, the Corporation has lines of credit with a Canadian banking institution with respective authorized amount of C$65 million and US$6 million, bearing interest at the bank's prime and base rates, which were respectively 2.45% and 3.75% as at November 30, 2020 [3.95% and 5.25% in 2019]. These lines of credit are renewable annually. As at November 30, 2020 and 2019, both were undrawn.

## 7. LONG-TERM DEBT

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Not-interest bearing business acquisitions considerations payable, of which US $1,805 | **5,792** | 5,659 |
| Current portion of long-term debt | **3,592** | 5,659 |
| Long-term debt | **2,200** | — |

Next years' principal payments on long-term debt are 3,592$ in 2021 and 2,200$ in 2022.

## 8. 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) |
| **Outstanding, November 30, 2019** | **56,240** | **42,190** |
| **Issued** | **332** | **6,919** |
| **Repurchased** | **(678)** | **(587)** |
| **Outstanding, November 30, 2020** | **55,894** | **48,522** |

During fiscal 2020, the Corporation issued 331,900 common shares [113,275 in 2019] at a weighted average exercise price of $16.92 per share [$10.92 in 2019] pursuant to the exercise of stock options under the stock option plan. The weighted average share price on the market at the date of exercise was $33.46 [$25.03 in 2019]. In addition, during fiscal 2020, the Corporation, through a normal course issuer bid, repurchased 678,362 common shares for cancellation in consideration for $25,030 [987,479 common shares for a consideration of $25,224 in 2019], which resulted in a premium on the redemption in the amount of $24,443 recognized as a reduction of retained earnings [premium of $24,494 in 2019].

### Stock option plan

Changes in stock options are summarized as follows:

| | **Number of options** | **Weighted average share price** |
|---|---|---|
| | **(in thousands)** | **$** |
| Outstanding, November 30, 2018 | 1,670 | 21.69 |
| Granted | 232 | 25.27 |
| Exercised | (113) | 10.92 |
| Cancelled | (18) | 26.27 |
| **Outstanding, November 30, 2019** | **1,771** | **22.80** |
| **Granted** | **301** | **28.48** |
| **Exercised** | **(332)** | **16.92** |
| **Cancelled** | **(41)** | **28.70** |
| **Outstanding, November 30, 2020** | **1,699** | **24.81** |

The table below summarizes information regarding the stock options outstanding as at November 30, 2020:

| | **Options outstanding** | | | **Exercisable options** | |
|---|---|---|---|---|---|
| **Range in exercise price** | **Number of options** | **Weighted average remaining period** | **Weighted average exercise price** | **Number of options** | **Weighted average exercise price** |
| **(in dollars)** | **(in thousands)** | **(years)** | **(in dollars)** | **(in thousands)** | **(in dollars)** |
| **9.14-12.50** | **26** | **0.92** | **9.43** | **26** | **9.43** |
| **12.51-17.50** | **177** | **2.90** | **14.57** | **177** | **14.57** |
| **17.51-24.00** | **418** | **4.87** | **20.88** | **418** | **20.88** |
| **24.01-32.77** | **1,078** | **7.66** | **28.39** | **401** | **28.35** |
| | **1,699** | **6.37** | **24.81** | **1,022** | **22.43** |

During fiscal 2020, the Corporation granted 300,500 options [232,000 in 2019] with an average exercise price of $28.48 per share [$25.27 in 2019] and an average fair value of $6.43 per option [$4.54 in 2019] as determined using the Black & Scholes option pricing model using an expected dividend yield of 0.9% [1.1% in 2019], a volatility of 22% [20% in 2019], a risk-free interest rate of 1.70% [1.96% in 2019] and an expected life of 7 years [7 years in 2019] and 41,375 options were cancelled [17,500 in 2019]. The compensation expense related to stock options amounted to $1,885 [$1,864 in 2019] and is recognized under *Operating expenses excluding amortization*.

### Deferred share unit plan

The financial liability resulting from the DSU plan of $7,316 [$7,296 as at November 30, 2019] is presented under the *Accounts payable and accrued liabilities*. As at November 30, 2020, the fair value of the equity swaps amounted to a liability of $314 [an asset of $18 as at November 30, 2019] and is presented under *Accounts payable and accrued liabilities*. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data. The compensation expense for the DSUs in 2020 amounted to $738 [$690 in 2019] and is recognized under *Operating expenses excluding amortization*.

| **Number of DSUs** | **2020** | 2019 |
|---|---|---|
| Outstanding, beginning of year | **274,194** | 252,026 |
| Paid | **(88,907)** | — |
| Granted | **8,158** | 22,168 |
| Outstanding, end of year | **193,445** | 274,194 |

### Share purchase plan

Compensation expense related to the share purchase plan amounted to $713 for fiscal 2020 [$755 in 2019] and is recognized under *Operating expenses excluding amortization.*

### Net earnings per share

Basic net earnings per share and diluted net earnings per share were calculated based on the following number of shares:

| *(in thousands)* | **2020** | 2019 |
|---|---|---|
| Weighted average number of shares outstanding - Basic | **56,315** | 56,945 |
| Dilutive effect under stock option plan | **331** | 247 |
| Weighted average number of shares outstanding - Diluted | **56,646** | 57,192 |

The computation of diluted net earnings per share excludes the weighted average of 306,000 outstanding options with an exercise price exceeding the average market share price for the period because of their anti-dilutive effect (873,375 in 2019).

