



Interim Report

3

Three- and nine-month periods
ended August 31, 2022

MESSAGE TO SHAREHOLDERS

Richelieu continued to grow in the third quarter ended August 31, 2022, delivering a solid financial performance in line with previous periods. Our steady growth and impeccable financial position attest to the efficiency of our business model, tailored to the specific needs of our diversified customer base, our ability to react quickly and adapt to changing market conditions, as well as our resolute focus on customer service. Our results reflect the substantial benefits from our acquisition, diversification, and market development strategies in specialized segments that complement our activities. In this regard, after the quarter ended, we completed our fourth acquisition since the beginning of the fiscal year, Quincaillerie Deno, a Quebec distributor of specialty hardware products. In addition, we signed indications of interest for three new acquisitions, two in Canada and one in the United States. Combined, this recent acquisition and these transactions in progress would represent some \$23 million in additional annual sales.

All of our Canadian market segments and the U.S. manufacturing market contributed to the quarter's 26.7% sales increase, with 15.8% from internal growth and 10.9% from acquisitions, for a total of \$472.9 million. We posted sales of \$279.6 million in our Canadian markets, up 14.8% over the same quarter in 2021, with 13.8% coming from internal growth. It should be noted that sales in our U.S. markets rose by a substantial 43.7% (US\$), with 15.3% from internal growth and 28.4% from acquisitions. This accounted for 41% of total sales for the quarter. For the first nine months of the year, sales totalled \$1.3 billion, up 29.1% over the same nine-month period in 2021, with 16.2% from internal growth and 12.9% from acquisitions.

We achieved an EBITDA of \$79.2 million in the third quarter, up 23.8% over the same quarter in 2021. Net income attributable to shareholders totalled \$46.4 million, or \$0.82 diluted per share, up 18.8% over the same period in 2021. For the first nine months of 2022, EBITDA was \$210.8 million, up 29.3%, and the EBITDA margin rose slightly to 15.7%. Net income attributable to shareholders amounted to \$123.4 million, or \$2.19 diluted per share, up 27.3% over the first nine months of 2021.

Richelieu ended the first nine months of 2022 in a strong, sound financial position. Adjusted cash flow from operating activities was \$164.1 million or \$2.91 diluted per share, up 29.3% over the corresponding period in 2021. Working capital increased by 15.2% over November 30, 2021, to \$525.7 million, with a ratio of 2.8:1, and return on average equity increased to 24.1%, vs. 23.3% at the end of 2021.

To continue to create and seize short- and long-term growth opportunities, we are pursuing a number of expansion projects in the United States, where we currently operate 57 strategically located distribution centres. In addition to expanding our Fort Myers, Atlanta, and Chicago locations, we are expanding our distribution centres in Pompano and Nashville, and planning to open new ones in Carlstadt and Minneapolis. We are currently integrating our recent acquisitions in accordance with our efficiency and performance optimization criteria while pursuing our strategies of expansion, innovation, and market development in North America with a quality of service that sets us apart in our markets.

NEXT DIVIDEND PAYMENT

On October 6, 2022, the Board of Directors approved the payment of a quarterly dividend of \$0.13 per share. This dividend will be paid on November 3, 2022, to shareholders of record as at October 20, 2022.

Management's discussion and analysis

of operating results and financial position for the third quarter and first nine months ended August 31, 2022



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, 2022, compared with the third quarter and first nine months ended August 31, 2021, as well as to Richelieu Hardware Ltd.'s financial position as at August 31, 2022, compared with that of November 30, 2021. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the third quarter and first nine months of 2022 as well as the Corporation's fiscal 2021 MD&A and audited consolidated financial statements available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Corporation's website at www.richelieu.com. In this MD&A, "Richelieu" or the "Corporation" refers to, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, including certificates for the interim period ended August 31, 2022, signed by the Corporation's President and Chief Executive Officer and the Vice-President and Chief Financial Officer, is available on SEDAR. The information contained in this MD&A accounts for any major event that occurred prior to October 6, 2022, on which date the unaudited interim consolidated financial statements and interim MD&A were approved by the Corporation's Board of Directors. Unless otherwise indicated, the financial information presented below, including amounts shown in tables, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the third quarter and first nine months period ended August 31, 2022, have not been audited or reviewed by the Corporation's auditors.

NON-IFRS MEASURES

Richelieu uses earnings before interest, income taxes and amortization ("EBITDA") as we believe this measure enables management to assess the Corporation's operational performance. This measure is a widely accepted performance indicator of a corporation's ability to service and incur debt. However, EBITDA should not be considered by an investor as an alternative to operating income or net earnings attributable to shareholders of the Corporation, as an indicator of cash flows or as a measure of liquidity. Since EBITDA does not have a standardized meaning prescribed by IFRS, it may not be comparable to the EBITDA of other companies. Richelieu also uses adjusted cash flows from operating activities and adjusted cash flows from operating activities per share. Adjusted cash flows from operating activities are based on net earnings plus the amortization of property, plant and equipment, intangible assets and right-of-use asset, deferred tax expense (or recovery), share-based compensation expense and financial costs. These additional measures do not consider the net change in non-cash working capital items in order to exclude seasonality effects and are used by management in its assessments of cash flows from long-term operations. Therefore, adjusted cash flows from operating activities may not be comparable to the cash flows from operating activities of other companies.

FORWARD-LOOKING STATEMENTS

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

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are given, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties set forth in the 2021 annual MD&A (see the "Risk Factors" section) available on SEDAR.

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

GENERAL BUSINESS OVERVIEW

as at August 31, 2022

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

Its products are targeted to an extensive customer base of **kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture, door and window manufacturers, residential and commercial woodworkers, as well as hardware retailers including renovation superstores**. The residential and commercial renovation industry is one of the Corporation's principal sources of growth.

