

# OUR CORE PURPOSE IS TO CREATE VALUE



Annual Report  
**2013**



# PRIORITY No. 1: UNDERSTAND CUSTOMER NEEDS

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The annual general meeting of shareholders will be held on April 3, 2014 at 10:30 a.m., at the Omni Mont-Royal Hotel, 1050 Sherbrooke Street West, Montreal, Quebec.

1968 | 2013

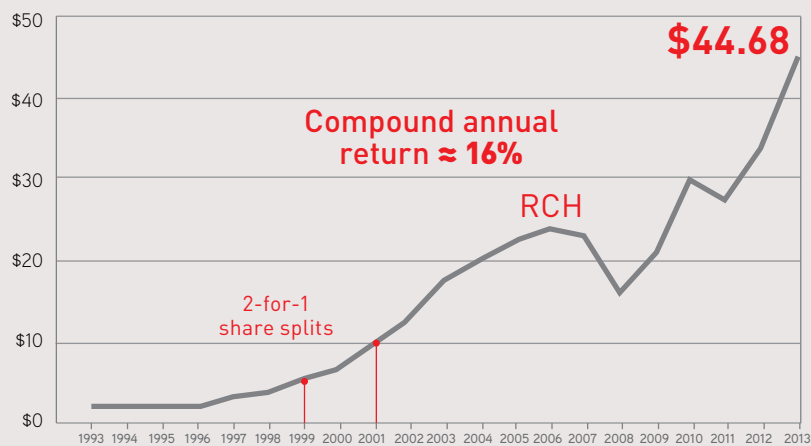
**45** years serving our customers with  
COMMITMENT, QUALITY AND PRIDE

1988 | 2013

**25** years of GROWTH and EXPANSION  
marked by **49** ACQUISITIONS  
in North America

1993 | 2013

**20** years of SUCCESS  
as a TSX-listed corporation  
in which the share price (RCH)  
appreciated **20**-FOLD

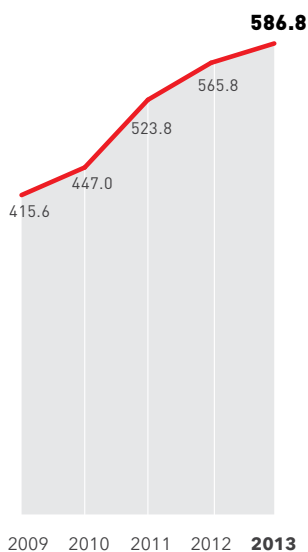


# A Profitable Growth Strategy

Internal growth and expansion-by-acquisition

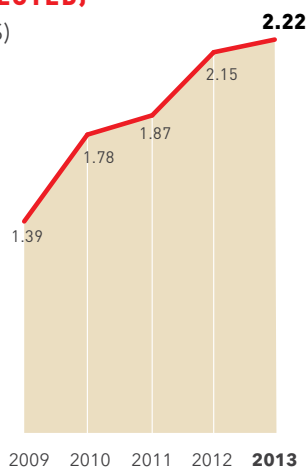
## SALES

(in millions of \$)



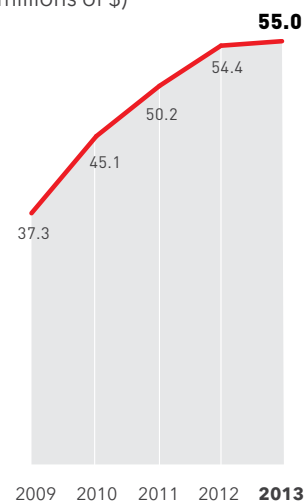
## NET EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS (DILUTED)

(in \$)



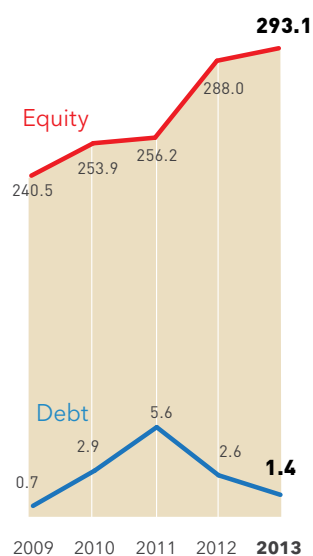
## CASH FLOWS FROM OPERATING ACTIVITIES

(in millions of \$)



## EQUITY/DEBT

(in millions of \$)



## Our latest acquisitions

### 2013

**Hi-Tech Glazing Supplies** (Vancouver)

**CourterCo Savannah LLC** (Georgia)

### 2012

**CourterCo Inc.** (Indiana, Kentucky, North Carolina)

### 2011

**Outwater Hardware** (New Jersey)

**Madico Inc.** (Quebec)

**Provincial Woodproducts Ltd** (Newfoundland)

### 2010

**Woodland Specialties Inc.** (New York State)

**Raybern Company, Inc.** (Connecticut)

**Gordon Industrial Materials Ltd.** (Quebec, Ontario)

**New Century Distributors Group LLC** (New Jersey)

**E. Kinast Distributors Inc.** (Chicago region)

**PJ White Hardwoods Ltd** (Alberta, B.C.)

# Financial Highlights

Years ended November 30 (in thousands of \$, except per-share amounts, number of shares and ratios)

	2013 <sup>(1)</sup>	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>	2009 <sup>(2)</sup>
	\$	\$	\$	\$	\$
Sales	<b>586,775</b>	565,798	523,786	446,963	415,592
EBITDA <sup>(3)</sup>	<b>70,373</b>	71,163	67,149	63,832	51,588
EBITDA margin (%)	<b>12.0</b>	12.6	12.8	14.3	12.4
Net earnings	<b>46,657</b>	45,909	40,105	39,233	30,404
Net earnings attributable to shareholders of the Corporation	<b>46,403</b>	45,404	39,726	38,574 <sup>(4)</sup>	30,605 <sup>(4)</sup>
■ basic per share (\$)	<b>2.25</b>	2.17	1.89	1.79	1.39
■ diluted per share (\$)	<b>2.22</b>	2.15	1.87	1.78	1.39
Net margin attributable to shareholders of the Corporation (%)	<b>7.9</b>	8.0	7.6	8.6	7.4
Cash flows from operating activities <sup>(5)</sup>	<b>54,978</b>	54,403	50,183	45,059	37,310
■ diluted per share (\$)	<b>2.63</b>	2.57	2.36	2.08	1.69
Cash dividends paid on shares	<b>10,768</b>	10,026	9,267	7,768	7,032
■ per share (\$)	<b>0.52</b>	0.48	0.44	0.36	0.32
Average number of shares outstanding (diluted) (in thousands)	<b>20,930</b>	21,137	21,262	21,705	22,019
<i>As at November 30</i>					
Total assets	<b>356,325</b>	349,869	318,676	320,816	286,928
Working capital	<b>204,117</b>	200,088	166,897	162,727	150,485
Current ratio	<b>4.5</b>	4.6	4.0	3.7	4.7
Equity	<b>293,114</b>	287,942	256,187	253,869	240,500
Return on average equity (%)	<b>16.2</b>	16.9	16.5	15.9	13.0
Book value (\$)	<b>14.41</b>	13.65	12.11	12.01	11.04
Total debt	<b>1,354</b>	2,563	5,544	2,858	668
Cash and cash equivalents	<b>46,187</b>	51,587	29,095	39,289	48,442

