

Quarterly Report

Three and nine-month periods ended August 31, 2023

MESSAGE TO SHAREHOLDERS

Richelieu achieved good results in the third quarter, driven by its strengths in innovation and service, by richelieu.com and its acquisition strategy that enabled it to achieve a good level of sales, slightly lower than in the third quarter of 2022. It should be reminded that in the market context resulting from the pandemic, the Corporation achieved strong internal sales growth of 16% in the third quarter of last year.

Total sales reached \$459.0 million, compared with \$472.9 million in the third quarter of 2022, a decrease of 2.9% resulting from a 4.6% internal decline, partly offset by a 1.7% positive contribution from acquisitions. Sales in Canada amounted to \$270.1 million, down 3.4% from the corresponding quarter of 2022, due to a 5.5% internal decrease, while acquisitions made a positive contribution of 2.1%. In the United States, the Corporation posted sales of US\$141.6 million, down 5.6% (US\$) from the third quarter of 2022. For the first nine months of 2023, sales were equivalent to the first nine months of 2022, totalling \$1.3 billion.

EBITDA amounted to \$61 million, the EBITDA margin was 13.3% and net earnings attributable to shareholders amounted to \$29.8 million, or \$0.53 diluted per share for the third quarter of 2023. The main factors that affected results in 2023 were the return to pre-pandemic levels of certain operating expenses, exceptional external warehousing costs associated with temporarily higher inventories and expenditures related to major expansion projects realized in order to accelerate future growth. For the first nine months of 2023, EBITDA was \$171.6 million, down 18.6%, and net earnings attributable to shareholders were \$1.47 diluted per share, compared with \$2.19 for the same period of 2022. Cash flow from operating activities generated \$103.5 million in the third quarter, for a year-to-date total of \$192.0 million, reflecting among other things decreasing inventory levels. At August 31, 2023, working capital stood at \$606 million, for a ratio of 3.4:1.

EXPANSION AND CONSOLIDATION PROJECTS

While integrating the six acquisitions closed since the beginning of 2023, Richelieu finalized the consolidation of its distribution centres in the Atlanta and Nashville area. Its expanded and modernized Seattle distribution centre is now fully operational and has broadened its offering with product ranges designed for this major market. The Pompano centre expansion project is progressing and the consolidation of its distribution centres in the Calgary area is scheduled for completion in the first quarter of 2024. Richelieu expects to close its fiscal year on November 30, 2023 with good results and a solid financial position. Its strategies of innovation and service, market penetration and business acquisitions remain its key drivers for future growth.

NEXT DIVIDEND PAYMENT

On October 5, 2023, the Board of Directors approved the payment of a quarterly dividend of \$0.15 per share. This dividend will be paid on November 2, 2023, to shareholders of record as at October 19, 2023.

PRESENTATION BASIS

This Management's Discussion and Analysis ("MD&A") relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the third quarter and first nine months ended August 31, 2023, compared with the third quarter and first nine months ended August 31, 2022, as well as to Richelieu Hardware Ltd.'s financial position as at August 31, 2023, compared with that of November 30, 2022. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the third quarter and first nine months of 2023 as well as the Corporation's fiscal 2022 MD&A and audited consolidated financial statements available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Corporation's website at www.richelieu.com. In this MD&A, "Richelieu" or the "Corporation" refers to, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, including certificates for the interim period ended August 31, 2023, signed by the Corporation's President and Chief Executive Officer and the Vice-President and Chief Financial Officer, is available on SEDAR. The information contained in this MD&A accounts for any major event that occurred prior to October 5, 2023, on which date the unaudited interim consolidated financial statements and interim MD&A were approved by the Corporation's Board of Directors. Unless otherwise indicated, the financial information presented below, including amounts shown in tables, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the third quarter and first nine months period ended August 31, 2023, have not been audited or reviewed by the Corporation's auditors.

NON-IFRS MEASURES

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

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

FORWARD-LOOKING STATEMENTS

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

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are given, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties set forth in the 2022 annual MD&A (see the "Risk Factors" section) available on SEDAR.

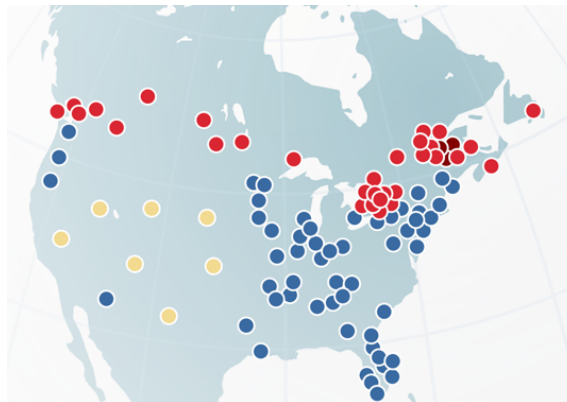
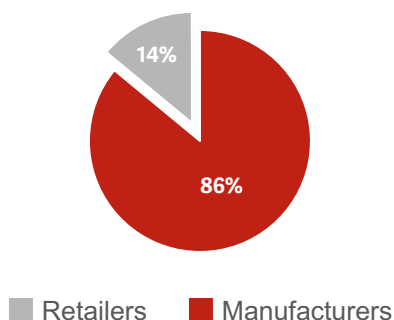
Richelieu's actual results could differ materially from those indicated in or underlying these forward-looking statements. The reader is therefore cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items,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

GENERAL BUSINESS OVERVIEW AS AT AUGUST 31, 2023

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

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 residential and commercial renovation industry is one of the Corporation's principal sources of growth.

Sales by market Q3-2023



Richelieu's offer	113 interconnected centres
Over 130,000 different items	50 DISTRIBUTION CENTRES IN CANADA 
More than 110,000 active customers	60 DISTRIBUTION CENTRES IN THE UNITED STATES 
4,800,000 sq.ft. of storage	3 MANUFACTURING PLANTS
	COVERAGE BY REPRESENTATIVES

Main product categories	
Furniture, glass and building decorative and functional hardware	Sliding door systems
	Decorative and functional panels
Lighting systems	High pressure laminates
Finishing and decoration products	Baluster and railings
Ergonomic workstations components	Floor protection products
Kitchen and closet storage solutions	Power tool accessories

Those products are targeted to an extensive customer base of **kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture, door and window manufacturers, residential and commercial woodworkers, as well as hardware retailers including renovation superstores.**

This offering is completed by the Corporation's three manufacturing subsidiaries : Les Industries Cedan Inc., Menuiserie des Pins Ltée and USIMM/UNIGRAV, which manufacture a variety of veneer sheets and edge banding products, a broad selection of decorative mouldings and components for the window and door industry as well as custom products, including a 3D scanning centre.

