Richelieu

Press release

for immediate release

Richelieu achieves a solid performance in second quarter

Fourth acquisition in fiscal 2019

- **Sales** increased **6.8%** to $281.2 million in the second quarter ended May 31, 2019. For the first six months of the year, sales were up **4.6%** to $507.4 million.
- **EBIDTA** rose **9.5%** to $30.7 million and **diluted net earnings per share** increased by **9.7%** to $0.34 in the second quarter.
- **Fourth acquisition in Canada in fiscal 2019** concluded May 1st: Euro Architectural Components, a distributor operating two distribution centers (Toronto and Montreal).
- **Solid financial situation** with working capital of $342.1 million (ratio 4.0:1).

Montreal, July 4, 2019 - "In the second quarter, Richelieu (RCH: TSX) continued to grow and to invest for future growth. The positive impact of our market development, acquisition and innovation strategies in the United States drove sales up 14.0% (US$) to US$73.3 million, reflecting increases of 11.2% and 39.1% in sales to manufacturers and retailers respectively. In Canada, we recorded sales of $183.0 million, up 1.3% from a 2.6% increase in sales to manufacturers and a 4.9% decrease in sales to retailers due to a general slowdown in this market. We are proud to have acquired Euro Architectural Components, a leader in the architectural hardware and stainless steel components market for stairs, banisters and railings. This distributor serves a large customer base from its distribution centers located in Toronto and Montreal. This acquisition not only allows us to add specialized product lines to our current offering, but also substantial expertise, additional sales and a built-in customer base. This latest acquisition, together with the three prior acquisitions completed in the first quarter, should increase our annual sales by approximately $30 million. We are confident that our strategies of ongoing innovation, market development and acquisition will continue to bring good results in the second half of 2019," said Richelieu President and CEO, Richard Lord.

ANALYSIS OF OPERATING RESULTS FOR THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2019 COMPARED WITH THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2018

Second-quarter consolidated sales amounted to $281.2 million, compared with $263.3 million for the corresponding quarter of 2018, an increase of $17.9 million or 6.8%, of which 3.2% from internal growth and 3.6% from acquisitions. At comparable exchange rates to the second quarter of 2018, consolidated sales growth would have been 5.3% for the quarter ended May 31, 2019.

Richelieu achieved sales of $238.1 million in the **manufacturers** market, compared with $222.4 million for the second quarter of 2018, an increase of $15.7 million. All market segments contributed to this 7.1% increase, of which 2.9% resulted from internal growth and 4.2% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at $43.1 million, up $2.2 million or 5.4% over the second quarter of 2018.

In Canada, Richelieu recorded sales of $183.0 million, an increase of $2.3 million or 1.3% over the second quarter of 2018 entirely from acquisition growth. Sales to **manufacturers** amounted to $151.9 million compared to $148 million an increase of 2.6% all from acquisition growth. Sales to hardware **retailers** and renovation superstores totalled to $31.1 million, down $1.6 million or 4.9% over the corresponding quarter of 2018. Inventory realignment of our retailer market customers due to a general slowdown in this market continues to have a downward impact on our sales. It should be noted that Richelieu did not lose any market share among its hardware retail customers.

In the United States, sales totalled US$73.3 million, compared to US$64.3 million for the second quarter of 2018, up US$9 million or 14.0%, of which 8.5% resulted from internal growth and 5.5% from acquisitions. Sales to **manufacturers** amounted to US$64.4 million, compared to US $57.9 million, an increase of 11.2% over the second quarter of 2018, of which 5.1% resulted from internal growth and 6.1% from acquisitions. Sales in US$ to hardware **retailers** and renovation superstores were up 39.1% from the corresponding quarter of 2018, mainly caused by lower cyclical sales in the first quarter. Total U.S. sales in Canadian dollars stood at $98.2 million, compared to $82.6 million year over year, an increase of 18.9%. They accounted for 34.9% of consolidated sales for the second quarter of 2019, compared to 31.4% of consolidated sales for the second quarter of 2018.

First-half consolidated sales reached $507.4 million, an increase of $22.2 million or 4.6% over the first six months of 2018, of which 1.4% resulted from internal growth and 3.2% from acquisitions. At comparable exchange rates to the first half of 2018, consolidated sales growth would have been 2.8%.

Sales to **manufacturers** grew to $430.5 million, compared to $405.2 million for the first six months of 2018, an increase of $25.3 million or 6.2%, of which 2.3% from internal growth and 3.9% from acquisitions. Sales to hardware **retailers** and renovation superstores were down 3.9% or $3.1 million to total $76.9 million.