(1) The financial statements for 2013, 2012 and 2011 have been prepared in accordance with IFRS.

(2) The financial statements for 2010 and 2009 have been prepared in accordance with GAAP.

(3) EBITDA is a non-IFRS measure, as described on page 22 of this report.

(4) Net earnings from continuing operations.

(5) Cash flows from operating activities and cash flows per share are non-IFRS measures, as described on page 22 of this report.

Market capitalization as at November 30, 2013: **\$896 million**

Appreciation in share price (RCH) since initial stock listing: **1,990%**

Total return on share/10 years\*: **186%**

Average annual return on share/10 years\*: **11.1%**

\*Including dividend reinvestment





## Profile

Montego Club (Quebec City)

# Importer, distributor and manufacturer of specialty hardware and complementary products — North American leader

## **RICHELIEU IS:**

### **SOME 70,000 CUSTOMERS –**

kitchen and bathroom cabinet manufacturers, kitchen designers, residential and commercial woodworkers, home furnishing manufacturers, office and ready-to-assemble furniture manufacturers, renovation superstore chains and purchasing groups including over 6,000 hardware retailers.

### **CLOSE TO 1,700 EMPLOYEES**

of whom close to half are directly involved in sales and marketing, and nearly 65% are Richelieu shareholders.

### **OVER 100,000 PRODUCTS**

(SKUs) in a wide variety of categories including: kitchen accessories, lighting systems, finishing and decorating products, functional hardware, ergonomic workstations, closet and kitchen storage solutions, sliding door systems, decorative and functional panels, glass hardware, high-pressure laminates, floor protection products and window and door hardware. This offering is complemented by the specialty items manufactured by our two subsidiaries Cedan Industries Inc. and Menuiserie des Pins Ltée. Those include a broad range of veneer sheets and edgbanding products, along with an extensive selection of decorative moldings and components for the window and door industry. Many of our products are manufactured according to our specifications and those of our customers.

### **62 CENTRES INCLUDING 60 SHOWROOMS AND 2 MANUFACTURING PLANTS IN NORTH AMERICA**

Our wide array of products, *one-stop shop* service approach, efficient logistics and the many advantages of our transactional website [richelieu.com](http://richelieu.com) translate into an optimal response rate for our customers.

### **A TRILINGUAL TRANSACTIONAL WEBSITE [richelieu.com](http://richelieu.com)**

unrivalled in the industry, designed to facilitate customers' projects and transactions and inform any visitor about the most comprehensive functional and decorative hardware offering in North America.



Richard Lord  
President and Chief Executive Officer

# 25 YEARS OF COMMITMENT AND GROWTH

**W**hen I joined Richelieu as President and Chief Executive Officer and major shareholder, the Company employed some 80 people and posted approximately \$30 million in sales, operating from a single distribution centre in Quebec. 25 years later, our sales stand at \$586.8 million. We serve some 70,000 manufacturers and retailers in North America, whom we provide with easy access to an offering of over 100,000 products thanks to the *one-stop shop* strategy in our centres and showrooms, and to [richelieu.com](http://richelieu.com) – a trilingual website unique in our market for its broad scope and convenience for customers. We can count on a specialized team of nearly 1,700 people, about 65% are also shareholders, and a reliable relationship with many world leading manufacturers renowned for their technological expertise and strong innovativeness.

2013 is also our 20<sup>th</sup> year as a TSX-listed company. Over the course of these 20 years, our share has appreciated 20-fold, yielding a 16% compound annual return. During these years of growth, we focused primarily on Canada to establish and maintain our leadership in that market, before successfully penetrating the U.S. market in 1999. Through its vision and business model, Richelieu has emerged as the leader in its specialty market in North America. These achievements can be attributed to team work and commitment, thanks to people whose expertise, quality execution and outstanding service set us apart in our industry. Together, we share the vision and core values of a customer-oriented corporation resolutely focused on innovation, sustained growth, respect, integrity and entrepreneurship. We are proud of the steps taken thus far, with the trust and support of our customers, suppliers, shareholders and all our business partners.

In 2013, we created further value through initiatives focused primarily on growth, expansion, innovation and customer service.

### ■ Sustained growth

Our sales and our earnings diluted per share attributable to shareholders increased by 3.7% and 3.3% respectively. In the United States, where we have closed 15 acquisitions since entering that market, we maintained a dynamic and targeted innovation and development strategy. We enjoy a solid positioning and differentiating strengths that enabled us to take advantage of more favourable economic conditions. In 2013, our sales in the United States grew by 19% in U.S. dollars, of which 13.8% internal growth, thereby offsetting the slowdown witnessed year-long in the Canadian market. In Canada, our effective business model and leadership were clear advantages in helping us achieve a strong performance under challenging market conditions. We intensified selling synergies and our operational efficiency, cost control and expense reduction initiatives, while carrying on our innovation strategy – so customers benefit from enhanced service conditions and the best offering of innovative products and solutions.

### ■ New strategic acquisitions

From the beginning, our acquisition strategy has aimed to ensure that every company acquired is fully compatible with our activities, and contributes to growth and optimal customer service.

In 2013, we closed the acquisition of CourterCo Savannah LLC, a distributor of specialty and decorative hardware active in the strategic Georgia coastal region, followed by Hi-Tech Glazing Supplies, a distributor of window and door hardware well established in British Columbia. This acquisition strengthens our presence in a specialized customer base and further expands our product offering.

