

Interim Consolidated Financial Statements

Richelieu Hardware Ltd.

For the three and nine-month periods ended August 31, 2021

[Unaudited]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars] [Unaudited]

	Notes	As at August 31, 2021	As at November 30, 2020
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		66,682	73,928
Accounts receivable		180,260	156,908
Inventories		349,902	287,344
Prepaid expenses		5,407	4,522
		602,251	522,702
Non-current assets			
Property, plant and equipment		44,151	40,920
Intangible assets		59,138	42,243
Right-of-use assets		70,347	73,076
Goodwill		102,509	85,197
Deferred taxes		7,418	6,918
		885,814	771,056
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		145,175	120,193
Income taxes payable		12,517	4,031
Current portion of long-term debt		7,750	3,592
Current portion of lease obligations		19,862	17,478
		185,304	145,294
Non-current liabilities			
Long-term debt		1,100	2,200
Lease obligations		56,068	60,457
Deferred taxes		9,633	6,842
Other liabilities		9,035	1,820
		261,140	216,613
Equity			
Share capital	3	53,940	48,522
Contributed surplus		6,668	6,280
Retained earnings		549,825	480,808
Accumulated other comprehensive income	4	11,875	15,484
Equity attributable to shareholders of the Corporation		622,308	551,094
Non-controlling interests		2,366	3,349
		624,674	554,443
		885,814	771,056

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,	
		2021	2020	2021	2020
		\$	\$	\$	\$
Sales		373,298	311,171	1,042,263	808,825
Operating expenses excluding amortization	5	309,361	262,088	879,210	701,089
Earnings before amortization, financial costs and income taxes		63,937	49,083	163,053	107,736
Amortization of property, plant and equipment and right-of-use assets		7,291	6,998	21,167	20,188
Amortization of intangible assets		2,009	1,826	5,179	5,099
Financial costs, net		656	645	1,943	2,086
		9,956	9,469	28,289	27,373
Earnings before income taxes		53,981	39,614	134,764	80,363
Income taxes		15,073	10,800	37,263	21,972
Net earnings		38,908	28,814	97,501	58,391
Net earnings attributable to:					
Shareholders of the Corporation		38,749	28,651	97,158	58,130
Non-controlling interests		159	163	343	261
		38,908	28,814	97,501	58,391
Net earnings per share attributable to shareholders of the Corporation					
Basic		0.69	0.51	1.74	1.03
Diluted		0.69	0.50	1.72	1.03

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,	
		2021	2020	2021	2020
		\$	\$	\$	\$
Net earnings		38,908	28,814	97,501	58,391
Other comprehensive income (loss) that will be reclassified to net earnings					
Exchange differences on translation of foreign operations	4	6,540	(7,930)	(3,609)	(2,828)
Comprehensive income		45,448	20,884	93,892	55,563
Comprehensive income attributable to:					
Shareholders of the Corporation		45,289	20,721	93,549	55,302
Non-controlling interests		159	163	343	261
		45,448	20,884	93,892	55,563

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, 2019	42,190	5,700	431,313	19,181	498,384	3,237	501,621
Net earnings	—	—	58,130	—	58,130	261	58,391
Other comprehensive loss	—	—	—	(2,828)	(2,828)	—	(2,828)
Comprehensive income (loss)	—	—	58,130	(2,828)	55,302	261	55,563
Stock options exercised	4,839	(918)	—	—	3,921	—	3,921
Share-based compensation expense	—	1,472	—	—	1,472	—	1,472
Dividends [note 8]	—	—	(7,511)	—	(7,511)	(277)	(7,788)
Other liabilities	—	—	—	—	—	22	22
	4,839	554	(7,511)	—	(2,118)	(255)	(2,373)
Balance as at August 31, 2020	47,029	6,254	481,932	16,353	551,568	3,243	554,811
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 interests [note 2]	—	—	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