Richelieu offers customers a broad mix of products sourced from manufacturers worldwide. The solid relationships Richelieu has built with the world's leading suppliers enable it to provide customers with the latest innovative products tailored to their business needs. The Corporation's product selection consists of **over 130,000 different items** targeting a **base of more than 100,000 active customers** served by **106 centers across North America**, of which 47 distribution centers in Canada, 57 distribution centers in the United States and two manufacturing plants in Canada.

Main product categories include furniture, glass and building decorative and functional hardware, lighting systems, finishing and decorative products, ergonomic workstation components, kitchen and closet storage solutions, sliding door systems, decorative and functional panels, high-pressure laminates, railing and baluster, floor protection products as well as accessories for power tools. This offering is completed by the Corporation's two manufacturing subsidiaries, Les Industries Cedan Inc. and Menuiserie des Pins Ltée, which manufacture a variety of veneer sheets and edge banding products as well as a broad selection of decorative mouldings and components for the window and door industry. Many of the Corporation's products are manufactured according to its specifications and those of its customers.

The Corporation employs over 2,800 people at its head office and throughout its network, close to half of whom work in marketing, sales and customer service. Nearly 50% of the Corporation's employees are Richelieu shareholders.

MISSION AND STRATEGY

Richelieu's mission is to create shareholder value and contribute to its customers' growth and success, while favouring a business culture focused on quality of service and results, partnership and intrapreneurship.

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

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

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

FINANCIAL HIGHLIGHTS

(unaudited)

Periods ended August 31

	3 months			9 months		
(in thousands of \$, except per-share amounts, number of shares and data expressed as a %)	2022	2021	Δ (%)	2022	2021	Δ (%)
	\$	\$		\$	\$	
Sales	472,883	373,298	+26.7	1,345,284	1,042,263	+29.1
EBITDA ⁽¹⁾	79,180	63,937	+23.8	210,763	163,053	+29.3
EBITDA margin (%)	16.7	17.1		15.7	15.6	
Net earnings	46,732	38,908	+20.1	124,242	97,501	+27.4
Net earnings attributable to shareholders of the Corporation	46,363	38,749	+19.6	123,445	97,158	+27.1
• basic per share (\$)	0.83	0.69	+20.3	2.21	1.74	+27.0
• diluted per share (\$)	0.82	0.69	+18.8	2.19	1.72	+27.3
Net margin attributable to shareholders of the Corporation (%)	9.8	10.4		9.2	9.3	
Adjusted cash flows from operating activities ⁽²⁾	60,893	49,324	+23.5	164,119	127,277	+28.9
• diluted per share (\$)	1.08	0.87	+24.1	2.91	2.25	+29.3
Dividends paid to the shareholders of the Corporation ⁽³⁾	7,267	3,914	+85.7	21,823	15,465	+41.1
• per share (\$) (excluding the special dividend) ⁽³⁾	0.1300	0.0700	+85.7	0.3900	0.2100	+85.7
Weighted average number of shares outstanding (diluted) (in thousands)	56,240	56,566		56,387	56,475	

Financial position data

As at	August 31	November 30	
	2022	2021	
	\$	\$	Δ (%)
Total assets	1,185,919	964,180	+23.0
Working capital	525,677	456,376	+15.2
Current ratio	2.8 : 1	3.3 : 1	
Equity attributable to shareholders of the Corporation	774,225	666,442	+16.2
Average return on Shareholders' equity (%)	24.1 %	23.3 %	
Book value per share (\$)	13.85	11.93	+16.1
Total debt	5,445	6,439	
Cash and cash equivalents (bank overdraft)	(85,918)	58,707	

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

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

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

ANALYSIS OF OPERATING RESULTS FOR THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2022, COMPARED WITH THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2021

Consolidated sales (in thousands of \$, except exchange rates)						
Periods ended August 31	3 months			9 months		
	2022	2021		2022	2021	
	\$	\$	Δ (%)	\$	\$	Δ (%)
Canada	279,568	243,432	+14.8	801,151	684,724	+17.0
United States (CA\$)	193,315	129,866	+48.9	544,133	357,539	+52.2
(US\$)	149,961	104,334	+43.7	426,080	285,643	+49.2
Average exchange rate	1.2891	1.2447		1.2771	1.2517	
Consolidated sales	472,883	373,298	+26.7	1,345,284	1,042,263	+29.1

Third-quarter consolidated sales reached \$472.9 million, compared to \$373.3 million for the corresponding quarter of 2021, an increase of \$99.6 million or 26.7%, of which 15.8% from internal growth and 10.9% from acquisitions. At comparable exchange rates to the third quarter of 2021, the consolidated sales increase would have been 24.9% for the quarter ended August 31, 2022.

Richelieu achieved sales of \$409.6 million in the **manufacturers** market, compared to \$313.5 million for the third quarter of 2021, an increase of \$96.1 million or 30.7%, of which 17.7% from internal growth and 13.0% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at \$63.3 million, up \$3.5 million or 5.9% over the third quarter of 2021, entirely from internal growth.

In Canada, Richelieu recorded sales of \$279.6 million, an increase of \$36.2 million or 14.8% over the third quarter of 2021, of which 13.8% from internal growth and 1.0% from acquisitions. Sales to **manufacturers** amounted to \$228.0 million, compared to \$197 million in the third quarter of 2021, an increase of 15.7%, of which 14.5% from internal growth and 1.2% from acquisitions. Sales to hardware **retailers** and renovation superstores reached \$51.6 million, up \$5.2 million or 11.2% over the corresponding quarter of 2021, entirely from internal growth.