The Corporation employs close to 3,000 people at its head office and throughout its network, close to half of whom work in marketing, sales and customer service. Nearly 50% of the Corporation's employees are Richelieu shareholders.

MAIN TRADEMARKS



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 leader in its specialty market, the Corporation continues to implement the strategy that has proved beneficial to date, with a particular focus on:

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

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

THIRD QUARTER HIGHLIGHTS AND KEY FINANCIAL DATA

- **Sales** of \$459.0M, of which \$270.1M in Canada and \$US141.6M in the US.
- **EBITDA**¹ of \$61.0M; EBITDA margin of 13.3%.
- **Net earnings attributable to shareholders** of \$29.8M, or \$0.53 per diluted share.
- **Cash flows from operating activities** of \$103.5M.

NETWORK DEVELOPMENT

During the first nine months of 2023, Richelieu concluded the following acquisitions :

Date	Company Name	Nature of operations	Locations
January 1	Unigrav Inc. and Usimm Inc.	2 companies offering custom products, including a 3D scanning centre	Drummondville and Montreal, QC
January 4	Rabel Hardware Inc.	Hardware distributor	Terrebonne, QC
January 6	Trans-World Distributing Ltd.	Distributor of industrial fasteners	Dartmouth, NS
April 3	Maverick Hardware	Hardware distributor	Eugene, OR
April 30	Westlund Distributing	Hardware distributor	Monticello, MN

Sales of \$15.7M have been generated by these acquisitions. Had those acquisitions been made on December 1, 2022, management believes that sales included in the consolidated statement of earnings would have totalled approximately \$19.8M. The Corporation also moved its Fort Myers operations to a new centre that is now operational and opened two new centres located in Carlstadt, NJ and Minneapolis, MN. As for the expansion and modernization projects undertaken by Richelieu at several of its U.S. centres, namely in Atlanta, Nashville and Seattle as well as the new centre in Chicago serving the U.S. retailers market, they are now completed, and Pompano is progressing well. In the Calgary area, the Corporation will consolidate two of its centres and set up a premier showroom while increasing its service capacity in Western Canada, scheduled for completion in the first quarter of 2024.

¹ This financial measure is not IFRS compliant. Refer to non-IFRS section.

Operating and cash flow information (unaudited)

(in millions of dollars, except margins and per share data)	Quarters ended August 31			Nine months ended August 31		
	2023	2022	Δ %	2023	2022	Δ %
Sales	459.0	472.9	(2.9)	1,334.1	1,345.3	(0.8)
EBITDA¹	61.0	79.2	(23.0)	171.6	210.8	(18.6)
EBITDA margin (%)	13.3	16.7		12.9	15.7	
Net earnings attributable to shareholders of the Corporation	29.8	46.4	(35.7)	82.9	123.4	(32.8)
• basic per share (\$)	0.53	0.83	(36.1)	1.49	2.21	(32.6)
• diluted per share (\$)	0.53	0.82	(35.4)	1.47	2.19	(32.9)
Adjusted cash flows from operating activities¹	48.5	60.9	(20.4)	135.1	164.1	(17.7)
• diluted per share (\$) ¹	0.86	1.08	(20.4)	2.40	2.91	(17.5)
Dividends paid per share (\$)	0.15	0.13	15.4	0.45	0.39	15.4
Weighted average number of shares outstanding (diluted, in thousands)	56,346	56,240		56,225	56,387	

Information on the financial position

(in millions of dollars, except ratios)	As at August 31, 2023	As at November 30, 2022	Δ %
Total assets	1,302.5	1,283.9	1.5
Working capital	606.1	562.5	7.7
Current ratio	3.4:1	2.6:1	
Equity attributable to shareholders	880.8	817.2	7.8
Average return on shareholders' equity (%)	15.5	22.7	
Book value per share (\$)	15.75	14.65	7.5
Total debt	5.8	6.1	(4.0)
Bank overdraft net of cash and cash equivalents	14.5	112.0	

CA\$ / US\$ EXCHANGE RATES

The following table presents the average exchange rates applicable to the quarters and the first nine months ended August 31, 2023 and 2022, as well as the closing rates on August 31, 2023 and November 30, 2022. The average rates are used to convert income and expenses from foreign establishments for the periods covered while other items in the statements of financial position and earnings of Canadian entities are translated at the exchange rates in effect at the date of transaction. The closing rates are used to convert the assets and liabilities of foreign operations and the monetary assets and liabilities in foreign currencies of Canadian operations.

Average rate for the quarters ended August 31		Average rate for the nine months periods ended August 31		Closing rate	
2023	2022	2023	2022	As at August 31, 2023	As at November 30, 2022
1.333	1.289	1.346	1.277	1.353	1.351

¹ Financial measure not IFRS compliant. Refer to non-IFRS section.

ANALYSIS OF OPERATING RESULTS FOR THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2023, COMPARED WITH THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2022

(in millions of dollars, except per share data)	Quarter ended August 31			Nine months ended August 31		
	2023	2022	Δ %	2023	2022	Δ %
Sales	459.0	472.9	(2.9)	1,334.1	1,345.3	(0.8)
Operating expenses excluding amortization	398.0	393.7	1.1	1,162.5	1,134.5	2.5
EBITDA	61.0	79.2	(23.0)	171.6	210.8	(18.6)
Amortization of property, plant and equipment and right-of-use assets	13.0	10.0	30.5	36.4	27.7	31.7
Amortization of intangible assets	2.7	2.7	0.9	8.1	7.9	3.2
Net financial costs and other	3.1	2.1	50.1	11.0	4.3	157.4
	18.8	14.7	27.9	55.6	39.8	39.6
Earnings before income taxes	42.1	64.5	(34.6)	116.0	170.9	(32.1)
Income taxes	11.5	17.7	(35.2)	31.6	46.7	(32.4)
Net earnings	30.7	46.7	(34.4)	84.4	124.2	(32.0)

Net earnings attributable to:						
Shareholders of the Corporation	29.8	46.4	(35.7)	82.9	123.4	(32.8)
Non-controlling interests	0.8	0.4	127.9	1.5	0.8	89.8