In December 2013, we acquired Procraft Industrial Ltd, a distributor of finishing products operating three centres in the Maritime Provinces where we were already present. These three acquisitions add sales of approximately \$11 million on an annualized basis and will yield future synergies.

Over the past 25 years, we have thus closed 49 acquisitions in North America.

### ■ Use of funds for the benefit of the Corporation and its shareholders

Our financial position remains impeccable and almost debt-free, posting cash of \$46.2 million and working capital of \$204.1 million, for a current ratio of 4.5:1.

We paid \$10.8 million in dividends, equivalent to 23.2% of net earnings attributable to shareholders, and repurchased common shares for \$36.6 million under our normal course issuer bid. As at November 30, 2013, our share price was up 33.2% over a year earlier.

Thus, in 2013, we distributed a total of \$47.4 million to shareholders, while retaining our flexibility and the financial resources to pursue our growth and expansion in 2014.



With creativity and dynamism, Richelieu contributes to the evolution of the North American specialty hardware market, and will continue to do so.

### ■ **An ever-more innovative offering**

We do not wait for demand, we anticipate and create it, and are always one step ahead of the competition to provide better service. Innovation is a continuous cycle essential to our growth and that of our customers.

Richelieu is a key specialty hardware products provider – diversified, innovative and one of the most complete suppliers of functional and decorative hardware in North America. In 2013, we further enhanced our offering with a broad selection of innovations, including a complete range of weather-resistant materials and accessories for outdoor solutions, a new line of decorative panels, a complementary offering of sinks and faucets, innovative sliding systems and new eco-friendly products. Technology and design combine to fuel innovations and improve existing products. We are always on the lookout for new products to introduce any that could drive our customers' sales growth and differentiation.

*Waiting until we are 100% certain of a product's success before bringing it to market is to be 100% certain of being left behind.*

### ■ **A unique evolving service concept**

In 2013, we continued to invest to enhance customer service, in accordance with:

- a product strategy promoting the most comprehensive, innovative and available offering;
- an efficient logistics chain adapted to customer needs;
- multi-access service; and
- a complete range of attractive selling tools for our customers to facilitate their sales.

Our team of sales and service professionals comprises nearly 50% of our employees. With their expertise, we provide our customers with proximity service including advice on the use of products. Our strong sales force is backed by the most powerful market intelligence tools, and we continuously work to develop strategies and programs in order to provide our customers with the best possible support. We consider it a must to offer the *one-stop shop* advantage in all our product categories. As far as possible, we expand our product lines by responding to orders for non-inventory items, by way of our site at richelieu.com and the collaboration we maintain with our suppliers.

By managing our offering that way, we are able to provide unrivalled service meeting our customers' specific needs without burdening inventories.

In 2013, our website gained further efficiency and popularity. Much more than a trilingual catalogue, it is an indispensable search, selection, product configuration and complete paperless transactional tool for our customers. An ever-increasing percentage of our B2B sales now go through richelieu.com.

Our customers, team, suppliers and shareholders are the four growth pillars with and for whom we create value.

## ■ Opportunities to create and seize

We remain firmly customer-oriented and make sure our business model is always well adapted to customer needs and our operational efficiency objectives.

We will continue to respect our principles and core values, such as innovation as the spearhead of our growth, quality execution and differentiation in everything we do.

In Canada, we have the fundamentals and strengths to maintain our leadership in a market that remains a major source of growth – and the fragmentation of which still holds acquisition opportunities. We will continue to look for targets best matching our operational and financial objectives.

In the United States where there is great potential for us to pursue our growth, we are confident we can take other steps forward and further consolidate our positioning. We will do so through potential acquisitions, innovations, synergies and dynamic development of the manufacturers and retailers markets.

We wish to thank all our partners, customers, employees, suppliers and shareholders for their trust and support. We remain committed to and passionate about achieving further advances in the future.



**Richard Lord**

President and Chief Executive Officer

## Directors

### **Jocelyn Proteau**

Chairman of the Board  
Richelieu Hardware Ltd.  
Director of Corporations

### **Richard Lord**

President and Chief Executive Officer  
Richelieu Hardware Ltd.

### **Mathieu Gauvin** <sup>(1)</sup>

Partner  
Richter Groupe Conseil Inc.

### **Jean Douville** <sup>(2)</sup>

Chairman of the Board  
UAP Inc.  
Chairman of the Board  
National Bank of Canada  
Director of Corporations

### **Pierre Bourgie** <sup>(1)</sup>

President and Chief Executive Officer  
Bourgie Financial Corporation  
(1996) Inc.  
President, Ipso Facto  
Director of Corporations

### **Denyse Chicoyne** <sup>(2)</sup>

Director of Corporations

### **Robert Courteau** <sup>(2)</sup>

President and Chief Executive Officer  
SPI Health and Safety Inc.

### **Marc Poulin** <sup>(1)</sup>

President and Chief Executive Officer  
Empire Company Limited  
President and Chief Executive Officer  
Sobeys Inc.

(1) Member of the Audit Committee

(2) Member of the Human Resources  
and Corporate Governance Committee

## Officers

### **Richard Lord**

President and Chief Executive Officer

### **Antoine Auclair**

Vice-President and  
Chief Financial Officer

### **Guy Grenier**

Vice-President, Sales and Marketing  
– Sales to Manufacturers Division

### **Éric Daignault**

General Manager of Divisions

### **Marion Kloibhofer**

General Manager  
– Central Canada

### **John Statton**

General Manager  
– Western Canada  
and Western United States

### **Charles White**

General Manager  
– United States

### **Christian Dion**

Manager – Human Resources

### **Geneviève Quevillon**

Manager – Logistics and Supply Chain

### **Yannick Godeau**

Manager – Legal Affairs  
and Corporate Secretary

# EXPERT MULTI-ACCESS SERVICE



One of our priorities is to ensure that all our customers have the easiest, most practical access to our products, either through our on-site specialists, or in our centres and showrooms, by telephone or **richelieu.com**.

Our quality service reflects the mutual trust we maintain with each customer. Whether they are manufacturers or retailers, we must know their business well, understand and exceed their expectations and, when needed, maintain specific collaboration to provide them with optimal support.