In Canada, Richelieu recorded sales of $326.7 million, compared to $324.8 million for the first six months of 2018, up by $1.9 million or 0.6%, of which 1.7% resulted from acquisitions and an internal decrease of 1.1%. Sales to **manufacturers** rose to $269.6 million, up by $8.4 million or 3.2% of which 1.1% resulted from internal growth and 2.1% from acquisitions. Sales to hardware **retailers** and renovation superstores reached $57.1 million, compared to $63.6 million, down $6.5 million or 10.2% over the first half of 2018. The first quarter of 2018 was marked by exceptionally high sales. In addition, during the first semester of 2019 our sales were impacted by inventory realignment of our retailer customers due to a general slowdown in this market. It should be noted that Richelieu did not lose any market share among its hardware retail customers.

In the United States, the Corporation recorded sales of US$135.3 million, compared to US $126.2 million for the first six months of 2018, an increase of US$9.1 million or 7.2%, of which 1.2% resulted from internal growth and 6.0% from acquisitions. Sales to **manufacturers** totalled US $120.5 million, compared to US$113.3 million, an increase of US$7.2 million or 6.4% over the first half of 2018, of which 6.7% resulted from acquisitions and an internal decrease of 0.3% following the termination of a supply agreement with a major customer, as reported in previous quarters. Note that at comparable sales levels, internal growth in the US manufacturers market would have been 3.8%. Sales to hardware **retailers** and renovation superstores were up 14.7% from the corresponding period of 2018. Total U.S. sales in Canadian dollars amounted to $180.7 million, compared to $160.4 million for the corresponding six months of 2018, an increase of 12.7%. They accounted for 35.6% of consolidated sales for the first half of 2019, compared to 33.1% of the period's consolidated sales for the first six months of 2018.

Second-quarter earnings before income taxes, interest and amortization (EBITDA) amounted to $30.7 million, up $2.7 million or 9.5% over the second quarter of 2018. **Gross margin** and **EBITDA margin** improved slightly from the second quarter of 2018. **EBITDA margin** stood at 10.9%, compared to 10.7% for the corresponding quarter of 2018.

Amortization expense for the second quarter of 2019 amounted to $3.7 million up $0.5 million compared to the corresponding quarter of 2018. **Income taxes expense** amounted to $7.2 million, up $0.6 million from the second quarter of 2018. **Financial costs** on bank overdraft amounted to $0.4 million compared to $0.1 million for the corresponding quarter of 2018.

First-half earnings before income taxes, interest and amortization (EBITDA) totalled $48.2 million, up $0.3 million or 0.6% over the first six months of 2018. The **gross margin** remained stable with the corresponding six-month period of 2018. As for the **EBITDA margin,** it stood at 9.5%, compared to 9.9% for the first six months of 2018 affected by the slowdown in sales in the hardware retailers market, the market development costs incurred to increase our offering and our presence in the retailers market in the United States, including the costs resulting from the temporary increase in inventories.

Amortization expense for the first half of 2019 amounted to $7.3 million, up $0.8 million, compared to the same period of 2018, resulting from the investments in tangible and intangible assets made in recent year. **Income taxes expense** amounted to $10.9 million, up $0.4 million from the first half of 2018. **Financial costs** on bank overdraft amounted to $0.5 million compared to $0.1 million year over year.

Second-quarter net earnings grew 6.3%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to $19.3 million, up 6.1% over the second quarter of 2018. **Net earnings per share** rose to $0.34 basic and diluted compared to $0.31 basic and diluted for the second quarter of 2018, an increase of 9.7%.

Comprehensive income amounted to $23.2 million, considering a positive adjustment of $3.8 million on translation of the financial statements of the United States subsidiary, compared to $19.4 million for the second quarter of 2018, considering a positive adjustment of $1.2 million on translation of the financial statements of the United States subsidiary.

First-half net earnings decreased 4.6%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled $29.4 million, down 4.9% over the corresponding six months of 2018. **Net earnings per share** amounted to $0.51 basic and diluted, compared to $0.53 basic and diluted for the first half of 2018, down 3.8%.

Comprehensive income totalled $31.8 million, considering a positive adjustment of $2.4 million on translation of the financial statements of the United States subsidiary, compared to $31.5 million for the first half of 2018, considering a positive adjustment of $0.6 million on translation of the financial statements of the United States subsidiary.