## 9. INCOME TAXES

The main components of the income tax expense were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | *(Restated)* $ |
| Current | **32,539** | 24,973 |
| Deferred: | | |
| Related to temporary differences | **(386)** | 321 |
| Deferred tax related to changes in tax rates | **(7)** | (4) |
| | **32,146** | 25,290 |

The effective income tax rate differs from the combined statutory rates for the following reasons:

| | **2020** | 2019 |
|---|---|---|
| | **$** | *(Restated)* $ |
| Combined statutory rates | **26.59%** | 26.68% |
| Income taxes at combined statutory rates | **31,312** | 24,535 |
| Increase (decrease) resulting from: | | |
| Impact of statutory rates differences for the subsidiary outside Canada | **(181)** | (53) |
| Share-based compensation | **415** | 410 |
| Non-deductible expenses and other | **607** | 402 |
| Changes related to tax laws and tax rates | **(7)** | (4) |
| | **32,146** | 25,290 |

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The major components of deferred tax assets and liabilities of the Corporation were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | *(Restated)* $ |
| **Deferred taxes** | | |
| Reserve for tax purposes only upon disbursement and other tax attributes | **8,567** | 7,711 |
| Excess of the net carrying value of property, plant and equipment over their tax value | **(838)** | (228) |
| Excess of the net carrying value of intangible assets and goodwill over their tax value | **(8,914)** | (7,695) |
| Right-of-use assets and lease obligations | **1,261** | 962 |
| Net amount | **76** | 750 |

The net deferred taxes included the following as at November 30 :

| | **2020** | 2019 |
|---|---|---|
| | **$** | *(Restated)* $ |
| Deferred tax assets | **6,918** | 6,303 |
| Deferred tax liabilities | **(6,842)** | (5,553) |
| | **76** | 750 |

Changes in deferred taxes for the years ended November 30 are detailed as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| | **$** | *(Restated)* $ | *(Restated)* $ |
| Balance at the beginning of the year, net | **750** | 3,547 | 3,198 |
| In net earnings | **393** | (317) | (321) |
| Business acquisitions *[note 3]* | **(955)** | (2,589) | — |
| Other | **(112)** | 109 | 670 |
| Balance at the end of the year, net | **76** | 750 | 3,547 |

## 10. COMMITMENTS AND CONTINGENCIES

### Foreign exchange forward contracts

As at November 30, 2020, the Corporation held the following foreign exchange forward contracts having maturity dates in December 2020 and January 2021.

| **Type** | **Currency** | **Average exchange rate** |
|---|---|---|
| Purchase | €6,000 | 1.55 |

### Claims

In the normal course of business, various proceedings and claims are instituted against the Corporation. Management believes that any forthcoming settlement in respect of these claims will not have a material effect on the Corporation's financial position or consolidated net earnings.

November 30, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

## 11. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

| | **2020** | 2019 |
|---|---|---|
| | **$** | *(Restated)* $ |
| Balance at the beginning of year | **19,181** | 19,313 |
| Exchange differences on translation of foreign operations | **(3,697)** | (132) |
| Balance at the end of year | **15,484** | 19,181 |

## 12. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

### Fair value

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

As at November 30, 2020, the fair value of the foreign exchange forward contracts amounted to a liability of $15 [a liability of $18 as at November 30, 2019], representing the amount the Corporation would pay on settlement of these contracts at spot rates. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data.

### Credit risk

The Corporation sells its products to numerous customers in Canada, and in a lesser proportion in the United States. The credit risk refers to the possibility that customers will be unable to assume their liabilities towards the Corporation. The average days outstanding of accounts receivable, as at November 30, 2020 and 2019 are deemed 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 for the years ended November 30 is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of year | **6,763** | 6,802 |
| Allowance for doubtful accounts | **1,242** | 1,396 |
| Write-offs | **(1,753)** | (1,684) |
| Exchange rate variations and other | **361** | 249 |
| Balance, end of year | **6,613** | 6,763 |

The aging of the accounts receivable is as follows :

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Current | **120,215** | 102,834 |
| Past due 1-30 days | **35,915** | 29,214 |
| Past due more than 30 days | **7,391** | 12,304 |
| Allowance for doubtful accounts | **(6,613)** | (6,763) |
| | **156,908** | 137,589 |

The balance of accounts receivable of the Corporation that are overdue for more than 60 days, but which were not provided for, totaled $1,070 [$813 in 2019]. As at November 30, 2020 and 2019, no customer accounted for more than 10% of the total accounts receivable.