Net earnings per share attributable to shareholders of the Corporation						
Basic	0.53	0.83	(36.1)	1.49	2.21	(32.6)
Diluted	0.53	0.82	(35.4)	1.47	2.19	(32.9)

Sales

The following table provides an overview of Richelieu's **sales** in its two main markets for the quarters ended August 31, 2023 and 2022 :

(in millions of dollars)	Quarters ended August 31		Δ %		
	2023	2022	Total	Internal	Acquisitions
Consolidated	459.0	472.9	(2.9)	(4.6)	1.7
Manufacturers	394.7	409.1	(3.5)	(5.5)	2.0
Retailers	64.3	63.8	0.8	0.9	(0.1)
Canada	270.1	279.6	(3.4)	(5.5)	2.1
Manufacturers	219.9	228.0	(3.6)	(6.1)	2.5
Retailers	50.2	51.6	(2.7)	(2.7)	—
United States	188.9	193.3	(2.3)		
In US\$	141.6	150.0	(5.6)	(6.6)	1.0
Manufacturers	131.0	140.6	(6.8)	(7.9)	1.1
Retailers	10.6	9.4	12.8	12.8	—

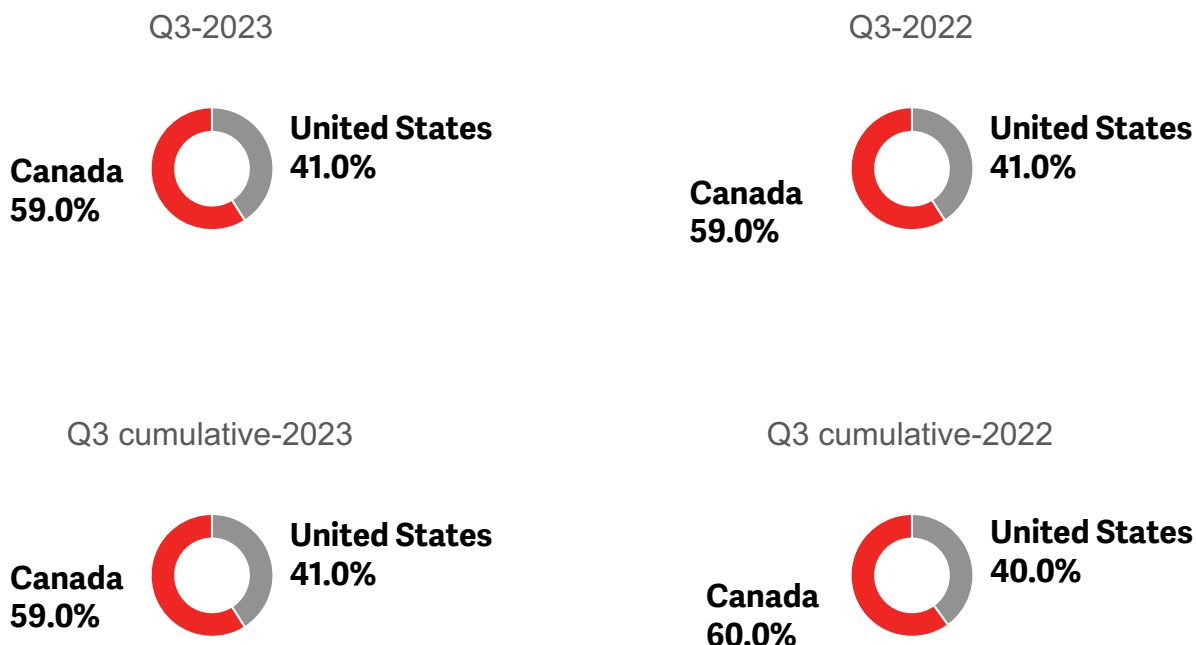
For the **third quarter** ended August 31, 2023, consolidated sales were \$459.0M, compared to \$472.9M for the third quarter of 2022, a decrease of \$13.9M, or 2.9%, resulting from an internal decrease of 4.6%, while the acquisitions made a positive contribution of 1.7%. It should be noted that in the third quarter of 2022, the Corporation had achieved a strong internal growth of 16%. In comparable currency to the third quarter of 2022, consolidated sales decrease would have been 4.3% for the quarter ended August 31, 2023.

The following table provides an overview of Richelieu's **sales** in its two main markets for the **first nine months** of 2023 and 2022 :

(in millions of dollars)	Nine months ended August 31		Δ %		
	2023	2022	Total	Internal	Acquisitions
Consolidated	1,334.1	1,345.3	(0.8)	(2.8)	2.0
Manufacturers	1,146.7	1,151.9	(0.5)	(2.8)	2.3
Retailers	187.4	193.4	(3.1)	(3.1)	—
Canada	780.6	801.2	(2.6)	(4.5)	1.9
Manufacturers	635.4	650.7	(2.4)	(4.7)	2.3
Retailers	145.2	150.5	(3.5)	(3.5)	—
United States	553.5	544.1	1.7		
In US\$	411.2	426.0	(3.5)	(5.5)	2.0
Manufacturers	379.8	392.4	(3.2)	(5.4)	2.2
Retailers	31.4	33.6	(6.5)	(6.5)	—

In the **first nine months** of 2023, consolidated sales reached \$1.3B\$, down \$11.2M or 0.8% over the first nine months of 2022, of which 2.0% from acquisitions and 2.8% from internal decrease. In comparable currency to the corresponding period of 2022, the decrease in consolidated sales would have been 2.9%.

Breakdown of sales by major markets (in Canadian dollars)



Operating expenses excluding amortization

For the **third quarter** ended August 31, 2023, operating expenses excluding amortization totalled \$398.0M, or 86.7% of sales, compared to \$393.7M, or 83.3% of sales, for the corresponding period in fiscal 2022. In monetary terms, the level of operating expenses increased slightly. This is explained by the increase of operating costs including costs related to external warehousing resulting from the temporary inventory increase, as well as the effect of the rise in the value of the US currency in relation to the Canadian currency on the translation of the operating expenses of the subsidiary located in the United States, offset by a slight decrease in inventories expensed as a result of lower sales. In addition, the results for the third quarter of 2022 included a foreign exchange gain of \$2.5M on the translation of monetary assets and liabilities, compared to a gain of \$51K for the quarter ended August 31, 2023.