FINANCIAL POSITION

Operating activities

Second-quarter cash flows from operating activities (before net change in working capital balances) amounted to $23.7 million or $0.41 per share diluted, compared to $22.2 million or $0.38 per share diluted for the second quarter of 2018, an increase of 6.7% resulting primarily from the variation in net earnings. Net change in non-cash working capital balances represented a cash inflow of $1.2 million, reflecting the change in accounts receivable ($19.0 million), whereas the change in inventories, accounts payable and other items represented cash inflows of $20.2 million. Consequently, operating activities provided cash flows of $24.9 million, compared to $14.4 million in the second quarter of 2018.

First-half cash flows from operating activities (before net change in working capital balances) reached $37.6 million or $0.65 per share diluted, compared to $38.2 million or $0.65 per share diluted for the first six months of 2018, a decrease of 1.6% resulting primarily from the variation in net earnings. Net change in non-cash working capital balances used cash flows of $26.3 million primarily representing changes in accounts receivable and inventories. Consequently, operating activities provided cash flows of $11.2 million compared to $3.0 million for the first six months of 2018.

Financing activities

Second quarter financing activities used cash flows of $7.9 million, compared to $5.4 million in the second quarter of 2018. This change mainly reflects the repurchase of common shares for $4.5 million during the second quarter of 2019. Dividends paid to shareholders amounted to $3.6 million, an increase of 4.2% over the corresponding quarter of 2018.

First-half financing activities used cash flows of $11.4 million, compared to $15.3 million in the first half of 2018. During the first half of the year, Richelieu repurchased common shares for cancellation for $4.5 million, compared to $5.2 million in the first half of 2018. The Corporation paid dividends to shareholders of $7.2 million, up 4.3% over the first six months of 2018. Richelieu had repaid $3.8 million in long-term debt in the same period of 2018.

Investing activities

Second quarter investing activities represented a cash outflow of $18.4 million, comprising $16 million for the business acquisition made during the current quarter and $2.4 million primarily for the purchase of new equipment to improve operational efficiency.

First-half investing activities represented a total cash outflow of $25.1 million, comprising $20.8 million for the four business acquisitions made during the current semester and $4.3 million primarily for the purchase of new equipment to improve operational efficiency.

Sources of financing

As at May 31, 2019, bank overdraft amounted to $17.8 million, compared with cash of $7.4 million as at November 30, 2018. This change arose primarily from the business acquisitions and the stock repurchase made during the first six months of 2019 compared to the corresponding period of 2018. The Corporation posted **working capital** of $342.1 million for a current ratio of 4.0:1, compared to $329.3 million (4.6:1 ratio) as at November 30, 2018.

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 financing, and investing activities between now and the end of fiscal 2019. The Corporation has an authorized line of credit of $65 million as well as a line of credit of US$6 million renewable annually and bearing interest at prime and base rates respectively. In addition, Richelieu considers it could obtain access to other outside financing, if necessary.

Summary financial position

(in thousands of $, except exchange rates)

As at	**May 31, 2019 $**	November 30, 2018 $
Current assets	**455,641**	419,844
Non-current assets	**165,357**	149,275
Total	**620,998**	569,119
Current liabilities	**113,504**	90,501
Non-current liabilities	**12,748**	5,132
Equity attributable to shareholders of the Corporation	**491,624**	470,278
Non-controlling interests	**3,122**	3,208
Total	**620,998**	569,119
Exchange rates on translation of a subsidiary in the United States	***1.353***	*1.330*

Assets

Total assets amounted to $621.0 million as at May 31, 2019, compared to $569.1 million as at November 30, 2018. **Current assets** increased by 8.5% or $35.8 million from November 30, 2018. **Non-current assets** rose 10.8%. These variations are mainly the result of business acquisitions made during the six-month period, as well as the increase in receivables and inventories, which are historically higher in the first half in anticipation of the more active period.

Cash position

(in thousands of $)

As at	**May 31 2019 $**	November 30 2018 $
Current portion of long-term debt	**2,177**	2,023
Long-term debt	**5,045**	—
Total debt	**7,222**	2,023
Cash and cash equivalents (bank overdraft)	**(17,753)**	*7,408*

The Corporation continues to benefit from a healthy and solid financial position. As at May 31, 2019**,** **total debt** was $7.2 million comprising $5.0 million in long-term debt and $2.2 million in short-term debt, representing balances payable on acquisitions.