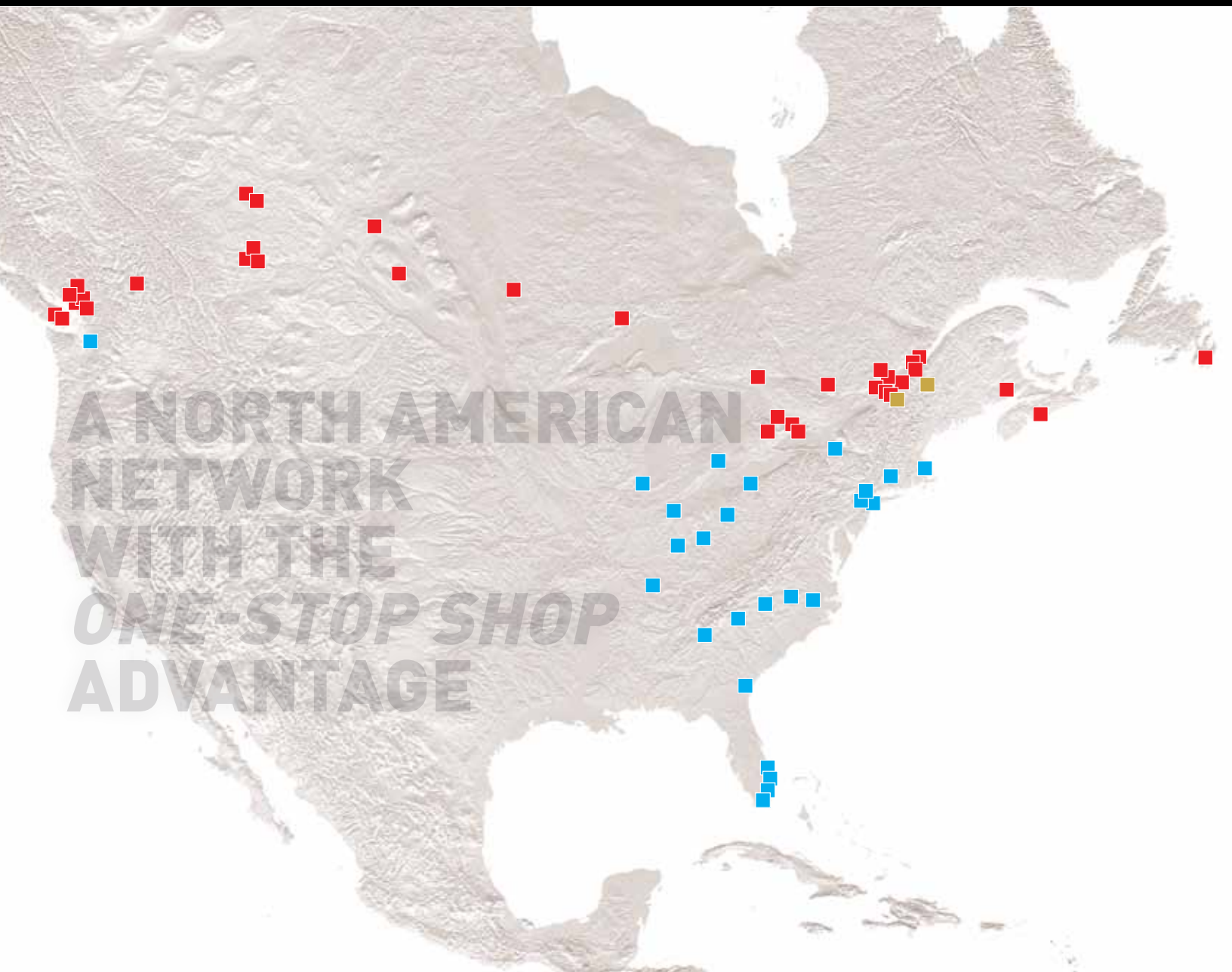
**WE DO NOT WAIT  
FOR DEMAND,  
WE ANTICIPATE IT,  
WE CREATE IT.  
WELCOME TO  
[richelieu.com](http://richelieu.com)**

**Solutions search  
and selection**

**Product  
configuration**

**Paperless  
transactional site**





# A NORTH AMERICAN NETWORK WITH THE ONE-STOP SHOP ADVANTAGE

Efficient logistics that coordinate all purchasing and distribution operations and optimize customer service.

## CANADA 35 DISTRIBUTION CENTRES

St. John's, Dartmouth, Moncton, Drummondville, Quebec City (3), Montreal, Longueuil (2), Laval (2), Ottawa, Toronto (2), Barrie, Kitchener, Sudbury, Thunder Bay, Winnipeg, Regina, Saskatoon, Edmonton (2), Calgary (3), Kelowna, Vancouver (5), Victoria (2)

## + 2 MANUFACTURING CENTRES

Longueuil, Notre-Dame-Des-Pins

## UNITED STATES 25 DISTRIBUTION CENTRES

Boston, Hartford, New York, Avenel, Lincoln Park, Syracuse, Detroit, Columbus, Cleveland, Cincinnati, Raleigh, Greensboro, Charlotte, Greenville, Atlanta, Savannah, Riviera Beach, Hialeah, Dania, Pompano, Nashville, Chicago, Indianapolis, Louisville, Seattle

# ONGOING INNOVATIONS TO DRIVE THE MARKET



In a strongly competitive context, our customers can count on our PROACTIVE INNOVATION APPROACH for their commercial and residential concepts.

Our decade-long relationships with the most reliable and innovative manufacturers worldwide provide us with a significant DIFFERENTIATION capacity that benefits our customers.

Architects and designers are benchmark partners we keep regularly up-to-date on our innovations.



**Innovation gives us and our customers a major competitive edge.**

We understand the current challenges faced by entrepreneurs and retailers. We are therefore present to assist our customers in their competitiveness. Our role is to support their business strategies by providing them with the most appropriate cutting-edge products and solutions, the top tools to favour their sales, and the best service to facilitate their purchasing processes.







**We offer the most diversified selection of functional and decorative hardware in North America.**

For instance, we are distinguished by our offering of sliding doors, which is the most innovative and complete in North America by far, such as high-end design concepts, closet solutions or storage furniture, and an incomparable variety of functional and ergonomic office products.





We offer the most complete range of closet hardware products, including integrated LED lighting systems.

Outdoor cooking and entertainment areas require a selection of cutting-edge, functional and esthetic weather-resistant hardware products. Our new offering launched in 2013 includes innovative and sustainable solutions combining easy-to-maintain weather-resistant materials such as polymer and stainless steel.