In the United States, sales totalled US\$150.0 million, compared to US\$104.3 million for the third quarter of 2021, up US\$45.7 million or 43.7%, of which 15.3% from internal growth and 28.4% from acquisitions. Sales to **manufacturers** amounted to US\$140.9 million, compared to US\$93.5 million, an increase of 50.7% over the third quarter of 2021, of which 18.7% from internal growth and 32.0% from acquisitions. Sales in US\$ to hardware **retailers** and renovation superstores reached \$9.1 million. Total U.S. sales in Canadian dollars stood at \$193.3 million, compared to \$129.9 million in the third quarter of 2021, an increase of 48.9%. These sales accounted for 40.9% of consolidated sales for the third quarter of 2022, compared to 34.8% of consolidated sales for the third quarter of 2021.

For the first nine months, consolidated sales reached \$1.3 billion, an increase of \$303.0 million or 29.1% over the first nine months of 2021, of which 16.2% from internal growth and 12.9% from acquisitions. At comparable exchange rates to the first nine months of 2021, the consolidated sales increase would have been 28.0%.

Sales to **manufacturers** reached \$1.2 billion, compared to \$865.1 million for the first nine months of 2021, an increase of \$288.2 million or 33.3%, of which 19.4% from internal growth and 13.9% from acquisitions. Sales to hardware **retailers** and renovation superstores grew by 8.4% or \$14.8 million to total \$192.0 million.

In Canada, Richelieu recorded sales of \$801.2 million, compared to \$684.7 million for the first nine months of 2021, up \$116.5 million or 17.0%, of which 12.8% from internal growth and 4.2% from acquisitions. Sales to **manufacturers** reached \$650.7 million, up \$98.2 million or 17.8%, of which 15.0% from internal growth and 2.8% from acquisitions. Sales to hardware **retailers** and renovation superstores reached \$150.5 million, compared to \$132.2 million, up \$18.3 million or 13.8% over the first nine months of 2021.

In the United States, the Corporation recorded sales of US\$426.1 million, compared to US\$285.7 million for the first nine months of 2021, an increase of US\$140.4 million or 49.2%, of which 20.3% from internal growth and 28.9% from acquisitions. Sales to **manufacturers** totalled US\$393.6 million, compared to US\$249.7 million, an increase of US\$143.9 million or 57.6% over the first nine months of 2021, of which 24.8% from internal growth and 32.8% from acquisitions. Sales to hardware **retailers** and renovation superstores were down 9.7% from the corresponding period of 2021. Total U.S. sales in Canadian dollars amounted to \$544.1 million, compared to \$357.5 million for the corresponding nine months of 2021, an increase of 52.2%. They accounted for 40.4% of consolidated sales for the first nine months of 2022, compared to 34.3% of consolidated sales for the first nine months of 2021.

Consolidated EBITDA and EBITDA margin (in thousands of \$, unless otherwise indicated)						
Periods ended August 31	3 months			9 months		
	2022	2021		2022	2021	
	\$	\$	Δ (%)	\$	\$	Δ (%)
Sales	472,883	373,298	+26.7	1,345,284	1,042,263	+29.1
EBITDA	79,180	63,937	+23.8	210,763	163,053	+29.3
EBITDA margin (%)	16.7	17.1		15.7	15.6	

Third quarter earnings before income taxes, interest and amortization ("EBITDA") reached \$79.2 million and were up \$15.2 million or 23.8% over the third quarter of 2021, resulting mainly from increased sales. **Gross margin** decreased slightly from the third quarter of 2021 and **EBITDA margin** stood at 16.7%, compared to 17.1% for the corresponding quarter of 2021.

Amortization expense for the third quarter of 2022 amounted to \$12.6 million, up \$3.3 million compared to the corresponding quarter of 2021, resulting from the increase in amortizable intangibles as well as in right-of-use assets relating mainly to recent business acquisitions as well as to renewals and expansions carried out during the previous periods. **Income tax expense** amounted to \$17.7 million, up \$2.7 million from the third quarter of 2021. **Net financial costs and other** amounted to \$2.1 million.

For the first nine months, EBITDA totalled \$210.8 million, up \$47.7 million or 29.3% over the first nine months of 2021. **Gross margin** declined slightly over the corresponding nine-month period of 2021. As for **EBITDA margin**, it stood at 15.7%, compared to 15.6% for the first nine months of 2021.

Amortization expense for the first nine months of 2022 amounted to \$35.5 million, up \$9.2 million compared to the same period of 2021, resulting from business acquisitions and expansions. **Income tax expense** amounted to \$46.7 million, up \$9.4 million from the first nine months of 2021. **Net financial costs and other** amounted to \$4.3 million for the first nine months of 2022 compared to \$1.9 million, up \$2.3 million, resulting mainly from the use of lines of credit.

Consolidated net earnings attributable to shareholders						
(in thousands of \$, unless otherwise indicated)						
	3 months			9 months		
Periods ended	2022	2021		2022	2021	
August 31	\$	\$	Δ (%)	\$	\$	Δ (%)
EBITDA	79,180	63,937	+23.8	210,763	163,053	+29.3
Amortization of property, plant and equipment, intangible assets and right-of-use assets	12,624	9,300		35,546	26,346	
Net financial costs and other	2,097	656		4,277	1,943	
Income taxes	17,727	15,073		46,698	37,263	
Net earnings	46,732	38,908	+20.1	124,242	97,501	+27.4
Net earnings attributable to shareholders of the Corporation	46,363	38,749	+19.6	123,445	97,158	+27.1
Net margin attributable to the shareholders of the Corporation (%)	9.8	10.4		9.2	9.3	
Non-controlling interests	369	159		797	343	
Net earnings	46,732	38,908	+20.1	124,242	97,501	+27.4

Third quarter net earnings grew 20.1%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to \$46.4 million, up 19.6% over the third quarter of 2021. **Net earnings per share** rose to \$0.83 basic and \$0.82 diluted, compared to \$0.69 basic and diluted for the third quarter of 2021, increases of 20.3% and 18.8%, respectively.