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,	
		2021	2020	2021	2020
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net earnings		38,908	28,814	97,501	58,391
Items not affecting cash					
Amortization of property, plant and equipment and right-of-use assets		7,291	6,998	21,167	20,188
Amortization of intangible assets		2,009	1,826	5,179	5,099
Deferred taxes		(78)	(66)	(209)	(227)
Share-based compensation expense	3	482	491	1,458	1,472
		48,612	38,063	125,096	84,923
Net change in non-cash working capital balances		(14,857)	15,965	(36,928)	27,287
		33,755	54,028	88,168	112,210
FINANCING ACTIVITIES					
Repayment of long-term debt		—	(4,509)	(3,139)	(4,991)
Dividends paid to shareholders of the Corporation	8	(3,914)	(3,757)	(15,465)	(7,511)
Payment of lease obligations		(4,227)	(3,848)	(12,059)	(11,020)
Other dividends paid		—	—	(511)	(277)
Common shares issued		718	2,872	4,643	3,921
Common shares repurchased for cancellation		(9,837)	—	(13,094)	—
		(17,260)	(9,242)	(39,625)	(19,878)
INVESTING ACTIVITIES					
Business acquisitions	2	(34,387)	(9,676)	(44,229)	(33,074)
Additions to property, plant and equipment and intangible assets		(5,191)	(3,216)	(12,077)	(9,248)
		(39,578)	(12,892)	(56,306)	(42,322)
Effect of exchange rate changes on cash and cash equivalents		179	35	517	(220)
Net change in cash and cash equivalents		(22,904)	31,929	(7,246)	49,790
Cash and cash equivalents, beginning of period		89,586	42,562	73,928	24,701
Cash and cash equivalents, end of period		66,682	74,491	66,682	74,491
Supplementary information					
Income taxes paid		7,994	(1,474)	29,325	5,543
Net interest paid		656	645	1,943	2,086

See accompanying notes to the interim consolidated financial statements.

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2021 and 2020 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

NATURE OF BUSINESS

Richelieu Hardware Ltd. [the "Corporation"] is a corporation incorporated under the laws of Quebec, Canada. The Corporation is a distributor, importer, and manufacturer of specialty hardware and complementary products. Its products target an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, door and window, 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, 2020 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 for the fiscal year 2020.

2. BUSINESS ACQUISITIONS

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 center in Rochester, New York.

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

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

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

Sales of \$21.2 million have been generated by these acquisitions. Had those acquisitions been made on December 1, 2020, management believes that sales included in the consolidated statement of earnings would have totalled approximately \$51 million.

2020

Effective December 2, 2019, the Corporation acquired all the issued and outstanding shares of Decotec Inc, a distributor of decorative panels and related products operating a distribution center in North York, Ontario.

Effective December 9, 2019, the Corporation acquired the principal net assets of Mibro, a distributor of hardware and accessories for power tools for the retailers' market in Canada and the United States. Mibro operates a distribution center in Toronto, Ontario.

Effective February 3, 2020, the Corporation acquired the principal net assets of Omaha Hardwood Lumber Company, a distributor of specialized hardware operating three distributions centers in Omaha, NB, Des Moines, IA and Sioux Falls, SD.

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

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

Summary of acquisitions

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

	2021	2020
	\$	\$
Current assets acquired	30,967	28,090
Property, plant and equipment and right-of-use assets	3,543	5,588
Intangible assets	21,415	10,663
Goodwill	17,699	7,388
	73,624	51,729
Current liabilities assumed	(10,824)	(6,229)
Lease obligations	(2,837)	(4,766)
Deferred taxes	(2,725)	(955)
Non-controlling interests	(7,125)	—
Net assets acquired	50,113	39,779
Consideration		
Cash, net of cash acquired	43,627	33,074
Consideration payable	6,486	6,705
	50,113	39,779

On March 1, 2021, the Corporation acquired from a minority shareholder an additional 5% interest in the voting shares of Menuiserie des Pins Ltée, increasing its ownership interest to 85%, for a cash consideration of \$602.

