

# MANAGEMENT'S REPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

### TABLE OF CONTENTS

<b>25</b>	2022 Highlights
<b>26</b>	Forward-looking Statements
<b>26</b>	Non-IFRS Measures
<b>27</b>	General Business Overview as at November 30, 2022
<b>27</b>	Mission and Strategy
<b>28</b>	Financial Highlights
<b>29</b>	Analysis of Operating Results
<b>30</b>	Summary of Quarterly Results
<b>30</b>	Fourth Quarter
<b>31</b>	Financial Position
<b>33</b>	Contractual Commitment
<b>33</b>	Financial Instruments
<b>33</b>	Internal control over Financial Reporting
<b>33</b>	Significant Accounting Policies and Estimates
<b>34</b>	New Accounting Policies
<b>34</b>	Risk Factors
<b>36</b>	Share Information
<b>36</b>	Outlook
<b>36</b>	Supplementary Information
<b>37</b>	Management's Report and Independent Auditor's Report
<b>39</b>	Consolidated Financial Statements
<b>43</b>	Related Notes

# HIGHLIGHTS

of the year ended November 30, 2022

Financial year 2022 brought strong growth in results, fueled by both internal growth and the contribution of recent acquisitions made in North America. Richelieu remained customer oriented and demonstrated its ability to seize and create opportunities and adapt to change, where its growth strategy continued to bear fruit.

The diversification of our market segments, our distinctive multi-access service and richelieu.com website, as well as the drive of our market development team, are among our growth strengths, coupled with our dynamic innovation and acquisition strategies. In addition to the ongoing introduction of worldwide innovations and value-added products, Richelieu's growth has historically been driven by the acquisition of companies that meet our criteria of business and cultural fit, give access to new territories, new products, and offer significant synergy potential. During the year, we completed three acquisitions in the United States, namely Compi Distributors, HGH Hardware Supply, and National Builders Hardware and one acquisition in Canada, Quincaillerie Deno, in Q4. These were followed by four new acquisitions made in Canada subsequent to the end of the financial year, in January 2023, for estimated annual sales of \$18 million.

Expansion is ongoing not only through business acquisitions, but also by expanding and upgrading existing distribution centers, notably in Atlanta, Chicago, Fort Myers, Nashville and Pompano, as well as opening new centers in Carlstadt and Minneapolis.

Richelieu has both innovation and acquisition know-how. We will continue to build on this momentum with the involvement of our team, whose expertise and solid skills are valued by our Canadian and U.S. customers.

- **Consolidated sales** totalled \$1.8 billion, up 25.2%, of which 13.4% came from internal growth and 11.8% from acquisitions.
- **Earnings before interest, income taxes and amortization (EBITDA)<sup>(1)</sup>** rose by 22.6% to \$287.4 million, compared to \$234.4 million last year. EBITDA margin stood at 15.9%, compared to 16.3% in fiscal 2021.
- **Diluted net earnings per share** rose to \$2.99, up 19.1% compared to \$2.51 in the previous year and net earnings attributable to shareholders amounted to \$168.4 million compared to \$141.8 million last year, up 18.8%.
- **Adjusted cash flows from operating activities<sup>(1)</sup>** grew by 22.7% to \$224.5 million compared to \$183.0 million for fiscal 2021.
- **Working capital** increased by 23.3% to \$562.5 million, for a current ratio of 2.6:1.

- **Average return on equity** was 22.7%.
- **Repurchase** of 327,329 common shares for \$12.3 million and payment of \$29.1 million in dividends to shareholders. Richelieu thus distributed \$41.4 million to shareholders in 2022 while maintaining the financial resources necessary for growth in 2023.
- **The quarterly dividend** increased by 15.4% to \$0.15 per share for Q1 2023.

#### Four acquisitions completed in North America in fiscal 2022:

- December 31, 2021: Acquisition of the principal net assets of **Compi Distributors**, a specialty hardware distributor operating four distribution centers in St. Louis, MO, Kansas City, MO, Ozark, MO, and Springfield, IL.
- December 31, 2021: Acquisition of the principal net assets of **HGH Hardware Supply**, a specialty hardware distributor operating four distribution centers, one in Birmingham, AL, one in Nashville, TN, and two in Atlanta, GA.
- December 31, 2021: Acquisition of the principal net assets of **National Builders Hardware**, a specialty hardware distributor operating a distribution center in Portland, OR.
- September 2, 2022: Acquisition of all issued and outstanding shares of **Quincaillerie Deno**, a specialty hardware distributor operating a distribution center in Anjou, QC.