For the **nine months** ended August 31, 2023, operating expenses excluding amortization totalled \$1.2B, or 87.1% of sales, compared to \$1.1B, or 84.3% of sales for the corresponding period in fiscal 2022. The variation is explained by operating expenses now approaching pre-pandemic levels, in addition to the elements mentioned above.

Earnings before income taxes, interest and amortization (EBITDA)

EBITDA for 2023 **third quarter** ended August 31, 2023, was \$61.0M, down \$18.2M or 23.0% from the corresponding quarter of 2022, mainly as a result of lower sales and higher operating expenses. Gross margin reduced slightly. As a result, the EBITDA margin was 13.3%, compared with 16.7% for the corresponding quarter of 2022.

EBITDA for the first **nine months** of fiscal 2023 was \$171.6M, down \$39.2M or 18.6% from the corresponding period of 2022.

Amortization, net financial costs and other

Amortization expense for the **third quarter** of 2023 amounted to \$15.7M, up \$3.1M over the corresponding period of 2022, as a result of the increase in property, plant and equipment and right-of-use assets stemming mainly from recent business acquisitions and expansion and modernization projects. Net financial costs and other were \$3.1M for the quarter, compared to \$2.1M in 2022, a variation of \$1.1M due to higher lease obligations resulting from acquisitions, expansion projects and lease renewals.

For the **first nine months** of 2023, amortization expense amounted to \$44.6M, up \$9.1M over the corresponding period of 2022. Net financial costs and other amounted to \$11.0M, compared to \$4.3M in the same period last year, resulting mainly from the use of lines of credit to finance acquisitions and expansion projects, as well as the temporary increase in inventories, plus the increase in financial costs on lease obligations resulting from the expansions projects, lease renewals and new acquisitions.

Income taxes

For the **third quarter** of 2023, income tax expense was \$11.5M, compared to an expense of \$17.7M in the same period last year, representing respectively effective tax rates of 27.2 % and 27.5%. For the **nine-month period**, income tax expense was \$31.6M compared to \$46.7M, representing effective tax rates of 27%.

Net earnings and comprehensive income

Third quarter net earnings were \$30.7M, down 34.4% from the prior year. Including non-controlling interests, net earnings attributable to shareholders of the Corporation were \$29.8M, down 35.7% from Q3 2022. Net earnings per share were \$0.53 basic and diluted, compared to \$0.83 basic and \$0.82 diluted for Q3 2022, down 36.1% and 35.4% respectively.

For the **nine-month period**, net earnings attributable to shareholders of the Corporation were \$82.9M, down 32.8% from the prior year. Net earnings per share were \$1.49 basic and \$1.47 diluted, compared to \$2.21 basic and \$2.19 diluted for the same period of 2022, down 32.6% and 32.9% respectively.

Comprehensive income amounted to \$29.3M, reflecting a negative adjustment of \$1.4M on translation of the financial statements of the subsidiary in the United States, compared to \$55.2M for the same period in 2022, which reflected a positive adjustment of \$8.5M on translation of the financial statements of the subsidiary in the United States. For the first **nine months**, comprehensive income totalled \$84.9M, compared to \$130.2M for the corresponding period of 2022.

Quarterly data

(in millions of dollars, except per share data)				
2023	Q1	Q2	Q3	Q4
Sales	403.0	472.1	459.0	
EBITDA	49.1	61.5	61.0	
Net earnings attributable to shareholders of the Corporation	22.4	30.7	29.8	
• basic per share (\$)	0.40	0.55	0.53	
• diluted per share (\$)	0.40	0.55	0.53	
2022	Q1	Q2	Q3	Q4
Sales	384.5	487.9	472.9	457.5
EBITDA	53.7	77.9	79.2	76.7
Net earnings attributable to shareholders of the Corporation	30.1	47.0	46.4	44.9
• basic per share (\$)	0.54	0.84	0.83	0.80
• diluted per share (\$)	0.53	0.83	0.82	0.80
2021	Q1	Q2	Q3	Q4
Sales	297.6	371.4	373.3	398.2
EBITDA	38.2	61.0	63.9	71.3
Net earnings attributable to shareholders of the Corporation	21.0	37.4	38.7	44.6
• basic per share (\$)	0.38	0.67	0.69	0.80
• diluted per share (\$)	0.37	0.66	0.69	0.79

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

Analysis of principal cash flows for the third quarter and first nine months ended August 31, 2023

(in millions of dollars)	Quarters ended August 31		Nine months ended August 31	
	2023	2022	2023	2022
Cash flows provided by (used in):				
Operating activities	103.5	2.7	192.0	(37.9)
Financing activities	(16.9)	(17.2)	(52.0)	(46.9)
Investing activities	(8.3)	(6.8)	(42.5)	(59.2)
Effect of exchange rate changes on cash and cash equivalents	0.2	(0.4)	0.1	(0.6)
Net change in cash and cash equivalents (bank overdraft)	78.6	(21.7)	97.5	(144.6)
Cash and cash equivalents (bank overdraft), beginning of period	(93.1)	(64.2)	(112.0)	58.7
Cash and cash equivalents (bank overdraft), end of period	(14.5)	(85.9)	(14.5)	(85.9)

Reconciliation of cash flow from operating activities to adjusted cash flow from operating activities :

(in millions of dollars)	Quarters ended August 31		Nine months ended August 31	
	2023	2022	2023	2022
Cash flow from operating activities	103.5	2.7	192.0	(37.9)
Net change in non-cash working capital balances (inflow)	(55.0)	58.2	(56.9)	202.0
Adjusted cash flows from operating activities	48.5	60.9	135.1	164.1

Operating activities

Third quarter adjusted cash flow from operating activities, (before net change in non-cash working capital balances), was \$48.5M or \$0.86 per diluted share compared to \$60.9M or \$1.08 per diluted share for the third quarter of 2022. This 20.4% decrease mainly reflects the decrease in net earnings. The net change in non-cash working capital items represented a cash inflow of \$55.1M, mainly reflecting decrease in inventories of \$24.5M, while accounts receivable, payables and other items represented cash inflows of \$30.6M. As a result, operating activities represented a cash inflow of \$103.5M, compared to a cash inflow of \$2.7M in Q3 2022.