StrukArt



MADICO



NYSTROM

NYSTROM READYHOOK



Mekano™



FormArt



Brillanté



sereni-f series



EvolutionHD

Wall-It

Private brands and exclusive products targeted to manufacturers and retailers comprise some 60% of our offering

We are a frontline supplier for renovation superstores and more than 6,000 independent retailers operating under different banners and purchasing groups.



We can provide more than 200 linear feet of hardware displays by store.

# CREATE VALUE WITH RIGOROUS ECO-RESPONSIBLE PRACTICES



From the beginning, the principles of economic, social and environmental responsibility have been incorporated into our strategies and operations. They contribute to improve our ways of doing business, our responsible and sustainable integration into communities and our overall efficiency.





Our business model is one of proximity. The positive difference we aim for in the communities where we operate is built on the competencies and commitment of our local teams. They contribute to an accurate understanding of the business environment and community outreach. In addition to the social and recreational activities we organize locally, our commitment is targeted primarily to educational institutions.

### **We take an eco-responsible approach at every level of our organization.**

Even though our distribution and manufacturing activities have no material impact on the environment, we strive to incorporate eco-responsible measures into our day-to-day operations. Considering the significance of packaging in our distribution business, we use as little paper as possible. Also, we regularly transmit our management reports electronically, and our meetings and training sessions are held by teleconference. The use of vegetable-based inks and recycled paper is generalized organization-wide. Popular with many customers, our website at [richelieu.com](http://richelieu.com) is an efficient paperless administrative management tool. Furthermore, we aim constantly to increase the energy-efficiency of our offices, warehouses and showrooms.

### **We offer our customers a diversified offering of FSC and Greenguard certified eco-friendly products.**

Our "green" product line continues to expand. We now offer several thousand products that guarantee a sound environmental performance, including water-based finishing products and glues, formaldehyde-free decorative panels, items made from recycled materials such as the sturdy lightweight honeycomb panels used in the manufacturing of tables and storage furniture, and LED-lighting systems.

# Management's Report

## Management's Discussion and Analysis of Operating Results and Financial Position

Year Ended November 30, 2013

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## HIGHLIGHTS OF THE YEAR ENDED NOVEMBER 30, 2013

Richelieu pursued its growth and expansion in 2013, ending the year with excellent liquidities and an impeccable financial position. Sales and net earnings were up over 2012 despite the market slowdown throughout 2013 in Canada. The Corporation continued to reinforce its positioning in the United States, where it achieved strong growth thanks to its market penetration initiatives and sustained innovation strategy, enabling it to take further advantage of more favourable economic conditions. Two acquisitions were closed during the year, in the United States and Canada respectively: CourterCo Savannah LLC ("Savannah") and Hi-Tech Glazing Supplies ("Hi-Tech"). Subsequent to year-end, Richelieu finalized another acquisition in Canada, specifically Procraft Industrial Ltd ("Procraft"). Thanks to its financial position, its effective business model and its specialized team, the Corporation remains well positioned to carry on its North American business strategy in 2014.

- Consolidated sales totalled \$586.8 million, up 3.7% over 2012.
- U.S. sales grew by 19.0% (in US\$) in 2013, of which 13.8% from internal growth.
- Earnings before income taxes, interest and amortization (EBITDA) decreased by 1.1% to \$70.4 million. The EBITDA margin stood at 12.0%, compared with 12.6% in 2012.
- Net earnings attributable to shareholders increased by 2.2% to \$46.4 million. Earnings per share amounted to \$2.25 (basic) and \$2.22 (diluted), up from \$2.17 (basic) and \$2.15 (diluted) in 2012, an increase of 3.7% and 3.3% respectively.
- Cash flows from operating activities (before net change in non-cash working capital balances) grew by 1.1% to \$55.0 million.
- As at November 30, 2013, working capital totalled \$204.1 million for a current ratio of 4.5:1, up by 2.0% over November 30, 2012.
- Cash and cash equivalents stood at \$46.2 million.
- Total debt amounted to \$1.4 million, consisting entirely of the current portion of long-term debt.
- Richelieu repurchased 873,000 outstanding common shares (RCH) under its normal course issuer bid for a consideration of \$36.6 million and paid dividends of \$10.8 million to its shareholders in 2013, an increase of 7.4%, representing 23.2% of net earnings attributable to shareholders for the year. While retaining the financial resources needed to pursue its growth in 2014, the Corporation thereby distributed a total of \$47.4 million to its shareholders.
- Effective March 21, 2013, the Corporation acquired the principal net assets of Savannah (Georgia, U.S.), a distributor of specialty and decorative hardware products.
- Effective September 3, 2013, the Corporation acquired the principal net assets of Hi-Tech, a distributor of window and door hardware located in Vancouver (B.C.).
- *Event subsequent to year-end:* On December 2, 2013, Richelieu acquired all the outstanding common shares of Procraft, a finishing products distributor with three distribution centres in the Maritime Provinces, specifically in Halifax, N.S., Moncton and Fredericton, N.B. This acquisition will add approximately \$4 million to the Corporation's total sales.



This management's report relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the year ended November 30, 2013 in comparison with the year ended November 30, 2012, as well as the Corporation's financial position 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, 2013 appearing in the Corporation's Annual Report. In this management's report, "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 management's reports, 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, 2013, is available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

The information contained in this management's report accounts for any major event occurring prior to January 23, 2014, on which date the audited consolidated financial statements and annual management's report were approved by the Corporation's Board of Directors. Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the fourth quarter ended November 30, 2013 have not been audited or reviewed by the Corporation's auditors.

### **FORWARD-LOOKING STATEMENTS**

Certain statements set forth in this management's report, including statements relating to the expected sufficiency 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 the assumption that economic conditions and exchange rates will not significantly deteriorate, the Corporation's deliveries will be sufficient to fulfill Richelieu's needs, the availability of credit will remain stable during the year and no extraordinary events will require supplementary capital expenditures.

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are written, 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 set forth in the Corporation's 2013 Annual Report (see the "Risk Factors" section of this management's report and the 2013 Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com)).

Richelieu's actual results could differ materially from those indicated or underlying these forward-looking statements. The reader is therefore recommended not to unduly rely 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 where provided for by applicable legislation.