(1) EBITDA and adjusted cash flows from operating activities are non-IFRS measures, as indicated on page 26 of this report.

This Management's Discussion and Analysis ("MD&A") relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the year ended November 30, 2022, in comparison with the year ended November 30, 2021, as well as the Corporation's financial position as at those dates. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended November 30, 2022 appearing in the Corporation's 2022 Annual Report. In this MD&A, "Richelieu" or the "Corporation" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, such as the Annual Information Form, interim MD&As, Management Proxy Circular, certificates signed by the Corporation's President and Chief Executive Officer and Vice-President and Chief Financial Officer, as well as press releases issued during the year ended November 30, 2022, are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

The information contained in this MD&A accounts for any major event that occurred prior to January 19, 2023, on which date the audited consolidated financial statements and MD&A were approved by the Corporation's Board of Directors. Unless otherwise indicated, the financial information presented below, including amounts shown in tables, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS").

## FORWARD-LOOKING STATEMENTS

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

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they were prepared, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability as well as other factors (see the "Risk Factors" section on page 34).

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

## NON-IFRS MEASURES

Richelieu uses earnings before 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 financial performance or cash flows, or as a measure of liquidity. Since EBITDA does not have a standardized meaning prescribed by IFRS, it may not be comparable to EBITDA of other companies.

Richelieu also uses adjusted cash flows from operating activities and adjusted cash flows from operating activities per share. Adjusted cash flows from operating activities are based on net earnings plus amortization of property, plant and equipment and right-of-use assets and of intangible 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.

## GENERAL BUSINESS OVERVIEW as at November 30, 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 its 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 **107 centers across North America** of which 48 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 hand tools and 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. In addition, many of the Corporation's products are manufactured according to its specifications and those of its customers.

The Corporation employs over 2,800 people throughout its network, close to half of whom work in marketing, sales and customer service. Close to 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 American 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 proven 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

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

	<b>2022</b>	2021	2020	2019	2018
<b>Years ended November 30</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<sup>(3)</sup> <b>\$</b>	<b>\$</b>
Sales	<b>1,802,787</b>	1,440,416	1,127,840	1,041,647	1,004,400
EBITDA <sup>(1)</sup>	<b>287,442</b>	234,398	154,461	124,207	105,991
<i>EBITDA margin (%)</i>	<b>15.9</b>	16.3	13.7	11.9	10.6
Net earnings	<b>169,949</b>	142,331	85,611	66,671	67,964
Net earnings attributable to shareholders of the Corporation	<b>168,390</b>	141,764	85,222	66,471	67,777
• per share - basic (\$)	<b>3.01</b>	2.54	1.51	1.17	1.18
• per share - diluted (\$)	<b>2.99</b>	2.51	1.50	1.16	1.17
<i>Net margin attributable to the shareholders of the Corporation (%)</i>	<b>9.3</b>	9.8	7.6	6.4	6.7
Adjusted cash flows from operating activities <sup>(2)</sup>	<b>224,483</b>	182,991	121,125	98,390	83,783
• per share - diluted (\$)	<b>3.98</b>	3.24	2.14	1.72	1.44
Dividends paid to Shareholders of the Corporation	<b>29,083</b>	19,374	11,284	14,424	13,824
• per share (\$) <sup>(4)</sup>	<b>0.520</b>	0.280	0.200	0.253	0.240
Weighted average number of shares outstanding (diluted) (in thousands)	<b>56,345</b>	56,466	56,646	57,192	58,064
<b>As at November 30</b>					
Total assets	<b>1,283,865</b>	964,180	771,056	672,146	569,119
Working capital	<b>562,548</b>	456,376	377,408	335,467	329,343
Current ratio	<b>2.6</b>	3.3	3.6	4.1	4.6
Equity attributable to shareholders of the Corporation	<b>817,157</b>	666,442	551,094	498,384	470,278
<i>Return on average shareholders' equity (%)</i>	<b>22.7</b>	23.3	16.2	13.7	15.0
Book value per share (\$)	<b>14.65</b>	11.93	9.86	8.86	8.23
Long-term debt	<b>6,067</b>	6,439	5,792	5,659	2,023
Cash and cash equivalents (bank overdraft)	<b>(111,988)</b>	58,707	73,928	24,701	7,408

(1) EBITDA is a non-IFRS measure, as indicated on page 26 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 26 of this report.