For the first nine months, adjusted cash flow from operating activities, (before net change in non-cash working capital balances), was \$135.1M or \$2.40 per diluted share compared to \$164.1M or \$2.91 per diluted share for the first nine months of 2022. The net change in non-cash working capital items represented a cash inflow of \$56.8M, mainly reflecting the decrease in inventories which generated a cash inflow of \$74.4M, while accounts payable, income tax payable and other items used cash of \$17.6M. As a result, operating activities represented a cash inflow of \$192.0M, compared to a cash outflow of \$37.9M in the first nine months of 2022.

Financing activities

Third quarter cash flows from financing activities required a cash outflow of \$16.9M compared to \$17.2M in Q3 2022. During the quarter, the Corporation paid \$9.0M in lease obligations, \$8.4M in dividends to shareholders, and issued shares for \$1.3M compared to a lease payment of \$6.9M and a dividend payment of \$7.3M in Q3 2022.

In the **first nine months** of 2023, cash flows from financing activities used cash flows of \$52.0M, compared to \$46.9M in the first nine months of 2022. The Corporation repaid long-term debt of \$4.7M, paid lease obligations of \$24.7M and issued shares for \$3.9M, compared to a long-term debt repayment of \$4.4M, lease obligations payments of \$18.9M and a \$6.1M share issue in the first nine months of 2022. Dividends paid to shareholders of the Corporation amounted to \$25.1M compared to \$21.8M in the same period of 2022 while common shares repurchased amounted to \$0.8M in the first nine months of 2023, compared to \$7.9M in 2022.

Investing activities

Investing activities amounted to \$8.3M for the acquisition of various property, plant and equipment mainly related to the expansion projects as well as the purchase of equipment to maintain and improve operational efficiency.

In the **first nine months** of 2023, investing activities represented a total cash outflow of \$42.5M, including \$20.0M for the six business acquisitions made during the first nine months, and \$22.5M primarily for the purchase of new equipment to maintain and improve operational efficiency as well as for distribution centre expansion projects and IT infrastructure.

Sources of financing

As at August 31, 2023, the bank overdraft, net of cash and cash equivalents, was \$14.5M, compared to \$112.0M as at November 30, 2022. The Corporation had a **working capital** of \$606.1M, a ratio of 3.4:1, compared to \$562.5M (ratio of 2.6:1) as at November 30, 2022.

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 2023. The Corporation continues to benefit from an authorized line of credit of \$150M [\$150M as at November 30, 2022] as well as a line of credit of US\$56M [US\$56M as at November 30, 2022] renewable annually and bearing interest at the bank's prime and BSBY rate plus 1.05%, respectively. In addition, Richelieu considers it could access to other outside financing if necessary.

ANALYSIS OF FINANCIAL POSITION

(in millions of dollars)	As at August 31, 2023	As at November 30, 2022	Δ %
Current assets	858.7	910.8	(5.7)
Non-current assets	443.8	373.1	19.0
Total	1,302.5	1,283.9	1.5
Current liabilities	252.6	348.2	(27.5)
Non-current liabilities	165.9	115.8	43.3
Equity attributable to shareholders of the Corporation	880.8	817.2	7.8
Non-controlling interests	3.2	2.7	19.6
Total	1,302.5	1,283.9	1.5

Assets

Total assets were \$1.30B as at August 31, 2023, compared to \$1.28B as at November 30, 2022, an increase of 1.5%. Current assets were down 5.7% or \$52.1M from November 30, 2022 resulting mainly from the inventory reduction. Non-current assets increased by 19.0% mainly due to the addition of right-of-use assets, intangible assets and goodwill related to business acquisitions and expansion projects.

Liabilities

Current liabilities totalled \$252.6M as at August 31, 2023, a decrease of 27.5% compared to \$348.2M as at November 30, 2022, primarily reflecting repayment of the bank overdraft with cash flow generated from operating activities. Non-current liabilities totalled \$165.9M as at August 31, 2023 compared to \$115.8M as at November 30, 2022. The rise mainly reflects an increase in lease obligations. Long-term debt, including the current portion, was \$5.8M as at August 31, 2023 and primarily represents balances payable on acquisitions.

Shareholders' equity

The Corporation's shareholders' equity was \$880.8M as at August 31, 2023, compared to \$817.2M as at November 30, 2022, an increase of \$63.7M mainly due to increases of \$57.0M in retained earnings and \$6.1M in capital stock and contributed surplus, while accumulated other comprehensive income increased by \$0.5M. As at August 31, 2023, the book value per share was \$15.75, up 7.5% from November 30, 2022.

Share capital and stock options

As at August 31, 2023, the Corporation's share capital consisted of 55,925,490 common shares [55,784,790 shares as at November 30, 2022]. For the three and nine-month periods ended August 31, 2023, the weighted average number of diluted shares outstanding was 56,346,260 and 56,225,410 [56,240,120 and 56,386,990 in 2022]. In addition, 1,789,300 stock options were outstanding as at August 31, 2023 [November 30, 2022 - 1,679,000].

The following table presents the changes in outstanding share capital and stock options for the nine-month period ended August 31, 2023:

Number of shares		Number of options	
Outstanding, as at November 30, 2022	55,784,790	Outstanding, as at November 30, 2022	1,679,000
Issued upon exercise of options	160,700	Exercised	(160,700)
Repurchased	(20,000)	Granted	306,500
Other	—	Cancelled	(35,500)
Outstanding, as at August 31, 2023	55,925,490	Outstanding, as at August 31, 2023	1,789,300

FINANCIAL INSTRUMENTS

Richelieu periodically enters into forward exchange contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables or to hedge forecasted purchase transactions. The Corporation has a policy of not entering into derivatives for speculative or trading purposes and to enter into such contracts only with major financial institutions. Richelieu also uses equity swaps to reduce the effect of fluctuations in its share price on net earnings in connection with its deferred share unit plan.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As indicated in the 2022 annual MD&A, available on SEDAR, management has designed and evaluated internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") to provide reasonable assurance that the Corporation's financial reporting is reliable and that its publicly disclosed financial statements are prepared in accordance with IFRS. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have assessed, within the meaning of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings*, the design and the effectiveness of internal controls over financial reporting as at November 30, 2022. In light of this assessment, they concluded that the design and the effectiveness of internal controls over financial reporting ("ICFR and DC&P") were effective. During the quarter ended August 31, 2023, management ensured that there were no material changes in the Corporation's procedures that were reasonably likely to have a material impact on its internal control over financial reporting. No such changes were identified.