### Market risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and euros. Operating expenses included, for the year ended November 30, 2020, an exchange gain of $2,880 [gain of $1,462 in 2019].

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

As at November 30, 2020, a decrease of 5% of the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased consolidated net earnings by $392 [would have increased consolidated net earnings by $206 as at November 30, 2019] and would have increased comprehensive income by $7,123 [$7,301 as at November 30, 2019]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at November 30, 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. In recent years, the Corporation has financed its growth, business acquisitions, share repurchases and payout to shareholders using mainly the cash generated by the operating activities.

### Operating expenses excluding amortization

| | **2020** | 2019 |
|---|---|---|
| | **$** | *(Restated)* $ |
| Inventories from the distribution, imports and manufacturing activities recognized as an expense | **825,552** | 757,971 |
| Salaries and related charges | **140,969** | 146,774 |
| Other charges | **6,858** | 12,695 |
| | **973,379** | 917,440 |

An expense of $4,054 [$3,684 in 2019] for inventory obsolescence was included in Inventories from the distribution, imports and manufacturing activities.

### Government grant

During fiscal 2020, the Corporation recognized an amount of $6,904 as a reduction of Salaries and related charges, included under *Operating expenses excluding amortization,* in connection with the Canada Emergency Wage Subsidy ("CEWS") program.

November 30, 2020 and 2019 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

## 13. RELATED PARTY INFORMATION

### Scope of consolidation

| Names | Country of incorporation | Equity interest % | Voting rights % |
|---|---|---|---|
| Richelieu America Ltd. | United States | 100 | 100 |
| Richelieu Finances Ltée[(1)] | Canada | 100 | 100 |
| Cedan industries Inc. | Canada | 100 | 100 |
| Distributions 20/20 Inc. | Canada | 100 | 100 |
| Provincial Woodproducts Ltd. | Canada | 85 | 85 |
| Menuiserie des Pins Ltée | Canada | 80 | 80 |

[(1)] Richelieu Finances Ltée is the owner of 100% of Richelieu Hardware Canada Ltd.

### Executive officers' compensation

| | **2020** $ | 2019 $ |
|---|---|---|
| Short-term employee benefits | **4,213** | 3,442 |
| Other long-term benefits | **514** | 368 |
| Share-based compensation | **692** | 585 |
| | **5,419** | 4,395 |

Accounts payable and accrued liabilities included a retirement allowance amounting to $3,440 [$2,960 as at November 30, 2019] payable to an executive officer.

## 14. GEOGRAPHIC INFORMATION

During the year ended November 30, 2020, nearly 65% of sales had been made in Canada [66% in 2019]. The Corporation's sales to foreign countries, almost entirely directed to the United States, amounted to C$397,883 [C$355,619 in 2019] and US$296,328 [US$267,567 in 2019].

As at November 30, 2020, out of the total amount in property, plant and equipment, $7,677 [$7,606 in 2019] is located in the United States. In addition, intangible assets located in the United States amounted to C$14,145 [C$12,864 in 2019] and goodwill to C$14,479 [C$13,890 in 2019] and to US$10,910 [US$9,680 in 2019] and goodwill to US$11,168 [US$10,452 in 2019].

## 15. CAPITAL MANAGEMENT

The Corporation's objectives are:

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

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 November 30, 2020 and for the year then ended, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 1.1% [1.1% as at November 30, 2019] [Long-term debt/ Equity]
- Return on average shareholder's equity of 16.2% over the last 12 months [13.7% for the year ended November 30, 2019]

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

## 16. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For fiscal November 30, 2020, the Corporation paid three quarterly dividend of $0.0667 per share to common shareholders [four quarterly dividend of $0.0633 per share in 2019] for a total amount of $11,284 [$14,424 in 2019]. On January 21, 2021, the Board of Directors approved the payment of a quarterly dividend of $0.0700 per common share for the first quarter of 2021 and also approved the payment of a special dividend of $0.0667 per common share.

## 17. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended November 30, 2020 (including the comparative figures) were approved for issue by the Board of Directors on January 21, 2021.

## 18. COMPARATIVE FIGURES

Some figures disclosed for the year ended November 30, 2019, have been reclassified to conform to the presentation adopted in the year ended November 30, 2020.