### **NON-IFRS MEASURES**

Richelieu uses earnings before interest, income taxes and amortization ("EBITDA") because this measure enables management to assess the Corporation's operational performance. This measure is a widely accepted financial 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 the net earnings attributable to shareholders of the Corporation, as an indicator of financial performance or cash flows, or as a measure of liquidity. Because EBITDA is not a standardized measurement as prescribed by IFRS, it may not be comparable to the EBITDA of other companies.

Richelieu also uses cash flows from operating activities and cash flows from operating activities per share. Cash flows from operating activities are based on net earnings plus amortization of property, plant and equipment and intangible assets, deferred tax expense (or recovery) and share-based compensation expense. These additional measures do not account for net change in non-cash working capital items to exclude seasonality effects and are used by management in its assessments of cash flows from long-term operations. Therefore, 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, 2013

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

Its products are targeted to an extensive customer base of **kitchen and bathroom cabinet, furniture, and window and door manufacturers plus the residential and commercial woodworking industry**, as well as a large customer base of **hardware retailers, including renovation superstores**. The residential and commercial renovation industry is the Corporation's major source 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 **some 100,000 different items** targeted to a base of **nearly 70,000 customers** who are served by **62 centres in North America** – 35 distribution centres in Canada, 25 in the United States and two manufacturing plants in Canada.

Main product categories include functional cabinet hardware and assembly products for the manufacture of furniture and kitchen cabinets, window and door hardware, decorative hardware products, glass hardware, sliding door systems, high-pressure laminates, decorative and functional panels, kitchen accessories, ergonomic workstation components, finishing products, whiteboards and tackboards. Richelieu also specializes in the manufacture of a wide variety of veneer sheets and edgebanding products through its subsidiary Cedan Industries Inc., and of components for the window and door industry and mouldings through Menuiserie des Pins Ltée. In addition, many of the Corporation's products are manufactured according to its specifications and those of its customers.

The Corporation employs about 1,700 people at its head office and throughout the network, close to half of whom work in marketing, sales and customer service. Approximately 65% of its 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 entrepreneurship.

To sustain its growth and remain the leader in its specialty market, the Corporation continues to implement the strategy that has benefited it until now, with a focus on:

- continuing to strengthen its product selection by annually introducing 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
- expanding in North America through the opening of distribution centres 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 position it to compete effectively in a fragmented market consisting mainly of a host of regional distributors who distribute a limited range of products.

## FINANCIAL HIGHLIGHTS

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

Years ended November 30	2013 <sup>(1)</sup> \$	2012 <sup>(1)</sup> \$	2011 <sup>(1)</sup> \$	2010 <sup>(2)</sup> \$	2009 <sup>(2)</sup> \$
Sales	586,775	565,798	523,786	446,963	415,592
EBITDA <sup>(3)</sup>	70,373	71,163	67,149	63,832	51,588
EBITDA margin (%)	12.0	12.6	12.8	14.3	12.4
Net earnings	46,657	45,909	40,105	39,233	30,404
Net earnings attributable to shareholders of the Corporation	46,403	45,404	39,726	38,574 <sup>(4)</sup>	30,605 <sup>(4)</sup>
▪ basic per share (\$)	2.25	2.17	1.89	1.79	1.39
▪ diluted per share (\$)	2.22	2.15	1.87	1.78	1.39
Net margin attributable to shareholders of the Corporation (%)	7.9	8.0	7.6	8.6	7.4
Cash flows from operating activities <sup>(5)</sup>	54,978	54,403	50,183	45,059	37,310
▪ diluted per share (\$)	2.63	2.57	2.36	2.08	1.69
Cash dividends paid on shares	10,768	10,026	9,267	7,768	7,032
▪ per share (\$)	0.52	0.48	0.44	0.36	0.32
Weighted average number of shares outstanding (diluted) (in thousands)	20,930	21,137	21,262	21,705	22,019
<b>As at November 30</b>					
Total assets	356,325	349,869	318,676	320,816	286,928
Working capital	204,117	200,088	166,897	162,727	150,485
Current ratio	4.5	4.6	4.0	3.7	4.7
Equity	293,114	287,942	256,187	253,869	240,500
Return on average equity (%)	16.2	16.9	16.5	15.9	13.0
Book value (\$)	14.41	13.65	12.11	12.01	11.04
Total debt	1,354	2,563	5,544	2,858	668
Cash and cash equivalents	46,187	51,587	29,095	39,289	48,442

(1) The financial statements for 2013, 2012 and 2011 have been prepared in accordance with IFRS.

(2) The financial statements for 2010 and 2009 have been prepared in accordance with GAAP.

(3) EBITDA is a non-IFRS measure, as described on page 22 of this report.

(4) Net earnings from continuing operations.

(5) Cash flows from operating activities and cash flows per share are non-IFRS measures, as described on page 22 of this report.

## ANALYSIS OF OPERATING RESULTS FOR THE YEAR ENDED NOVEMBER 30, 2013 COMPARED WITH THE YEAR ENDED NOVEMBER 30, 2012

### Consolidated sales

(in thousands of \$ except exchange rate)

Years ended November 30	2013 \$	2012 \$	Δ %
Canada (CA\$)	439,834	445,140	- 1.2
United States (CA\$)	146,941	120,658	+ 21.8
(US\$)	143,337	120,403	+ 19.0
Average exchange rate	1.0251	1.0021	
Consolidated sales	586,775	565,798	+ 3.7

Consolidated sales totalled \$586.8 million, an increase of \$21 million or 3.7% over 2012, of which 2.3% from internal growth and 1.4% from acquisitions.

Richelieu achieved sales of \$497.3 million in the **manufacturers market**, compared with \$476.2 million for 2012, an increase of \$21.1 million or 4.4%, of which 2.8% from internal growth and 1.6% from acquisitions. Most of the Corporation's market segments contributed to this growth. Sales to hardware **retailers** and renovation superstores remained relatively stable at \$89.5 million, thanks notably to the U.S. retailers market, which compensated for the decline in this market in Canada.

**In Canada**, the Corporation witnessed a sustained market slowdown throughout the year, to which was added the negative effect of the strike in the Quebec construction industry last June. Sales amounted to \$439.8 million, compared with \$445.2 million for 2012, a decline of 1.2% reflecting an internal decrease of 1.6% and a growth of 0.4% stemming from Hi-Tech's contribution. In the **manufacturers market**, Richelieu recorded sales of \$360.1 million, a decline of 0.9%, on account of an internal decrease of 1.3% and a growth of 0.4% from the aforementioned acquisition. Sales to hardware **retailers** and renovation superstores decreased to \$79.7 million, down by 2.4% from \$81.7 million for 2012.