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

SIGNIFICANT ACCOUNTING POLICIES

The Corporation's interim consolidated financial statements for the quarter ended August 31, 2023, have been prepared by management in accordance with IFRS.

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing its consolidated financial statements as at November 30, 2022 and for the year then ended, which require management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and appearing in the accompanying notes, which could be modified. The estimates are based on management's knowledge of current events, on the measures the Corporation could take in the future and on other factors deemed relevant and reasonable.

Risk factors are described in the "Risk Factors" section of Richelieu's 2022 annual report and MD&A, available on SEDAR and on the Corporation's website at www.richelieu.com.

SUPPLEMENTARY INFORMATION

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

President and Chief
Executive Officer



Richard Lord

Vice-President and Chief
Financial Officer



Antoine Auclair

October 5, 2023

Interim Consolidated Financial Statements

Richelieu Hardware Ltd.

For the three and nine-month periods ended August 31, 2023

[Unaudited]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars] [Unaudited]


		As at August 31, 2023	As at November 30, 2022
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		25,384	21,220
Accounts receivable		221,540	222,238
Income taxes receivable		7,682	—
Inventories		594,228	660,242
Prepaid expenses		9,850	7,071
		858,684	910,771
Non-current assets			
Property, plant and equipment		63,578	54,832
Intangible assets		70,045	66,603
Right-of-use assets		166,008	116,204
Goodwill		134,970	127,457
Deferred taxes		9,206	7,998
		1,302,491	1,283,865
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft		39,878	133,208
Accounts payable and accrued liabilities		171,714	169,913
Income taxes payable		—	10,749
Current portion of long-term debt		3,441	5,208
Current portion of lease obligations		37,531	29,145
		252,564	348,223
Non-current liabilities			
Long-term debt		2,384	859
Lease obligations		141,342	95,705
Deferred taxes		11,998	10,052
Other liabilities		10,201	9,204
		418,489	464,043
Equity			
Share capital	3	66,566	61,829
Contributed surplus		9,789	8,400
Retained earnings		776,233	719,185
Accumulated other comprehensive income	4	28,226	27,743
Equity attributable to shareholders of the Corporation		880,814	817,157
Non-controlling interests		3,188	2,665
		884,002	819,822
		1,302,491	1,283,865

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board of Directors:



Richard Lord
Director



Luc Martin
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the three and nine-month periods ended August 31 [In thousands of dollars, except earnings per share]

[Unaudited]

		For the three months ended August 31,		For the nine months ended August 31,	
		2023	2022	2023	2022
	Notes	\$	\$	\$	\$
Sales		458,993	472,883	1,334,105	1,345,284
Operating expenses excluding amortization	5	398,017	393,703	1,162,515	1,134,521
Earnings before amortization, financial costs and income taxes		60,976	79,180	171,590	210,763
Amortization of property, plant and equipment and right-of-use assets		12,986	9,950	36,440	27,667
Amortization of intangible assets		2,697	2,674	8,129	7,879
Net financial costs and other		3,147	2,097	11,011	4,277
		18,830	14,721	55,580	39,823
Earnings before income taxes		42,146	64,459	116,010	170,940
Income taxes		11,482	17,727	31,570	46,698
Net earnings		30,664	46,732	84,440	124,242
Net earnings attributable to:					
Shareholders of the Corporation		29,823	46,363	82,927	123,445
Non-controlling interests		841	369	1,513	797
		30,664	46,732	84,440	124,242
Net earnings per share attributable to shareholders of the Corporation					
Basic		0.53	0.83	1.49	2.21
Diluted		0.53	0.82	1.47	2.19

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine-month periods ended August 31 [In thousands of dollars]

[Unaudited]

		For the three months ended August 31,		For the nine months ended August 31,	
		2023	2022	2023	2022
	Notes	\$	\$	\$	\$
Net earnings		30,664	46,732	84,440	124,242
Other comprehensive income (loss) that will be reclassified to net earnings					
Exchange differences on translation of foreign operations	4	(1,410)	8,479	483	5,988
Comprehensive income		29,254	55,211	84,923	130,230
Comprehensive income attributable to:					
Shareholders of the Corporation		28,413	54,842	83,410	129,433
Non-controlling interests		841	369	1,513	797
		29,254	55,211	84,923	130,230

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine-month periods ended August 31 [In thousands of dollars]
[Unaudited]

	Attributable to shareholders of the Corporation						
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
	\$	\$	\$	\$	\$	\$	\$
Notes	3			4			
Balance as at November 30, 2021	54,610	7,046	590,522	14,264	666,442	2,495	668,937
Net earnings	—	—	123,445	—	123,445	797	124,242
Other comprehensive income	—	—	—	5,988	5,988	—	5,988
Comprehensive income	—	—	123,445	5,988	129,433	797	130,230
Shares repurchased	(229)	—	(7,673)	—	(7,902)	—	(7,902)
Stock options exercised	7,299	(1,245)	—	—	6,054	—	6,054
Share-based compensation expense	—	1,986	—	—	1,986	—	1,986
Dividends [note 8]	—	—	(21,823)	—	(21,823)	—	(21,823)
Other liabilities	—	—	35	—	35	(327)	(292)
	7,070	741	(29,461)	—	(21,650)	(327)	(21,977)
Balance as at August 31, 2022	61,680	7,787	684,506	20,252	774,225	2,965	777,190
Balance as at November 30, 2022	61,829	8,400	719,185	27,743	817,157	2,665	819,822
Net earnings	—	—	82,927	—	82,927	1,513	84,440
Other comprehensive income	—	—	—	483	483	—	483
Comprehensive income	—	—	82,927	483	83,410	1,513	84,923
Shares repurchased	(22)	—	(751)	—	(773)	—	(773)
Stock options exercised	4,759	(870)	—	—	3,889	—	3,889
Share-based compensation expense	—	2,259	—	—	2,259	—	2,259
Dividends [note 8]	—	—	(25,128)	—	(25,128)	(625)	(25,753)
Other liabilities	—	—	—	—	—	(365)	(365)
	4,737	1,389	(25,879)	—	(19,753)	(990)	(20,743)
Balance as at August 31, 2023	66,566	9,789	776,233	28,226	880,814	3,188	884,002