Equity attributable to shareholders of the Corporation totalled $491.6 million as at May 31, 2019, compared to $470.3 million as at November 30, 2018, an increase of $21.3 million stemming primarily from growth of $17.8 million in retained earnings which amounted to $423.2 million, and $1.2 million in share capital and contributed surplus, whereas accumulated other comprehensive income increased $2.4 million. As at May 31, 2019, **book value per share** was $8.63, up 4.9% over November 30, 2018.

As at May 31, 2019, at market close, the Corporation's **share capital** consisted of 56,965,750 common shares (57,114,234 shares as at November 30, 2018). During the first half of 2019, the Corporation issued 59,325 common shares at an average exercise price of $8.92 (284,774 in fiscal 2018 at an average exercise price of $8.11) upon the exercise of stock options under its stock option plan. Furthermore, during the first half of 2019, the Corporation repurchased 207,809 common shares for cancellation for a cash consideration of $4.5 million. As at May 31, 2019, 1,831,900 stock options were outstanding (1,669,475 as at November 30, 2018).

Dividends

On July 4, 2019, the Board of Directors approved the payment of a quarterly dividend of 6.33¢ per share to shareholders of record as at July 18, 2019, payable on August 1, 2019. The declared dividend is designated as an eligible dividend within the meaning of the Income Tax Act (Canada).

PROFILE AS AT JULY 4, 2019

Richelieu is a leading North American distributor, importer and manufacturer of specialty hardware and complementary products. Its products are targeted to an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, residential and commercial woodworkers, and hardware retailers including renovation superstores. Richelieu offers customers a broad mix of high-end products sourced from manufacturers worldwide. Its product selection consists of over 110,000 different items targeted to a base of more than 80,000 customers who are served by 77 centers in North America – 39 distribution centers in Canada, 36 in the United States and two manufacturing plants in Canada, specifically Cedan Industries Inc. which specializes in the manufacturing of a wide variety of veneer sheets and edgebanding products and Menuiserie des Pins Ltée which manufactures components for the window and door industry and a broad selection of decorative mouldings.

Notes to readers — Richelieu uses earnings before interest, income taxes and amortization ("EBITDA") because this measure enables management to assess the Corporation's operational performance. This measure is a financial indicator of a corporation's ability to service its debt. However, EBITDA should not be considered by an investor as an alternative to operating income, net earnings, cash flows or as a measure of liquidity. Because EBITDA is not a standardized measurement as prescribed by IFRS, it may not be comparable to the EBITDA of other companies. Richelieu also uses adjusted cash flows from operating activities, which are based on net earnings plus amortization of property, plant and equipment and intangible assets, deferred tax expense (or recovery) and share-based compensation expense. These additional measures do not account for net change in non-cash working capital items to exclude seasonality effects and are used by management in its assessments of cash flows from long-term operations. Therefore, adjusted cash flows from operating activities may not be comparable to those of other companies. Certain statements set forth in this report (generally identified by terms such as "may", "could", "might", "intend", "expect", "believe", "estimate" or comparable variants) constitute forward-looking statements which, by their very nature, remain subject to other risks and uncertainties as set forth in the Corporation's annual and quarterly reports. Although management considers these assumptions and expectations reasonable based on the information available at the time they are provided, such assumptions and expectations could prove inaccurate and actual results could differ materially. Richelieu is under no obligation to update or revise any forward-looking statements made herein to account for future events or circumstances, except as required by applicable legislation.

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JULY 4, 2019, CONFERENCE CALL AT 2:30 P.M. (EASTERN TIME)

Financial analysts and investors interested in participating in the conference call on Richelieu's results to be held at 2:30 p.m. on July 4, 2019, may dial **1-888-390-0546** a few minutes before the start of the call. For those unable to participate, a taped rebroadcast will be available as of 5:45 p.m. on July 4, 2019, until midnight on July 11, 2019, by dialling **1-888-259-6562, access code: 244591 #.** Members of the media are invited to listen in.

Photos are available under "About Richelieu" – "Media" section at www.richelieu.com

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars]
[Unaudited]