Third quarter comprehensive income amounted to \$55.2 million, considering a positive adjustment of \$8.5 million on translation of the financial statements of the subsidiary in the United States, compared to \$45.4 million for the third quarter of 2021, considering a positive adjustment of \$6.5 million on translation of the financial statements of the subsidiary in the United States.

For the first nine months, net earnings increased 27.4%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled \$123.4 million, up 27.1% over the corresponding nine months of 2021. **Net earnings per share** amounted to \$2.21 basic and \$2.19 diluted, compared to \$1.74 basic and \$1.72 diluted for the first nine months of 2021, up 27.0% and 27.3%, respectively.

For the first nine months, comprehensive income totalled \$130.2 million, considering a positive adjustment of \$6.0 million on translation of the financial statements of the subsidiary in the United States, compared to \$93.9 million for the first nine months of 2021, considering a negative adjustment of \$3.6 million on translation of the financial statements of the subsidiary in the United States.

SUMMARY OF QUARTERLY RESULTS				
(unaudited)				
(in thousands of \$, except per-share amounts)				
Quarters	1	2	3	4
2022				
o Sales	384,466	487,935	472,883	
o EBITDA	53,728	77,855	79,180	
o Net earnings attributable to shareholders of the Corporation	30,098	46,984	46,363	
• basic per share (\$)	0.54	0.84	0.83	
• diluted per share (\$)	0.53	0.83	0.82	
2021				
o Sales	297,581	371,384	373,298	398,153
o EBITDA	38,162	60,954	63,937	71,345
o Net earnings attributable to shareholders of the Corporation	20,984	37,425	38,749	44,606
• basic per share (\$)	0.38	0.67	0.69	0.80
• diluted per share (\$)	0.37	0.66	0.69	0.79
2020				
o Sales	249,401	248,253	311,171	319,015
o EBITDA	24,883	33,770	49,083	46,725
o Net earnings attributable to shareholders of the Corporation	11,772	17,707	28,651	27,092
• basic per share (\$)	0.21	0.31	0.51	0.48
• diluted per share (\$)	0.21	0.31	0.50	0.48

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

FINANCIAL POSITION

Analysis of principal cash flows for the third quarter and first nine months ended August 31, 2022

(in thousands of \$, unless otherwise indicated)				
Periods ended August 31	3 months		9 months	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cash flows provided by (used in):				
Operating activities	2,658	34,467	(37,888)	90,349
Financing activities	(17,167)	(17,972)	(46,928)	(41,806)
Investing activities	(6,770)	(39,578)	(59,213)	(56,306)
Effect of exchange rate changes on cash and cash equivalents	(413)	179	(596)	517
Net change in cash and cash equivalents (bank overdraft)	(21,692)	(22,904)	(144,625)	(7,246)
Cash and cash equivalents (bank overdraft), beginning of period	(64,226)	89,586	58,707	73,928
Cash and cash equivalents (bank overdraft), end of period	(85,918)	66,682	(85,918)	66,682
	As at August 31, 2022		As at November 30, 2021	
	\$		\$	
Working capital	525,677		456,376	
Renewable line of credit (CA\$)	130,000		65,000	
Renewable line of credit (US\$)	36,000		6,000	

Operating activities

Third quarter cash flows from operating activities (before net change in non-cash working capital balances) amounted to \$60.9 million or \$1.08 diluted per share, an increase of 23.5%, compared to \$49.3 million, or \$0.87 diluted per share for the corresponding quarter of 2021, stemming primarily from the net earnings growth. Net change in non-cash working capital balances used cash flows of \$58.2 million, reflecting the increase in inventories of \$92.6 million, whereas change in accounts receivable and other items represented cash inflows of \$34.4 million. Consequently, operating activities represented a cash inflow of \$2.7 million, compared to a cash inflow of \$34.5 million in the third quarter of 2021.

For the first nine months, cash flows from operating activities (before net change in non-cash working capital balances) reached \$164.1 million or \$2.91 diluted per share, compared to \$127.3 million or \$2.25 diluted per share for the first nine months of 2021, an increase of 28.9%. Net change in non-cash working capital balances used cash flows of \$202.0 million, primarily representing changes in inventories that used cash flows of \$190.9 million whereas accounts receivable and other items used cash flows of \$11.1 million. Consequently, operating activities used cash flows of \$37.9 million, compared to a cash inflow of \$90.3 million for the first nine months of 2021.

Financing activities

Third quarter cash flows from financing activities used cash flows of \$17.2 million, compared to \$18.0 million for the third quarter of 2021. The Corporation paid lease obligations of \$6.9 million, dividends to shareholders of \$7.3 million and repaid long-term debt of \$3.1 million compared to lease obligation payments of \$4.9 million and dividends payments of \$3.9 million in the third quarter of 2021. The Corporation also repurchased common shares for an amount of \$9.8 million in the third quarter of 2021.