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	For the three months ended August 31,		For the nine months ended August 31,	
		2023	2022	2023	2022
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net earnings		30,664	46,732	84,440	124,242
Items not affecting cash					
Amortization of property, plant and equipment and right-of-use assets		12,986	9,950	36,440	27,667
Amortization of intangible assets		2,697	2,674	8,129	7,879
Deferred taxes		(357)	(160)	(1,110)	(463)
Share-based compensation expense	3	624	696	2,259	1,986
Financial costs		1,836	1,001	4,980	2,808
		48,450	60,893	135,138	164,119
Net change in non-cash working capital balances		55,081	(58,235)	56,828	(202,007)
		103,531	2,658	191,966	(37,888)
FINANCING ACTIVITIES					
Repayment of long-term debt		(108)	(3,135)	(4,712)	(4,393)
Dividends paid to shareholders of the Corporation	8	(8,387)	(7,267)	(25,128)	(21,823)
Payment of lease obligations		(9,022)	(6,893)	(24,662)	(18,864)
Other dividends paid		(625)	—	(625)	—
Common shares issued		1,252	128	3,889	6,054
Common shares repurchased for cancellation		—	—	(773)	(7,902)
		(16,890)	(17,167)	(52,011)	(46,928)
INVESTING ACTIVITIES					
Business acquisitions	2	—	—	(20,004)	(42,432)
Additions to property, plant and equipment and intangible assets		(8,286)	(6,770)	(22,544)	(16,781)
		(8,286)	(6,770)	(42,548)	(59,213)
Effect of exchange rate changes on cash and cash equivalents		212	(413)	87	(596)
Net change in cash and cash equivalents (bank overdraft)		78,567	(21,692)	97,494	(144,625)
Cash and cash equivalents (bank overdraft), beginning of period		(93,061)	(64,226)	(111,988)	58,707
Cash and cash equivalents (bank overdraft), end of period		(14,494)	(85,918)	(14,494)	(85,918)
Supplementary information					
Income taxes paid		9,118	14,426	51,051	56,455
Net interest paid		1,311	1,096	6,031	2,105

See accompanying notes to the interim consolidated financial statements.

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2023 and 2022 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

NATURE OF BUSINESS

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

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing the annual consolidated financial statements as at November 30, 2022 and for the year then ended, and their preparation requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future and other factors deemed relevant and reasonable. In management's opinion, these interim consolidated financial statements reflect all the adjustments required for a fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year as the operating level of the Corporation is subject to seasonal fluctuations. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the Corporation's annual report for the fiscal year ended November 30, 2022.

2. BUSINESS ACQUISITIONS

2023

Effective January 1, 2023, the Corporation acquired all issued and outstanding share capital of Unigrav Inc. and Usimm Inc., two companies offering custom products, including a 3D scanning service, for the architectural and industrial market, respectively located in Drummondville and Montreal, QC.

Effective January 4, 2023, the Corporation acquired all issued and outstanding share capital of Quincaillerie Rabel Inc., a specialty hardware distributor operating one distribution centre in Terrebonne, QC.

Effective January 6, 2023, the Corporation acquired all issued and outstanding share capital of Trans-World Distributing Ltd., a distributor of industrial fasteners for the industrial market operating one distribution centre in Dartmouth, NS.

Effective April 3, 2023, the Corporation acquired the principal net assets of Maverick Hardware, a distributor of specialized hardware operating one distribution centre in Eugene, OR.

Effective April 30, 2023, the Corporation acquired the principal net assets of Westlund Distributing, a distributor of specialized hardware operating one distribution centre in Monticello, MN.

Sales of \$15.7 million have been generated by these acquisitions. Had those acquisitions been made on December 1, 2022, management believes that sales included in the consolidated statement of earnings would have totalled approximately \$19.8 million.

2022

On September 2, 2022, the Corporation closed a transaction pertaining to the acquisition of all issued and outstanding share capital of Quincaillerie Deno, a distributor of specialized hardware products operating one distribution centre located in Anjou, QC.

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

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

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

Summary of acquisitions

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

	2023
	\$
Current assets acquired	10,956
Property, plant and equipment and right-of-use assets	2,974
Intangible assets	9,236
Goodwill	7,467
	30,633
Current liabilities assumed	(2,561)
Non-current liabilities assumed	(1,451)
Deferred tax liabilities	(1,912)
Non-controlling interests	(625)
Net assets acquired	24,084
Consideration	
Cash, net of cash acquired	20,004
Consideration payable	4,080
	24,084

Goodwill deductible for tax purposes with regard to these acquisitions amounted to \$1.3 million.

Preliminary purchase price allocations are subject to fair value adjustments to assets, liabilities and goodwill until the

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2023 and 2022 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

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

3. SHARE CAPITAL**Authorized**

Unlimited number of:

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

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

Changes in common shares are summarized as follows:

<i>In thousands</i>	Number of shares	\$
Outstanding, as at November 30, 2021	55,842	54,610
Issued	271	7,580
Repurchased	(327)	(361)
Outstanding, as at November 30, 2022	55,786	61,829
Issued	161	4,759
Repurchased	(20)	(22)
Outstanding, as at August 31, 2023	55,927	66,566

During the nine-month period ended August 31, 2023, the Corporation issued 160,700 common shares [fiscal 2022 - 271,000] at an average exercise price of \$24.20 per share [fiscal 2022 - \$23.19] pursuant to the exercise of stock options under the stock option plan. In addition, the Corporation repurchased 20,000 common shares for cancellation for a consideration of \$773 [327,329 common shares for a consideration of \$12,289 in fiscal 2022], which resulted in a premium on the redemption in the amount of \$751 recognized as a reduction of retained earnings [premium of \$11,928 in fiscal 2022].

Stock option plan

Changes in stock options are summarized as follows:

	Number of options	Weighted average exercise price
<i>(in thousands)</i>		\$
Outstanding, as at November 30, 2021	1,691	27.14
Granted	276	43.57
Exercised	(271)	23.19
Cancelled	(16)	34.03
Outstanding, as at November 30, 2022	1,680	30.50
Granted	307	37.39
Exercised	(161)	24.20
Cancelled	(36)	36.46
Outstanding, as at August 31, 2023	1,790	30.79

Stock options granted during the nine-month period ended August 31, 2023 have an average fair value of \$9.18 per option [2022 - \$12.37] as determined using the Black & Scholes option pricing model with an expected dividend yield of 1.4% [2022 - 1.2%], expected volatility of 24.3% [2022 - 23.1%], a risk-free interest rate of 2.75% [2022 - 1.84%] and an expected life of 6.5 years [2022 - 6.2 years]. For the three and nine-month periods ended August 31, 2023, the compensation expense related to stock options amounted to \$624 and \$2,259 [2022 - \$696 and \$1,986] and is recognized under *Operating expenses excluding amortization*. As at August 31, 2023, the exercise price of stock options outstanding varied between \$14.50 and \$43.57 [between \$12.71 and \$43.57 as at November 30, 2022].