	As at May 31, 2019	As at November 30, 2018
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**—**	7,408
Accounts receivable	**157,979**	138,767
Income taxes receivable	**3,427**	—
Inventories	**286,991**	270,275
Prepaid expenses	**7,244**	3,394
	455,641	419,844
Non-current assets		
Property, plant and equipment	**40,738**	41,725
Intangible assets	**37,855**	29,340
Goodwill	**80,461**	71,984
Deferred taxes	**6,303**	6,226
	620,998	569,119
LIABILITIES AND EQUITY		
Current liabilities		
Bank overdraft	**17,753**	—
Accounts payable and accrued liabilities	**93,574**	88,359
Income taxes payable	**—**	119
Current portion of long-term debt	**2,177**	2,023
	113,504	90,501
Non-current liabilities		
Long-term debt	**5,045**	—
Deferred taxes	**5,878**	3,289
Other liabilities	**1,825**	1,843
	126,252	95,633
Equity		
Share capital	**41,900**	41,398
Contributed surplus	**4,820**	4,122
Retained earnings	**423,225**	405,445
Accumulated other comprehensive income	**21,679**	19,313
Equity attributable to shareholders of the Corporation	**491,624**	470,278
Non-controlling interests	**3,122**	3,208
	494,746	473,486
	620,998	569,119

CONSOLIDATED STATEMENTS OF EARNINGS

[In thousands of dollars, except earnings per share]
[Unaudited]

	For the three months ended May 31,		For the six months ended May 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Sales	**281,182**	263,268	**507,418**	485,161
Operating expenses excluding amortization	**250,447**	235,188	**459,249**	437,278
Earnings before amortization, financial costs and income taxes	**30,735**	28,080	**48,169**	47,883
Amortization of property, plant and equipment	**2,520**	2,251	**4,997**	4,478
Amortization of intangible assets	**1,206**	958	**2,292**	1,976
Financial costs, net	**406**	59	**480**	23
	4,132	3,268	**7,769**	6,477
Earnings before income taxes	**26,603**	24,812	**40,400**	41,406
Income taxes	**7,224**	6,577	**10,947**	10,539
Net earnings	**19,379**	18,235	**29,453**	30,867
Net earnings attributable to:				
Shareholders of the Corporation	**19,281**	18,174	**29,364**	30,878
Non-controlling interests	**98**	61	**89**	(11)
	19,379	18,235	**29,453**	30,867
Net earnings per share attributable to shareholders of the Corporation				
Basic	**0.34**	0.31	**0.51**	0.53
Diluted	**0.34**	0.31	**0.51**	0.53

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of dollars]
[Unaudited]

	For the three months ended May 31,		For the six months ended May 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Net earnings	**19,379**	18,235	**29,453**	30,867
Other comprehensive income that will be reclassified to net earnings				
Exchange differences on translation of foreign operations	**3,781**	1,161	**2,366**	616
Comprehensive income	**23,160**	19,396	**31,819**	31,483
Comprehensive income attributable to:				
Shareholders of the Corporation	**23,062**	19,335	**31,730**	31,494
Non-controlling interests	**98**	61	**89**	(11)
	23,160	19,396	**31,819**	31,483

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of dollars]
[Unaudited]

	For the three months ended May 31,		For the six months ended May 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
OPERATING ACTIVITIES				
Net earnings	**19,379**	18,235	**29,453**	30,867
Items not affecting cash				
Amortization of property, plant and equipment	**2,520**	2,251	**4,997**	4,478
Amortization of intangible assets	**1,206**	958	**2,292**	1,976
Deferred taxes	**—**	—	**—**	(315)
Share-based compensation expense	**558**	735	**824**	1,166
	23,663	22,179	**37,566**	38,172
Net change in non-cash working capital balances	**1,187**	(7,765)	**(26,320)**	(35,197)
	24,850	14,414	**11,246**	2,975
FINANCING ACTIVITIES				
Repayment of long-term debt	**—**	(1,709)	**—**	(3,757)
Dividends paid to Shareholders of the Corporation	**(3,607)**	(3,461)	**(7,224)**	(6,925)
Other dividends paid	**—**	—	**(193)**	(311)
Common shares issued	**230**	464	**528**	901
Common shares repurchased for cancellation	**(4,512)**	(662)	**(4,512)**	(5,196)
	(7,889)	(5,368)	**(11,401)**	(15,288)
INVESTING ACTIVITIES				
Business acquisitions	**(15,985)**	—	**(20,788)**	(2,041)
Additions to property, plant and equipment and intangible assets	**(2,450)**	(1,908)	**(4,287)**	(4,577)
	(18,435)	(1,908)	**(25,075)**	(6,618)
Effect of exchange rate changes on cash and cash equivalents	**164**	(102)	**69**	(29)
Net change in cash and cash equivalents and bank overdraft	**(1,310)**	7,036	**(25,161)**	(18,960)
Cash and cash equivalents (overdraft), beginning of period	**(16,443)**	3,166	**7,408**	29,162
Cash and cash equivalents (overdraft), end of period	**(17,753)**	10,202	**(17,753)**	10,202