(3) Those figures have been restated following the adoption of IFRS 16 on December 1, 2019.

(4) The amount per share presented for 2021 excludes a special dividend paid of \$0.0667 per share.

# ANALYSIS OF OPERATING RESULTS FOR THE YEAR ENDED NOVEMBER 30, 2022, COMPARED WITH THE YEAR ENDED NOVEMBER 30, 2021

## CONSOLIDATED SALES

(in thousands of \$, except exchange rates)

	2022	2021	
Years ended November 30	\$	\$	Δ (%)
Canada	1,074,674	944,836	+13.7
United States (CA\$)	728,113	495,580	+46.9
(US\$)	562,468	395,605	+42.2
Average exchange rates	1.2945	1.2527	
Consolidated sales	1,802,787	1,440,416	+25.2

Consolidated sales reached \$1.8 billion, an increase of \$362.4 million or 25.2% over 2021, of which 13.4% from internal growth and 11.8% from acquisitions. At comparable exchange rates to 2021, the consolidated sales growth would have been 23.5% for the year ended November 30, 2022.

Sales to **manufacturers** grew to \$1.6 billion, compared with \$1.2 billion for fiscal 2021, an increase of \$347.5 million or 28.9%, of which 15.9% from internal growth and 13.0% from acquisitions. These increases are the result of the sustained demand in the renovation market as well as higher selling prices. Sales to hardware **retailers** and renovation superstores grew by 6.3% or \$14.9 million to total \$251.5 million, entirely from acquisitions.

In **Canada**, Richelieu achieved sales of \$1.1 billion, compared with \$944.8 million for fiscal 2021, up by \$129.9 million or 13.7%, of which 10.3% from internal growth and 3.4% from acquisitions. Sales to **manufacturers** rose to \$876.7 million, up by \$109.1 million or 14.2%, of which 11.7% from internal growth and 2.5% from acquisitions. Sales to hardware **retailers** and renovation superstores reached \$198.0 million, compared with \$177.2 million, up by \$20.8 million or 11.7% over fiscal 2021, of which 4.4% from internal growth and 7.3% from acquisitions.

In the **United States**, the Corporation recorded sales of US\$562.5 million, compared with US\$395.6 million for fiscal 2021, an increase of US\$166.9 million or 42.2%, of which 15.4% from internal growth and 26.8% from acquisitions. Sales to **manufacturers** totalled US\$521.2 million, compared with US\$348.2 million, an increase of US\$173.0 million or 49.7% over fiscal 2021, of which 19.4% from internal growth and 30.3% from acquisitions. Sales to hardware **retailers** and renovation superstores were down by 12.9% compared to fiscal 2021. Considering exchange rates, U.S. sales expressed in Canadian dollars amounted to \$728.1 million, compared with \$495.6 million for 2021, an increase of 46.9%. They accounted for 40.4% of consolidated sales in fiscal 2022, whereas they represented 34.4% of the year's consolidated sales in fiscal 2021.

## CONSOLIDATED EBITDA AND EBITDA MARGIN

(in thousands of \$, unless otherwise indicated)

	2022	2021
Years ended November 30	\$	\$
Sales	1,802,787	1,440,416
EBITDA	287,442	234,398
EBITDA margin (%)	15.9	16.3

Earnings before interest, income taxes and amortization (**EBITDA**) totalled \$287.4 million, up by \$53.0 million or 22.6% over 2021 resulting mainly from the increase in sales. The gross margin remained stable compared to the previous year and **EBITDA margin** stood at 15.9%, compared with 16.3% for 2021.