For the first nine months, cash flows from financing activities used cash flows of \$46.9 million, compared to \$41.8 million in the first nine months of 2021. The Corporation repaid long-term debt of \$4.4 million, paid lease obligations of \$18.9 million and issued shares for \$6.1 million, compared to a long-term debt repayment of \$3.1 million, lease obligations payments of \$14.2 million and a \$4.6 million share issue in the first nine months of 2021. Dividends paid to shareholders of the Corporation amounted to \$21.8 million compared to \$15.5 million in the same period of 2021 and common shares repurchased amounted to \$7.9 million in the first nine months of 2022, compared to \$13.1 million in 2021.

Investing activities

Third quarter cash flows from investing activities represented a cash outflow of \$6.8 million primarily for the purchase of new equipment to maintain and improve operational efficiency, including additions resulting from ongoing expansion projects.

For the first nine months, cash flows from investing activities represented a total cash outflow of \$59.2 million, including \$42.4 million for the three business acquisitions made during the first quarter and \$16.8 million primarily for the purchase of new equipment to maintain and improve operational efficiency, as well as investments in IT infrastructure and expansion projects.

Sources of financing

As at August 31, 2022, the bank overdraft amounted to \$85.9 million, compared with cash of \$58.7 million as at November 30, 2021. The Corporation posted a **working capital** of \$525.7 million for a current ratio of 2.8:1, compared with \$456.4 million (current ratio of 3.3:1) as at November 30, 2021.

Richelieu believes it has the capital resources to fulfill its ongoing commitments and obligations and to assume the funding requirements needed for its growth and the expected financing and investing activities between now and the end of 2022. The Corporation continues to benefit from an authorized line of credit of \$130 million [\$65 million as at November 30, 2021] as well as a line of credit of US\$36 million [\$6 million as at November 30, 2021] renewable annually and bearing interest at prime and base rates, respectively. In addition, Richelieu considers it could obtain additional external financing if necessary.

Analysis of financial position as at August 31, 2022

(in thousands of \$, except exchange rates)		
As at	August 31, 2022	November 30, 2021
	\$	\$
Current assets	825,482	659,179
Non-current assets	360,437	305,001
Total	1,185,919	964,180
Current liabilities	299,805	202,803
Non-current liabilities	108,924	92,440
Equity attributable to shareholders of the Corporation	774,225	666,442
Non-controlling interests	2,965	2,495
Total	1,185,919	964,180
<i>Exchange rates on translation of a subsidiary in the United States</i>	1.311	1.279

Assets

Total assets amounted to \$1.2 billion as at August 31, 2022, compared with \$964.2 million as at November 30, 2021, an increase of 23.0%. **Current assets** grew by 25.2% or \$166.3 million over November 30, 2021. This increase stems from the addition of current assets following the business acquisitions made during the first quarter and from the rise in inventories resulting from the increase in demand and in supply costs. **Non-current assets** increased 18.2% mainly due to the addition of intangible assets and goodwill related to the business acquisitions.

Cash position		
(in thousands of \$)		
As at	August 31 2022	November 30 2021
	\$	\$
Current portion of long-term debt	5,350	5,339
Long-term debt	95	1,100
Total debt	5,445	6,439
<i>Cash and cash equivalents (bank overdraft)</i>	(85,918)	58,707

The Corporation continues to benefit from a healthy and solid financial position. As at August 31, 2022, **total debt** was \$5.4 million, mainly representing balances payable on acquisitions.

Equity attributable to shareholders of the Corporation totalled \$774.2 million as at August 31, 2022, compared with \$666.4 million as at November 30, 2021, an increase of \$107.8 million stemming primarily from growth of \$94.0 million in retained earnings to \$684.5 million and of \$7.8 million in share capital and contributed surplus, whereas accumulated other comprehensive income increased \$6.0 million. As at August 31, 2022, the **book value per share** was \$13.85, up by 16.1% over November 30, 2021.

As at August 31, 2022, at the close of markets, the Corporation's **share capital** consisted of 55,896,915 common shares [55,841,119 shares as at November 30, 2021]. Weighted average of diluted outstanding shares for the three and nine-month periods ended August 31, 2022, were 56,240,120 and 56,386,990 [2021 - 56,566,200 and 56,474,900]. During the first nine months of 2022, the Corporation issued 263,125 common shares at an average exercise price of \$23.02 [263,925 in fiscal 2021 at an average exercise price of \$19.54] upon the exercise of stock options under its stock option plan. In addition, the Corporation repurchased for cancellation 207,329 common shares in the normal course of operations for a cash consideration of \$7.9 million [316,374 common shares for a cash consideration of \$13.1 million in fiscal 2021].

During the first nine months ended August 31, 2022, the Corporation granted 276,000 stock options [289,000 in fiscal 2021] and cancelled 10,375 stock options. As at August 31, 2022, 1,693,625 stock options were outstanding [1,691,125 as at November 30, 2021].

CONTRACTUAL COMMITMENTS

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

FINANCIAL INSTRUMENTS

Richelieu periodically enters into forward exchange contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables or to hedge forecasted purchase transactions. The Corporation has a policy of not entering into derivatives for speculative or negotiation purposes and to enter into these contracts only with major financial institutions.

Richelieu also uses equity swaps to reduce the effect of fluctuations in its share price on net earnings in connection with its deferred share unit plan.

SUBSEQUENT EVENT

On September 2, 2022, the Corporation closed a transaction pertaining to the acquisition of all issued and outstanding shares of Quincaillerie Deno, a distributor of specialized hardware products operating a distribution center located in Anjou, Quebec.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As indicated in the 2021 annual MD&A, available on SEDAR, management has designed and evaluated internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") to provide reasonable assurance that the Corporation's financial reporting is reliable and that its publicly-disclosed financial statements are prepared in accordance with IFRS. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have assessed, within the meaning of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings*, the design and the effectiveness of internal controls over financial reporting as at November 30, 2021. In light of this assessment, they concluded that the design and the effectiveness of internal controls over financial reporting ("ICFR and DC&P") were effective. During the quarter ended August 31, 2022, management ensured that there were no material changes in the Corporation's procedures that were reasonably likely to have a material impact on its internal control over financial reporting. No such changes were identified.