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2021 and 2020 (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:

	Number of shares (in thousands)	\$
Outstanding, as at November 30, 2019	56,240	42,190
Issued	332	6,919
Repurchased	(678)	(587)
Outstanding, as at November 30, 2020	55,894	48,522
Issued	231	5,713
Repurchased	(316)	(295)
Outstanding, as at August 31, 2021	55,809	53,940

During the nine-month period ended August 31, 2021, the Corporation issued 231,100 common shares [in fiscal year 2020 - 331,900] at an average exercise price of \$20.09 per share [in fiscal year 2020 - \$16.92] pursuant to the exercise of stock options under the stock option plan. In addition, the Corporation, repurchased 316,374 common shares for cancellation in consideration of \$13,094 [678,362 common shares for a consideration of \$25,030 in fiscal year 2020], which resulted in a premium on the redemption in the amount of \$12,799 recognized as a reduction of retained earnings [premium of \$24,443 in fiscal year 2020].

Stock option plan

Changes in stock options are summarized as follows:

	Number of stock options (in thousands)	Weighted average exercise price \$
Outstanding, as at November 30, 2019	1,771	22.80
Granted	301	28.48
Exercised	(332)	16.92
Cancelled	(41)	28.70
Outstanding, as at November 30, 2020	1,699	24.81
Granted	289	34.84
Exercised	(231)	20.09
Cancelled	(32)	30.25
Outstanding, as at August 31, 2021	1,725	27.03

Stock options granted during the nine-month period ended August 31, 2021 have an average fair value of \$9.04 per option [in fiscal year 2020 - \$6.43] as determined using the Black & Scholes option pricing model with an expected dividend yield of 0.8% [2020 - 0.9%], expected volatility of 22.9% [2020 - 21.6%], a risk-free interest rate of 0.80% [2020 - 1.70%] and an expected life of 7 years [2020 - 7 years]. For the three and nine-month periods ended August 31, 2021, the compensation expense related to stock options amounted to \$482 and \$1,458 [2020 - \$491 and \$1,472] and is recognized under *Operating expenses excluding amortization*. As at August 31, 2021, the exercise price of stock options outstanding varied between \$9.14 and \$34.84 [the exercise price of stock options outstanding varied between \$9.14 and \$32.77 as at November 30, 2020].

Deferred Share Unit Plan (DSU)

The liability resulting from the DSU plan of \$9,444 [November 30, 2020 - \$7,316] is recognized under the *Accounts payable and accrued liabilities*. As at August 31, 2021, the fair value of the swaps on shares amounted to a liability of \$196 [November 30, 2020 - a liability of \$314] and is recognized under *Accounts receivable*. 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, 2021 amounted to \$189 and \$632 [2020 - \$213 and \$546] and is recognized under *Operating expenses excluding amortization*.

Share Purchase Plan

Compensation expense related to the share purchase plan amounted to \$197 and \$559 for the three and nine-month periods ended August 31, 2021 [2020 - \$172 and \$525] 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:

(in thousands)	For the three months ended August 31,		For the nine months ended August 31,	
	2021	2020	2021	2020
Weighted average number of shares outstanding - Basic	55,943	56,364	55,918	56,298
Dilutive effect under stock option plan	623	406	557	284
Weighted average number of shares outstanding - Diluted	56,566	56,770	56,475	56,582

For the three and nine-month periods ended August 31, 2021, the computation of diluted net earnings per share does not include any anti-dilutive stock options (2020 - 316,500 and 614,500, respectively).

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,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Balance at the beginning of the period	5,335	24,283	15,484	19,181
Exchange differences on translation of foreign operations	6,540	(7,930)	(3,609)	(2,828)
Balance at the end of the period	11,875	16,353	11,875	16,353

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, 2021, the fair value of the foreign exchange forward contracts amounted to an asset of approximately \$19 [a liability of \$15 as at November 30, 2020] representing the amount the Corporation would receive on settlement of these contracts at spot rates. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data.