**Amortization expenses** amounted to \$48.6 million compared with \$37.0 million for 2021, an increase of \$11.6 million resulting from the increase in the amortization of intangible assets and right-of-use assets mainly relating to business acquisitions as well as lease renewals and expansions made during the previous periods. Financial costs were \$7.1 million compared to \$2.7 million, an increase of \$4.4 million resulting mainly from the use of lines of credit and the increase in lease obligations. **Income taxes** amounted to \$61.7 million, an increase of \$9.3 million over 2021.

## CONSOLIDATED NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS

(in thousands of \$, unless otherwise indicated)

	2022	2021
Years ended November 30	\$	\$
EBITDA	287,442	234,398
Amortization of property, plant and equipment, intangible assets and right-of-use assets	48,646	36,957
Financial costs, net	7,144	2,700
Income taxes	61,703	52,410
Net earnings	169,949	142,331
Net earnings attributable to shareholders of the Corporation	168,390	141,764
Net margin attributable to the shareholders of the Corporation (%)	9.3	9.8
Non-controlling interests	1,559	567
Net earnings	169,949	142,331

**Net earnings** rose 19.4%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled \$168.4 million, an increase of 18.8%, compared with 2021. **Net earnings per share** amounted to \$3.01 basic and \$2.99 diluted, compared with \$2.54 basic and \$2.51 diluted for 2021, an increase of 18.5% and 19.1% respectively.

**Comprehensive income** totalled \$183.4 million, reflecting a positive adjustment of \$13.5 million on translation of the financial statements of the subsidiary in the United States, compared with \$141.1 million for 2021, which reflected a negative adjustment of \$1.2 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
<b>2022</b>				
• Sales	384,466	487,935	472,883	457,503
• EBITDA	53,728	77,855	79,180	76,679
• Net earnings attributable to shareholders of the Corporation	30,098	46,984	46,363	44,945
basic per share	0.54	0.84	0.83	0.80
diluted per share	0.53	0.83	0.82	0.80
2021				
• Sales	297,581	371,384	373,298	398,153
• EBITDA	38,162	60,954	63,937	71,345
• 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				
• Sales	249,401	248,253	311,171	319,015
• EBITDA	24,883	33,770	49,083	46,725
• 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 closed at the end of February is generally the year's weakest for Richelieu in light of fewer number of business days due to the end-of-year holiday period and a wintertime slowdown in renovation and construction work. The third quarter ending August 31 also includes fewer business days due to the summer holidays, which can be reflected in the period's financial results. The second and fourth quarters respectively ending May 31 and November 30 generally represent the year's most active periods.

Note: For further information about the Corporation's performance in the first, second and third quarters of 2022, the reader is referred to the interim management's reports available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

## FOURTH QUARTER ENDED NOVEMBER 30, 2022

**Fourth-quarter consolidated sales** amounted to \$457.5 million, compared with \$398.2 million for the corresponding quarter of 2021, an increase of \$59.3 million or 14.9%, of which 6.7% resulting from internal growth and 8.2% from acquisitions. At comparable exchange rates to the fourth quarter of 2021, the consolidated sales growth would have been 11.7% for the quarter ended November 30, 2022.

Richelieu achieved sales of \$398 million in the **manufacturers** market, compared with \$338.9 million for the fourth quarter of 2021, an increase of \$59.1 million or 17.4%, of which 7.8% from internal growth and 9.6% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at \$59.5 million, equivalent to the fourth quarter of 2021.

**In Canada**, Richelieu recorded sales of \$273.5 million, an increase of \$13.4 million, or 5.2%, over the fourth quarter of 2021. Sales to **manufacturers** amounted to \$226.0 million, an increase of 5.0% of which 4.5% resulting from internal growth and 0.5% from acquisitions. Sales to hardware **retailers** and renovation superstores reached \$47.5 million, up by \$2.6 million or 5.8%.