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

SIGNIFICANT ACCOUNTING POLICIES

The Corporation's interim consolidated financial statements for the quarter ended August 31, 2022, have been prepared by management in accordance with IFRS.

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing its consolidated financial statements as at November 30, 2021 and for the year then ended, which require management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial

statements and appearing in the accompanying notes, which could be modified. The estimates are based on management's knowledge of current events, on the measures the Corporation could take in the future and on other factors deemed relevant and reasonable.

Risk factors are described in the "Risk Factors" section of Richelieu's 2021 annual report and MD&A, available on SEDAR and on the Corporation's website at www.richelieu.com.

SUPPLEMENTARY INFORMATION

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



Richard Lord

President and Chief Executive
Officer



Antoine Auclair

Vice-President and Chief
Financial Officer

October 6, 2022

Interim Consolidated Financial Statements

Richelieu Hardware Ltd.

For the three and nine-month periods ended August 31, 2022

[Unaudited]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars] [Unaudited]


		As at August 31, 2022	As at November 30, 2021
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		—	58,707
Accounts receivable		214,359	199,585
Inventories		603,953	395,464
Prepaid expenses		7,170	5,423
		825,482	659,179
Non-current assets			
Property, plant and equipment		52,328	46,239
Intangible assets		67,155	53,910
Right-of-use assets		108,192	87,013
Goodwill		125,093	110,776
Deferred taxes		7,669	7,063
		1,185,919	964,180
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft		85,918	—
Accounts payable and accrued liabilities		169,454	155,009
Income taxes payable		12,134	21,281
Current portion of long-term debt		5,350	5,339
Current portion of lease obligations		26,949	21,174
		299,805	202,803
Non-current liabilities			
Long-term debt		95	1,100
Lease obligations		89,145	71,880
Deferred taxes		9,758	9,868
Other liabilities		9,926	9,592
		408,729	295,243
Equity			
Share capital	3	61,680	54,610
Contributed surplus		7,787	7,046
Retained earnings		684,506	590,522
Accumulated other comprehensive income	4	20,252	14,264
Equity attributable to shareholders of the Corporation		774,225	666,442
Non-controlling interests		2,965	2,495
		777,190	668,937
		1,185,919	964,180

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board of Directors:



Richard Lord
Director



Luc Martin
Director

CONSOLIDATED STATEMENTS OF EARNINGS

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

[Unaudited]

	Notes	For the three months ended August 31,		For the nine months ended August 31,	
		2022	2021	2022	2021
		\$	\$	\$	\$
Sales		472,883	373,298	1,345,284	1,042,263
Operating expenses excluding amortization	5	393,703	309,361	1,134,521	879,210
Earnings before amortization, financial costs and income taxes		79,180	63,937	210,763	163,053
Amortization of property, plant and equipment and right-of-use assets		9,950	7,291	27,667	21,167
Amortization of intangible assets		2,674	2,009	7,879	5,179
Net financial costs and other		2,097	656	4,277	1,943
		14,721	9,956	39,823	28,289
Earnings before income taxes		64,459	53,981	170,940	134,764
Income taxes		17,727	15,073	46,698	37,263
Net earnings		46,732	38,908	124,242	97,501
Net earnings attributable to:					
Shareholders of the Corporation		46,363	38,749	123,445	97,158
Non-controlling interests		369	159	797	343
		46,732	38,908	124,242	97,501
Net earnings per share attributable to shareholders of the Corporation					
Basic		0.83	0.69	2.21	1.74
Diluted		0.82	0.69	2.19	1.72

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]

	Notes	For the three months ended August 31,		For the nine months ended August 31,	
		2022	2021	2022	2021
		\$	\$	\$	\$
Net earnings		46,732	38,908	124,242	97,501
Other comprehensive income (loss) that will be reclassified to net earnings					
Exchange differences on translation of foreign operations	4	8,479	6,540	5,988	(3,609)
Comprehensive income		55,211	45,448	130,230	48,444
Comprehensive income attributable to:					
Shareholders of the Corporation		54,842	45,289	129,433	93,549
Non-controlling interests		369	159	797	343
		55,211	45,448	130,230	93,892

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]

Notes	Attributable to shareholders of the Corporation				Total \$	Non- controlling interests \$	Total equity \$
	Share capital \$	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$			
	3			4			
Balance as at November 30, 2020	48,522	6,280	480,808	15,484	551,094	3,349	554,443
Net earnings	—	—	97,158	—	97,158	343	97,501
Other comprehensive loss	—	—	—	(3,609)	(3,609)	—	(3,609)
Comprehensive income (loss)	—	—	97,158	(3,609)	93,549	343	93,892
Shares repurchased	(295)	—	(12,799)	—	(13,094)	—	(13,094)
Stock options exercised	5,713	(1,070)	—	—	4,643	—	4,643
Share-based compensation expense	—	1,458	—	—	1,458	—	1,458
Dividends [note 8]	—	—	(15,465)	—	(15,465)	(511)	(15,976)
Other liabilities	—	—	—	—	—	(90)	(90)
Acquisition of non controlling interest			123		123	(725)	(602)
	5,418	388	(28,141)	—	(22,335)	(1,326)	(23,661)
Balance as at August 31, 2021	53,940	6,668	549,825	11,875	622,308	2,366	624,674
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	—	—	—	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 and other	—	—	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