**In the United States**, Richelieu continued to benefit from its positioning and its growth and innovation strategy, enabling it to take advantage of more favourable economic conditions. Sales grew to US\$143.3 million, up by US\$22.9 million or 19.0% over 2012. To an internal growth of 13.8% was added an increase of 5.2% from acquisitions. Sales to **manufacturers** amounted to US\$133.8 million, an increase of 19.0%, of which 13.7% from internal growth and 5.3% from acquisitions. Sales to hardware **retailers** and renovation superstores grew by 21.0% (in US\$). Expressed in Canadian dollars, U.S. sales totalled \$146.9 million, compared with \$120.7 million for 2012, an increase of 21.8%, of which 16.6% from internal growth and 5.2% from acquisitions. They accounted for 25.0% of 2013 consolidated sales, whereas in 2012, U.S. sales had represented 21.3% of the year's consolidated sales.

#### Consolidated EBITDA and EBITDA margin

(in thousands of \$, unless otherwise indicated)

Years ended November 30	2013 \$	2012 \$
Sales	586,775	565,798
EBITDA	70,373	71,163
EBITDA margin (%)	12.0	12.6

**Earnings before interest, income taxes and amortization (EBITDA)** amounted to \$70.4 million, down by 1.1% from 2012. The **gross margin** declined slightly from 2012 due primarily to the following factors: the more challenging economic context in Canada and competitive environment, the lower margins of certain prior acquisitions having a different product mix, the higher proportion of sales in the United States where the product mix also differs, and the increase in the supply costs of certain products stemming from the rapid appreciation of currencies before the adjustment of selling prices. To these factors were added the impact of the significant share price appreciation on

the compensation expense related to the current deferred share unit plan and two less business days in the first and third quarters of 2013 than in 2012. Consequently, the **EBITDA margin** stood at 12.0%, which nevertheless reflected cost and expense control efforts throughout the year.

Income taxes amounted to \$16.9 million, down by \$1.0 million from 2012. This reduction is due to fluctuations in results by region where the Corporation and its subsidiaries are subject to tax rates and tax regulations differing from one another and to the use of operating losses carried forward.

#### Consolidated net earnings attributable to shareholders

(in thousands of \$, unless otherwise indicated)

Years ended November 30	2013 \$	2012 \$
EBITDA	70,373	71,163
Amortization of property, plant and equipment and intangible assets	7,278	7,513
Financial costs, nets	(464)	(198)
Income taxes	16,902	17,939
Net earnings	46,657	45,909
Net earnings attributable to shareholders of the Corporation	46,403	45,404
Net margin attributable to shareholders of the Corporation (%)	7.9	8.0
Non-controlling interests	254	505
Net earnings	46,657	45,909

**Net earnings** grew by 1.6% over 2012. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled \$46.4 million, up by 2.2% over 2012. **The net margin attributable to shareholders** was 7.9%. **Earnings per share** rose to \$2.25 basic and \$2.22 diluted, compared with \$2.17 basic and \$2.15 diluted for 2012, an increase of 3.7% and 3.3% respectively.

**Comprehensive income** amounted to \$49.9 million, considering a positive adjustment of \$3.3 million on translation of the financial statements of the subsidiary in the United States, compared with \$44.8 million for 2012, considering 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>2013</b>				
■ Sales	126,084	156,240	149,163	155,288
■ EBITDA	12,893	18,207	19,050	20,223
■ Net earnings attributable to shareholders of the Corporation	8,158	12,140	12,821	13,284
basic per share	0.39	0.59	0.62	0.65
diluted per share	0.39	0.58	0.62	0.64
<b>2012</b>				
■ Sales	124,083	147,107	148,782	145,826
■ EBITDA	13,280	18,617	19,636	19,630
■ Net earnings attributable to shareholders of the Corporation	8,004	11,997	12,761	12,642
basic per share	0.38	0.57	0.61	0.61
diluted per share	0.38	0.57	0.60	0.60
<b>2011</b>				
■ Sales	113,192	139,178	136,132	135,284
■ EBITDA	12,018	17,075	19,153	18,903
■ Net earnings attributable to shareholders of the Corporation	6,989	10,015	11,411	11,311
basic per share	0.33	0.48	0.54	0.54
diluted per share	0.33	0.47	0.54	0.54

**Quarterly variations in earnings** – The first quarter closed at the end of February is generally the year's weakest for Richelieu in light of the smaller 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 a smaller number of 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 2013, 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, 2013

During the fourth quarter, Richelieu achieved good growth in **consolidated sales** which totalled \$155.3 million, an increase of \$9.5 million or 6.5% over the corresponding quarter of 2012, including 5.1% from internal growth and 1.4% from acquisitions.

Sales to **manufacturers** amounted to \$133.7 million, compared with \$125.3 million for the corresponding period of 2012, an increase of \$8.4 million or 6.7%, of which 5.1% from internal growth and 1.6% from acquisitions. Sales to hardware **retailers** and renovation superstores grew to \$21.6 million, compared with \$20.5 million for the same quarter of 2012, an increase of \$1.1 million or 5.4%.

**In Canada**, the Corporation recorded sales of \$115.9 million, compared with \$114.6 million for the fourth quarter of 2012, an increase of \$1.3 million or 1.1% stemming from the 1.4% contribution of Hi-Tech, whereas the internal decrease was 0.3%. Richelieu's sales to **manufacturers** grew by 0.3% to \$96.6 million, compared with \$96.3 million for the fourth quarter of 2012. Sales to hardware **retailers** and renovation superstores increased to \$19.3 million, up by 5.5% over \$18.3 million for the corresponding quarter of 2012.

**In the United States**, constant market penetration efforts and the launch of new product lines continued to pay off, thanks especially to more favourable economic conditions. The Corporation achieved sales of US\$37.9 million, compared with US\$31.6 million for the corresponding quarter of 2012, an increase of US\$6.3 million or 20.0%, of which 18.7% from internal growth and 1.3% from Savannah's contribution. The Corporation's sales to **manufacturers** grew to US\$35.2 million, an increase of 20.1%, of which 18.7% from internal growth and 1.4% from Savannah. Sales to hardware **retailers** and renovation superstores were stable with those for the same quarter of 2012; note that in 2012, the introduction of additional products in stores resulted in exceptional sales. In Canadian dollars, U.S. sales amounted to \$39.4 million, compared with \$31.2 million for the corresponding quarter of 2012, an increase of 26.3%, of which 25.0% from internal growth and 1.3% from the aforementioned acquisition. They accounted for 25.4% of the quarter's consolidated sales, whereas for the fourth quarter of 2012, U.S. sales had represented 21.4% of the period's consolidated sales.