**In the United States**, sales totalled US\$136.4 million, compared with US\$109.9 million for the fourth quarter of 2021, an increase of US\$26.5 million or 24.1%, of which 2.8% resulting from internal growth and 21.3% from acquisitions. Sales to **manufacturers** amounted to US\$127.5 million, an increase of US\$29.0 million or 29.4% over the fourth quarter of 2021. Sales to hardware **retailers** and renovation superstores were down by US\$2.5 million, or 21.9%, from the corresponding quarter of 2021. Considering exchange rates, total U.S. sales expressed in Canadian dollars stood at \$184.0 million, an increase of 33.2%. They accounted for 40.2% of consolidated sales for the fourth quarter of 2022, whereas they had represented 34.7% of the period's consolidated sales for the fourth quarter of 2021.

**Earnings before interest, income taxes and amortization (EBITDA)** amounted to \$76.7 million, compared with \$71.3 million in the fourth quarter of 2021, up 7.5%. The gross margin remained stable compared to the previous year and EBITDA margin stood at 16.8%, compared with 17.9% for the fourth quarter of 2021, influenced by slightly lower margin of certain acquisitions.

**Amortization expenses** amounted to \$13.1 million, compared with \$10.6 million for the corresponding quarter of 2021, an increase of \$2.5 million. **Financial costs** are up \$2.1 million mainly due to the use of credit lines and the increase in lease obligations. Income taxes amounted to \$15.0 million, compared with \$15.1 million for the fourth quarter of 2021.

**Net earnings** were up by 2.0%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to \$44.9 million, up by 0.8% over the fourth quarter of 2021. **Net earnings per share** were \$0.80 basic and diluted, compared with \$0.80 basic and \$0.79 diluted for the fourth quarter of 2021.

**Comprehensive income** amounted to \$53.2 million, reflecting a positive adjustment of \$7.5 million on translation of the financial statements of the subsidiary in the United States, compared with \$47.2 million for the fourth quarter of 2021, which reflected a positive adjustment of \$2.4 million on translation of the financial statements of the subsidiary in the United States.

**Cash flows from operating activities** (before net change in non-cash working capital balances) amounted to \$60.4 million or \$1.07 per share, compared with \$55.7 million or \$0.99 per share for the fourth quarter of 2021, an increase of 8.3% resulting primarily from net earnings and items not affecting cash and cash equivalent increases. Net change in non-cash working capital balances used cash flows of \$58.6 million, reflecting the change in inventory and accounts receivable of \$54.9 million, whereas the change in accounts payable and other items used cash flows of \$3.7 million. Consequently, operating activities provided cash flows of \$1.7 million, compared with \$14.1 million for the fourth quarter of 2021.

**Financing activities** used cash flows of \$19.7 million, compared with \$11.9 million for the fourth quarter of 2021. This change primarily resulted from common shares repurchases of \$4.4 million for the fourth quarter of 2022 while no share repurchases were made in the fourth quarter of 2021.

**Investing activities** used cash flows of \$7.6 million in the fourth quarter, of which \$1.8 million for business acquisitions and \$5.8 million mainly for equipment to maintain and improve operational efficiency including additions resulting from ongoing expansion projects.

## FINANCIAL POSITION

### Analysis of significant cash flows for the year ended November 30, 2022

#### Change in cash and cash equivalents and capital resources

(in thousands of \$, unless otherwise indicated)

	2022	2021
Years ended November 30	\$	\$
Cash flows provided by (used in):		
Operating activities	(36,169)	104,406
Financing activities	(66,641)	(53,691)
Investing activities	(66,833)	(66,490)
Effect of exchange rate fluctuations	(1,052)	554
Net change in cash and cash equivalents	(170,695)	(15,221)
Cash and cash equivalents, beginning of year	58,707	73,928
Cash and cash equivalents and bank overdraft, end of year	(111,988)	58,707
<b>As at November 30</b>		
Working capital	562,548	456,376
Renewable line of credit (CA\$)	150,000	65,000
Renewable line of credit (US\$)	56,000	6,000

#### Operating activities

**Cash flows from operating activities** (before net change in non-cash working capital balances) reached \$224.5 million or \$3.98 diluted per share, compared with \$183.0 million or \$3.24 diluted per share for 2021, an increase of 22.7% stemming primarily from an increase in net earnings. Net change in non-cash working capital balances used cash flows of \$260.7 million, mainly representing changes in inventory of \$240.5 million whereas accounts receivable, accounts payable and other items used cash flows of \$20.2 million. Consequently, operating activities used cash flows of \$36.2 million, compared with a cash inflow of \$104.4 million for 2021.