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,	
		2022	2021	2022	2021
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net earnings		46,732	38,908	124,242	97,501
Items not affecting cash					
Amortization of property, plant and equipment and right-of-use assets		9,950	7,291	27,667	21,167
Amortization of intangible assets		2,674	2,009	7,879	5,179
Deferred taxes		(160)	(78)	(463)	(209)
Share-based compensation expense	3	696	482	1,986	1,458
Financial costs		1,001	712	2,808	2,181
		60,893	49,324	164,119	127,277
Net change in non-cash working capital balances		(58,235)	(14,857)	(202,007)	(36,928)
		2,658	34,467	(37,888)	90,349
FINANCING ACTIVITIES					
Repayment of long-term debt		(3,135)	—	(4,393)	(3,139)
Dividends paid to shareholders of the Corporation	8	(7,267)	(3,914)	(21,823)	(15,465)
Payment of lease obligations		(6,893)	(4,939)	(18,864)	(14,240)
Other dividends paid		—	—	—	(511)
Common shares issued		128	718	6,054	4,643
Common shares repurchased for cancellation		—	(9,837)	(7,902)	(13,094)
		(17,167)	(17,972)	(46,928)	(41,806)
INVESTING ACTIVITIES					
Business acquisitions	2	—	(34,387)	(42,432)	(44,229)
Additions to property, plant and equipment and intangible assets		(6,770)	(5,191)	(16,781)	(12,077)
		(6,770)	(39,578)	(59,213)	(56,306)
Effect of exchange rate changes on cash and cash equivalents		(413)	179	(596)	517
Net change in cash and cash equivalents and bank overdraft		(21,692)	(22,904)	(144,625)	(7,246)
Cash and cash equivalents (bank overdraft), beginning of period		(64,226)	89,586	58,707	73,928
Cash and cash equivalents (bank overdraft), end of period		(85,918)	66,682	(85,918)	66,682
Supplementary information					
Income taxes paid		14,426	7,994	56,455	29,325
Net interest paid		2,097	656	4,913	1,943

See accompanying notes to the interim consolidated financial statements.

Notes to interim consolidated financial statements (unaudited)

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

NATURE OF BUSINESS

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

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's interim consolidated financial statements, presented in Canadian dollars, have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"], and more specifically with IAS34, *Interim Financial Reporting*.

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing the annual consolidated financial statements as at November 30, 2021 and for the year then ended, and their preparation requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future and other factors deemed relevant and reasonable. In management's opinion, these interim consolidated financial statements reflect all the adjustments required for a fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year as the operating level of the Corporation is subject to seasonal fluctuations. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the Corporation's annual report for the fiscal year ended November 30, 2021.

2. BUSINESS ACQUISITIONS

2022

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

Effective December 31, 2021, the Corporation acquired the principal net assets of HGH Hardware Supply, a distributor of specialized hardware operating four distribution centres, 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.

Sales of \$82.2 million have been generated by these acquisitions. Had those acquisitions been made on December 1, 2021, management believes that sales included in the consolidated statement of earnings would have totalled approximately \$92.5 million.

2021

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

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

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

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

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

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

Summary of acquisitions

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

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

Goodwill deductible for tax purposes with regard to these acquisitions amounted to \$13,536.

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

Notes to interim consolidated financial statements (unaudited)

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

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, 2020	55,894	48,522
Issued	264	6,383
Repurchased	(316)	(295)
Outstanding, as at November 30, 2021	55,842	54,610
Issued	263	7,299
Repurchased	(207)	(229)
Outstanding, as at August 31, 2022	55,898	61,680

During the nine-month period ended August 31, 2022, the Corporation issued 263,125 common shares [in fiscal year 2021 - 263,925] at an average exercise price of \$23.02 per share [in fiscal year 2021 - \$19.54] pursuant to the exercise of stock options under the stock option plan. In addition, the Corporation, repurchased 207,329 common shares for cancellation for a consideration of \$7,902 [316,374 common shares for a consideration of \$13,094 in fiscal 2021], which resulted in a premium on the redemption in the amount of \$7,673 recognized as a reduction of retained earnings [premium of \$12,799 in fiscal 2021].

Stock option plan

Changes in stock options are summarized as follows:

	Number of options <i>(in thousands)</i>	Weighted average exercise price \$
Outstanding, as at November 30, 2020	1,699	24.81
Granted	289	34.84
Exercised	(264)	19.54
Cancelled	(33)	30.25
Outstanding, as at November 30, 2021	1,691	27.14
Granted	276	43.57
Exercised	(263)	23.02
Cancelled	(10)	32.99
Outstanding, as at August 31, 2022	1,694	30.52

Stock options granted during the nine-month period ended August 31, 2022 have an average fair value of \$12.37 per option [2021 - \$9.04] as determined using the Black & Scholes option pricing model with an expected dividend yield of 1.2% [2021 - 0.8%], expected volatility of 23.1% [2021 - 22.9%], a risk-free interest rate of 1.84% [2021 - 0.80%] and an expected life of 6.2 years [2021 - 6.9 years]. For the three and nine-month periods ended August 31, 2022, the compensation expense related to stock options amounted to \$696 and \$1,986 [2021 - \$482 and \$1,458] and is recognized under *Operating expenses excluding amortization*. As at August 31, 2022, the exercise price of stock options outstanding varied between \$12.71 and \$43.57 [between \$9.14 and \$34.84 as at November 30, 2021].