Deferred Share Unit Plan (DSU)

The liability resulting from the DSU plan of \$7,308 [November 30, 2022 - \$8,940] is recognized under the *Accounts payable and accrued liabilities*. As at August 31, 2023, the fair value of the swaps amounted to a liability of \$178 [November 30, 2022 - asset of \$618] and is recognized under *Accounts payable and accrued liabilities*. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data. Compensation expense for the DSUs for the three and nine-month periods ended August 31, 2023 amounted to \$323 and \$642 [2022 - \$187 and \$573] and is recognized under *Operating expenses excluding amortization*.

Share Purchase Plan

Compensation expense related to the share purchase plan amounted to \$322 and \$906 for the three and nine-month periods ended August 31, 2023 [2022 - \$247 and \$698] and is recognized under *Operating expenses excluding amortization*.

Net earnings per share

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

	For the three months ended August 31,		For the nine months ended August 31,	
<i>In thousands</i>	2023	2022	2023	2022
Weighted average number of shares outstanding - Basic	55,900	55,896	55,839	55,936
Dilutive effect under stock option plan	446	344	386	451
Weighted average number of shares outstanding - Diluted	56,346	56,240	56,225	56,387

For the three and nine-month periods ended August 31, 2023, the calculation of the diluted earnings per share does not take into account the weighted average of 258,750 stock options since their exercise price is higher than the average share price for the periods and would have an anti-dilutive effect [272,500 anti-dilutive stock options in 2022].

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2023 and 2022 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

4. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	For the three months ended August 31,		For the nine months ended August 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Balance at the beginning of the period	29,636	11,773	27,743	14,264
Exchange differences on translation of foreign operations	(1,410)	8,479	483	5,988
Balance at the end of the period	28,226	20,252	28,226	20,252

5. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

Fair value

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

As at August 31, 2023, forward contracts were nil [an asset of \$193 as at November 30, 2022].

Credit risk

The Corporation sells its products to numerous customers in Canada and in the United States. Credit risk refers to the possibility that customers will be unable to assume their liabilities toward the Corporation. The average collection period for accounts receivable, as at August 31, 2023, is acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluation of customers and generally does not require collateral. The allowance for doubtful accounts increased by \$672 and \$1,814 [2022 - \$830 and \$2,297] during the three and nine-month periods ended August 31, 2023, to a total of \$9,263 as at August 31, 2023 [November 30, 2022 - \$7,449].

Market risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and in euros. Operating expenses include, for the three and nine-month periods ended August 31, 2023, an exchange gain of \$51 and a gain of \$695 [2022 - foreign exchange gain of \$2,487 and \$4,899].

As part of its business practices, the Corporation aims to preserve the purchase costs and the selling prices of its commercial activities. To protect its operations from exposure to exchange rate risks, the Corporation uses, among other things, a centralized cash flow management. The Corporation may also periodically use forward foreign exchange contracts. By implementing these measures, the Corporation seeks to protect operating results from exposure to exchange rate fluctuations. The Corporation's business practices in terms of foreign exchange risk management does not allow speculative trades.

As at August 31, 2023, a decrease of 5% in the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased consolidated net earnings by \$1,023 [as at August 31, 2022 - \$1,575] and would have increased other comprehensive income by \$9,813 [as at August 31, 2022 - \$9,377]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at August 31, 2023.

Liquidity risk

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

The Corporation also benefits from an authorized line of credit of \$150 million [\$150 million as at November 30, 2022] as well as a line of credit of US\$56 million [US\$56 million as at November 30, 2022].

Operating expenses excluding amortization

	For the three months ended August 31,		For the nine months ended August 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Inventories from distribution, imports and manufacturing activities recognized as an expense	335,127	337,810	976,159	969,779
Salaries and related expenses	58,865	54,523	173,783	157,724
Other expenses	4,025	1,370	12,573	7,018
	398,017	393,703	1,162,515	1,134,521

For the three and nine-month periods ended August 31, 2023, the amounts of inventories expensed as a result of importing, distribution and manufacturing activities included an inventory obsolescence charge of \$1,562 and \$4,639 [2022 - \$1,542 and \$4,401].

6. CAPITAL MANAGEMENT

The Corporation's objectives are:

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

The Corporation manages and makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. As at August 31, 2023, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.7% [0.7% as at November 30, 2022] [Long-term debt/equity]

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2023 and 2022 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

- Average return on shareholders' equity of 15.5% over the last 12 months [22.7% for the year ended November 30, 2022]

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

7. GEOGRAPHIC INFORMATION

During the three and nine-month periods ended August 31, 2023, nearly 59% of sales were made in Canada [2022 - 60%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to \$188,852 and \$553,527 [2022 - \$193,315 and \$544,133] in Canadian dollars, and to \$141,577 and \$411,162 [2022 - \$149,961 and \$426,080] in US dollars.

As at August 31, 2023, property, plant and equipment in the amount of \$27,697 [November 30, 2022 - \$19,635] were located in the United States. In addition, intangible assets located in the United States amounted to \$28,344 [November 30, 2022 - \$30,037] and goodwill amounted to \$31,486 [November 30, 2022 - \$30,190] in Canadian dollars and to \$20,947 [November 30, 2022 - \$22,236] and \$23,270 [November 30, 2022 - \$22,350] respectively, in US dollars. Of the total amount of right-of-use assets, \$111,664 [November 30, 2022 - \$74,495] were located in the United States.

8. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three and nine-month periods ended August 31, 2023, the Corporation paid dividends of \$8,387 and \$25,128 to holders of common shares [2022 - \$7,267 and \$21,823], representing a quarterly dividend of \$0.15 per common share [quarterly dividend of \$0.13 per common share in 2022].

9. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and nine-month periods ended August 31, 2023 (including the comparative figures) were approved for issue by the Board of Directors on October 5, 2023.

10. COMPARATIVE FIGURES

Some figures disclosed for the three and nine-month periods ended August 31, 2022, have been reclassified to conform to the presentation adopted for the three and nine-month periods ended August 31, 2023.