#### Financing activities

**Financing activities** used cash flows of \$66.6 million, compared with \$53.7 million for 2021. During the year, Richelieu repaid long-term debt of \$5.2 million, paid lease obligations of \$25.9 million and issued shares for \$6.3 million, compared with a long-term debt repayment of \$6.4 million, lease obligations payments of \$19.4 million and a \$5.2 million share issue in 2021. Dividends paid to shareholders of the Corporation amounted to \$29.1 million, compared with \$19.4 million up 50.1% over 2021. The Corporation also repurchased common shares for an amount of \$12.3 million, compared with \$13.1 million in 2021.

## Investing activities

**Investing activities** used cash flows of \$66.8 million, of which \$44.3 million for business acquisitions and \$22.6 million, mainly for equipment to maintain and improve operational efficiency including additions resulting from ongoing expansion projects.

## Sources of financing

As at November 30, 2022, **bank overdraft**, net of cash and cash equivalent, amounted to \$112.0 million, compared with cash of \$58.7 million as at November 30, 2021. The Corporation had a **working capital** of \$562.5 million for a current ratio of 2.6:1, compared with \$456.4 million 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 financing and investing activities between now and the end of 2023. The Corporation continues to benefit from an authorized line of credit of \$150 million [2021 - C\$65 million] as well as a line of credit of US\$56 million [2021 - US\$6 million] renewable annually and bearing interest at the bank's prime and BSBY rate plus 1.05% respectively. In addition, Richelieu considers it could obtain access to other outside financing if necessary.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, the availability of credit will remain stable in 2023, and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under the "Risk Factors" section.

## Analysis of financial position as at November 30, 2022

### Summary of financial position

(in thousands of \$, except exchange rates)

	2022	2021
As at November 30	\$	\$
Current assets	910,771	659,179
Non-current assets	373,094	305,001
Total	1,283,865	964,180
Current liabilities	348,223	202,803
Non-current liabilities	115,820	92,440
Equity attributable to shareholders of the Corporation	817,157	666,442
Non-controlling interests	2,665	2,495
Total	1,283,865	964,180
Exchange rates on translation of a subsidiary in the United States	1.351	1.279

### Assets

**Total assets** amounted to \$1.3 billion as at November 30, 2022, compared with \$964.2 million as at November 30, 2021. **Current assets** increased by 38.2% or \$251.6 million from 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 higher cost of products and easing of the supply challenges including the acceleration of delivery times, especially from Asia. **Non-current assets** increased by 22.3% mainly due to the business acquisitions.

### Cash position and long-term debt

(in thousands of \$)

	2022	2021
As at November 30	\$	\$
Current portion of long-term debt	5,208	5,339
Long-term debt	859	1,100
Total debt	6,067	6,439
Cash and cash equivalents (bank overdraft)	(111,988)	58,707

**Equity** attributable to shareholders of the Corporation totalled \$817.2 million as at November 30, 2022, compared with \$666.4 million as at November 30, 2021, an increase of \$150.7 million. This increase is mainly due to a rise of \$128.7 million in retained earnings, which amounted to \$719.2 million, and of \$8.6 million in share capital and contributed surplus, while accumulated other comprehensive income increased by \$13.5 million. As at November 30, 2022, **the book value per share** was \$14.65, up by 22.8% over November 30, 2021, and **the return on average shareholders' equity** was 22.7%.

As at November 30, 2022, the Corporation's **share capital** consisted of 55,784,790 common shares (55,841,119 shares as at November 30, 2021). In 2022, upon the exercise of stock options under the stock option plan, Richelieu issued 271,000 common shares at an average price of \$23.19 (263,925 in 2021 at an average price of \$19.54). In addition, 327,329 common shares were repurchased for cancellation under the normal course issuer bid for a cash consideration of \$12.3 million (316,374 common shares for a cash consideration of \$13.1 million in 2021). The Corporation granted 276,000 stock options in fiscal 2022 (289,000 in 2021) and cancelled 17,125 (31,875 in 2021), consequently, as at November 30, 2022, 1,679,000 stock options were outstanding (1,691,125 as at November 30, 2021).