Deferred Share Unit Plan (DSU)

The liability resulting from the DSU plan of \$7,891 [November 30, 2021 - \$8,949] is recognized under the *Accounts payable and accrued liabilities*. As at August 31, 2022, the fair value of the swaps amounted to a liability of \$264 [November 30, 2021 - a liability of \$164] and is recognized under *Accounts payable*. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data. Compensation expense for the DSUs for the three and nine-month periods ended August 31, 2022 amounted to \$187 and \$573 [2021 - \$189 and \$632] and is recognized under *Operating expenses excluding amortization*.

Share Purchase Plan

Compensation expense related to the share purchase plan amounted to \$112 and \$730 for the three and nine-month periods ended August 31, 2022 [2021 - \$197 and \$559] 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:

<i>In thousands</i>	For the three months ended August 31,		For the nine months ended August 31,	
	2022	2021	2022	2021
Weighted average number of shares outstanding - Basic	55,896	55,943	55,936	55,918
Dilutive effect under stock option plan	344	623	451	557
Weighted average number of shares outstanding - Diluted	56,240	56,566	56,387	56,475

For the three and nine-month periods ended August 31, 2022, the calculation of the diluted earnings per share does not take into account the weighted average of 272,500 stock options since their exercise price is higher than the average share price for the periods and would have an anti-dilutive effect. [No anti-dilutive stock option in 2021].

4. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	For the three months ended August 31,		For the nine months ended August 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Balance at the beginning of the period	11,773	5,335	14,264	15,484
Exchange differences on translation of foreign operations	8,479	6,540	5,988	(3,609)
Balance at the end of the period	20,252	11,875	20,252	11,875

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

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

As at August 31, 2022, the fair value of the foreign exchange forward contracts amounted to an asset of approximately \$2 [an asset of \$59 as at November 30, 2021] representing the approximate amount the Corporation would receive on

Notes to interim consolidated financial statements (unaudited)

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

settlement of these contracts at spot rates. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data.

Credit Risk

The Corporation sells its products to numerous customers in Canada and 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, 2022, is acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluation of customers and generally does not require collateral. The allowance for doubtful accounts increased by \$830 and \$2,297 [2021 - \$334 and \$1,617] during the three and nine-month periods ended August 31, 2022, to a total of \$8,468 as at August 31, 2022 [November 30, 2021 - \$6,171].

Market Risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and in euros. Operating expenses included, for the three and nine-month periods ended August 31, 2022, exchange gain of \$2,487 and \$4,899 [2021 - foreign exchange gain of \$1,684 and \$1,503].

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

As at August 31, 2022, a decrease of 5% in the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased consolidated net earnings by \$1,575 [as at August 31, 2021 - \$749] and would have increased the consolidated comprehensive income by \$9,377 [as at August 31, 2021 - \$6,923]. The exchange rate sensitivity is calculated by aggregating the net foreign exchange rate exposure of the Corporation's financial instruments as at August 31, 2022.

Liquidity Risk

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

The Corporation amended the credit agreement and now benefits from an authorized line of credit of \$130 million [\$65 million as at November 30, 2021] as well as a line of credit of US\$36 million [US\$6 million as at November 30, 2021]. The restrictive conditions and covenants remain unchanged.

Operating expenses excluding amortization

	For the three months ended August 31,		For the nine months ended August 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Inventories expensed as a result of distribution, importation and manufacturing activities	336,520	264,414	966,304	749,328
Salaries and related expenses	54,523	42,741	157,724	120,914
Other expenses	2,660	2,206	10,493	8,968
	393,703	309,361	1,134,521	879,210

For the three and nine-month periods ended August 31, 2022, expense of \$1,542 and \$4,401 [2021 - \$1,281 and \$3,701] for inventory obsolescence is included in Inventories expensed as a result of distribution, importation and manufacturing activities.

6. CAPITAL MANAGEMENT

The Corporation's objectives are :

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

The Corporation manages and makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. As at August 31, 2022, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.7 % [1.0 % as at November 30, 2021] [Long-term debt/Equity]
- Average return on shareholders' equity of 24.1% over the last 12 months [23.3% for the year ended November 30, 2021]

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

7. GEOGRAPHIC INFORMATION

During the three and nine-month periods ended August 31, 2022, nearly 60% of sales were made in Canada [2021 - 66%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to \$193,315 and \$544,133 [2021 - \$129,866 and \$357,539] in Canadian dollars, and to \$149,961 and \$426,080 [2021 - \$104,334 and \$285,643] in US dollars.

As at August 31, 2022, property, plant and equipment in the amount of, \$16,564 [November 30, 2021 - \$9,582] were located in the United States. In addition, intangible assets located in the United States amounted to \$30,205 [November 30, 2021 - \$13,514] and goodwill to \$29,271 [November 30, 2021 - \$14,954] in Canadian dollars and to \$23,038 [November 30, 2021 - \$10,565] and to \$22,326 [November 30, 2021 - \$11,690] respectively, in US dollars. Of the total amount of right-of-use assets, \$66,421 [November 30, 2021 - \$45,993] were located in the United States.

Notes to interim consolidated financial statements (unaudited)

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

8. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three and nine-month periods ended August 31, 2022, the Corporation paid dividends of \$7,267 and \$21,823 to holders of common shares [2021 - \$3,914 and \$15,465], representing a quarterly dividend of \$0.1300 per common share [quarterly dividend of \$0.0700 per share and a special quarterly dividend of \$0.0667 in the first quarter of 2021].

9. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and nine-month periods ended August 31, 2022 (including the comparative figures) were approved for issue by the Board of Directors on October 6, 2022.

10. SUBSEQUENT EVENT

On September 2, 2022, the Corporation closed a transaction pertaining to the acquisition of all issued and outstanding shares of Quincaillerie Deno, a distributor of specialized hardware products operating a distribution center located in Anjou, Quebec.