Notes to interim consolidated financial statements (unaudited)

As at August 31, 2021 and 2020 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

Credit Risk

The Corporation sells its products to numerous customers in Canada, and to a lesser extent in the United States. Credit risk refers to the possibility that customers will be unable to assume their liabilities toward the Corporation. The average collection period for accounts receivable, as at August 31, 2021, is acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluation of its customers and generally does not require collateral. The allowance for doubtful accounts increased by \$334 and \$1,617 [2020 - \$270 and \$2,301] during the three and nine-month periods ended August 31, 2021, to a total of \$8,230 as at August 31, 2021 [November 30, 2020 - \$6,613].

Market Risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and in euros. For the three and nine-month periods ended August 31, 2021, operating expenses included foreign exchange gains of \$1,684 and \$1,503 respectively [2020 - foreign exchange gains of \$132 and \$2,130 respectively].

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

As at August 31, 2021, 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 \$749 [as at August 31, 2020 - \$392] and would have increased consolidated comprehensive income by \$6,923 [as at August 31, 2020 - \$7,123]. The exchange rate sensitivity is calculated by aggregating the net foreign exchange rate exposure of the Corporation's financial instruments as at August 31, 2021.

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 cash generated by operating activities.

Operating expenses excluding amortization

	For the three months ended August 31,		For the nine months ended August 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Inventories from distribution, imports and manufacturing activities recognized as an expense	264,414	226,237	749,328	592,090
Salaries and related charges	42,765	33,009	120,937	100,811
Other charges	2,182	2,842	8,945	8,188
	309,361	262,088	879,210	701,089

For the three and nine-month periods ended August 31, 2021, an expense of \$1,281 and \$3,701 [2020 - \$1,204 and \$3,033] for inventory obsolescence is included in Inventories from distribution, imports and manufacturing activities recognized as an expense.

Government Grant

For the three and nine-month periods ended August 31, 2020, the Corporation recognized an amount of \$3,523 and \$6,790 as a reduction of Salaries and related charges, included under *Operating expenses excluding amortization*, in connection with the Canada Emergency Wage Subsidy ("CEWS") program. No amount has been recorded for in 2021.

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, 2021, the Corporation had achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 1.4 % [1.1 % as at November 30, 2020] [Long-term debt/Equity]
- Average return on shareholders' equity of 21.2% over the last 12 months [16.2% for the year ended November 30, 2020]

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

7. GEOGRAPHIC INFORMATION

During the three and nine-month periods ended August 31, 2021, nearly 66% of sales were made in Canada [2020 - 64%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to \$127,066 and \$354,739 respectively [2020 - \$108,161 and \$293,891] in Canadian dollars, and to \$102,084 and \$283,413 respectively [2020 - \$80,556 and \$217,387] in US dollars.

As at August 31, 2021, of the total amount of property, plant and equipment, \$8,138 [November 30, 2020 - \$7,677] was located in the United States. In addition, intangible assets located in the United States amounted to \$13,039 [November 30, 2020 - \$14,145] and goodwill to \$14,165 [November 30, 2020 - \$14,479] in Canadian dollars and to \$10,335 [November 30, 2020 - \$10,910] and to \$11,227 [as at November 30, 2020 - \$11,168] in US dollars. Of the total amount of right-of-use assets, \$29,957 [November 30, 2020 - \$31,408] was located in the United States.

8. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three and nine-month periods ended August 31, 2021, the Corporation paid dividends of \$3,914 and \$15,465 [2020 - \$3,757 and \$7,511] to holders of common shares of the Corporation.

9. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and nine-month periods ended August 31, 2021 (including the comparative figures) were approved for issue by the Board of Directors on October 7, 2021.

10. SUBSEQUENT EVENTS

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 center in Mississauga, Ontario.

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