## CONTRACTUAL COMMITMENTS

### Summary of contractual financial commitments as at November 30, 2022

(in thousands of \$)

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Long-term debt	5,208	859	—	6,067
Operating leases	29,747	88,948	44,966	163,661
Total	34,955	89,807	44,966	169,728

For 2023 and for the foreseeable future, the Corporation expects that cash flows from operating activities and other sources of financing will be sufficient to meet its ongoing contractual commitments.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, the availability of credit will remain stable in 2023, and no unusual events will entail additional capital expenditures. This expectation also remains subject to disclosed "Risk Factors"

## FINANCIAL INSTRUMENTS

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

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

In notes 1 and 12 of the audited consolidated financial statements for the year ended November 30, 2022, the Corporation presents the information on the classification and fair value of its financial instruments, as well as on their value and management of the risks arising from their use.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has designed and evaluated internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P) to provide reasonable assurance that the Corporation's financial reporting is reliable and that its publicly disclosed financial statements are prepared in accordance with IFRS. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have assessed, within the meaning of National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, the design and the effectiveness of internal controls over financial reporting as at November 30, 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 year ended November 30, 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 AND ESTIMATES

The Corporation's audited consolidated financial statements for the year ended November 30, 2022, have been prepared by management in accordance with International Financial Reporting Standards (IFRS). The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future and other factors deemed relevant and reasonable.

The judgments made by management in applying the accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements and the assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that could potentially result in material adjustments to the carrying amount of assets and liabilities during the following period are summarized as follows:

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

## SUBSEQUENT EVENTS

Effective January 1, 2023, the Company 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, the Corporation acquired all issued and outstanding share capital of Quincaillerie Rabel Inc., a specialty hardware distributor operating one distribution center in Terrebonne, QC and, effective January 6, 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 center in Dartmouth, NS.

Taken collectively, these transactions, which have been concluded for an aggregate cash consideration of \$19.5 million, subject to certain conditions, will generate sales estimated at \$18 million annually.

## NEW ACCOUNTING POLICIES

At the date of approval of the financial statements, no new applicable standards or interpretation of existing standards or new amendments that have been published need to be adopted by the Corporation.

## RISK FACTORS

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

### Economic conditions

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

### Market and competition

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

## Foreign currency

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

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

Sales made abroad are mainly recorded in the United States and account for 40% of Richelieu's total sales. Any volatility in the Canadian dollar therefore tends to affect consolidated results. This risk is partially offset by the fact that major purchases are denominated in U.S. dollars.

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

## Supply and inventory management

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

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

## Acquisitions

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

## Credit

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

## Labour relations and qualified employees

To achieve its objectives, Richelieu must attract, train and retain qualified employees while controlling its payroll. The inability to attract, train and retain qualified employees and to control its payroll could have an impact on the Corporation's financial performance. Close to 13% of Richelieu's workforce is unionized. The Corporation's policy is to negotiate collective agreements at conditions enabling it to maintain its competitive edge and a positive and satisfactory working environment for its entire team. Richelieu has not experienced any major labour conflicts over the past five years. Any interruption in operations as a result of a labour conflict could have an adverse impact on the Corporation's financial results.

## Stability of key officers

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

## Product liability

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

## IT contingency plan and data security

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

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

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

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

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

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

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

## SHARE INFORMATION AS AT JANUARY 19, 2023

Issued and outstanding common shares:	55,777,540
Outstanding stock options:	1,972,750

## OUTLOOK

Richelieu has strong financial foundations, skills and expertise to meet its customers' needs and anticipate their expectations. The Corporation also has a solid track record in its two growth drivers, product innovation and business acquisitions in its field of activity, in Canada and the United States. In 2023, it will continue to pursue its successful market development, innovation and acquisition strategies, while creating synergies with its new acquisitions and giving priority to service, productivity and sound financial management.

## SUPPLEMENTARY INFORMATION

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



**(Signed) Richard Lord**  
President and  
Chief Executive Officer



**(Signed) Antoine Auclair**  
Vice-President and  
Chief Financial Officer

January 19, 2023