**Earnings before interest, income taxes and amortization (EBITDA)** totalled \$20.2 million, up by 3.0% over the corresponding quarter of 2012 due primarily to the sales growth. The **gross margin** was down slightly from the fourth quarter of 2012 due mainly to the competitive environment and the more difficult economic context in Canada, the appreciation of currencies which raised the supply costs of certain products before the adjustment of selling prices, and the higher proportion of U.S. sales. The **EBITDA margin** was therefore 13.0% for the fourth quarter of 2013.

Income taxes amounted to \$5.2 million, an increase of \$0.3 million over the fourth quarter of 2012.

Fourth-quarter **net earnings** rose 4.4%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** grew to \$13.3 million, up by 5.1% over the corresponding quarter of 2012. The **net margin attributable to shareholders** remained relatively stable at 8.6%. **Earnings per share** amounted to \$0.65 basic and \$0.64 diluted, compared with \$0.61 basic and \$0.60 diluted for the fourth quarter of 2012, an increase of 6.6% and 6.7% respectively.

**Comprehensive income** totalled \$13.9 million, considering a positive impact of \$0.5 million on translation of the financial statements of the subsidiary in the United States, compared with \$13.2 million for the corresponding quarter of 2012, considering a positive impact of \$0.4 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) grew to \$15.2 million or \$0.73 diluted per share, up by 3.0% and 4.3% over the fourth quarter of 2012. Net change in non-cash working capital balances provided cash flows of \$4.3 million, compared with \$2.8 million in the fourth quarter of 2012. Changes in accounts payable and inventories represented a cash inflow of \$4.9 million, whereas changes in accounts receivable represented a cash outflow of \$0.6 million. Consequently, operating activities provided cash flows of \$19.5 million, compared with \$17.6 million for the fourth quarter of 2012.

**Financing activities** represented a cash outflow of \$24.7 million, compared with \$5.6 million for the corresponding quarter of 2012. Richelieu repurchased common shares under its normal course issuer bid for \$22.0 million, compared with \$3.1 million in the fourth quarter of 2012. The Corporation also paid shareholder dividends of \$2.7 million, up by 6.8%, on account of the dividend increase announced in January 2013. In addition, it issued common shares for \$0.1 million upon the exercise of options under its stock option plan, compared with \$0.3 million in the same quarter of 2012.

**Investing activities** represented a cash outflow of \$5.4 million for the fourth quarter, of which \$4.2 million for the acquisition de Hi-Tech and \$1.2 million for equipment needed for operations, whereas the Corporation had invested \$2.3 million in property, plant and equipment during the same quarter of 2012.

## FINANCIAL POSITION

### Analysis of principal cash flows for the year ended November 30, 2013

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

(in thousands of \$)

Years ended November 30	2013 \$	2012 \$
Cash flows provided by (used for):		
Operating activities	48,365	45,622
Financing activities	(45,816)	(16,214)
Investing activities	(7,898)	(7,183)
Effect of exchange rate changes	(51)	267
Net change in cash and cash equivalents	(5,400)	22,492
Cash and cash equivalents, beginning of year	51,587	29,095
Cash and cash equivalents, end of year	46,187	51,587
As at November 30	2013	2012
Working capital	204,117	200,088
Renewable line of credit (CA\$)	26,000	26,000
Renewable line of credit (US\$)	6,000	6,000

#### Operating activities

**Cash flows from operating activities** (before net change in non-cash working capital balances related to operations) totalled \$55.0 million or \$2.63 diluted per share, compared with \$54.4 million or \$2.57 diluted per share for 2012, primarily reflecting the increase in net earnings. Net change in non-cash working capital balances used cash flows of \$6.6 million, reflecting changes in accounts receivable, inventories, accounts payable and other items, compared with \$8.8 million for 2012. Consequently, operating activities provided cash flows of \$48.4 million, compared with \$45.6 million for 2012.

## Financing activities

Richelieu repurchased common shares under its normal course issuer bid for \$36.6 million, compared with \$5.9 million in 2012. In addition, it paid shareholder dividends of \$10.8 million, up by 7.4% over 2012, on account of the dividend increase announced in January 2013, and issued common shares for \$2.3 million upon the exercise of options under its stock option plan, compared with \$2.6 million during 2012. The Corporation also repaid \$0.7 million on its long-term debt, compared with \$2.9 million in 2012. Consequently, financing activities represented a cash outflow of \$45.8 million, compared with \$16.2 million in 2012.

## Investing activities

In 2013, the Corporation invested a total of \$7.9 million, of which \$4.4 million in the acquisition of the net assets of Savannah and Hi-Tech and \$3.5 million in equipment needed for operations. Note that in 2012, the Corporation had invested \$7.2 million, of which \$2.4 million in the acquisition of the net assets of CourterCo and \$4.8 million primarily in software and equipment needed for operations.

## Sources of financing

As at November 30, 2013, **cash and cash equivalents** totalled \$46.2 million, compared with \$51.6 million a year earlier. The Corporation posted a **working capital** of \$204.1 million for a current ratio of 4.5:1, compared with \$200.1 million (4.6:1 ratio) as at November 30, 2012.

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 planned for 2014. The Corporation continues to benefit from an authorized line of credit of CA\$26 million as well as a line of credit of US\$6 million renewable annually and bearing interest respectively at prime and base rates. In addition, the Corporation estimates 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 2014, and no usual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under "Risk Factors".

## Analysis of financial position at as November 30, 2013

### Summary of financial position

(in thousands of \$)

	2013	2012
As at November 30	\$	\$
Current assets	262,251	256,210
Non-current assets	94,074	93,659
<b>Total</b>	<b>356,325</b>	349,869
Current liabilities	58,134	56,122
Non-current liabilities	5,077	5,805
Equity attributable to shareholders of the Corporation	288,845	283,835
Non-controlling interests	4,269	4,107
<b>Total</b>	<b>356,325</b>	349,869
<i>Exchange rate on a translation of a subsidiary in the United States</i>	<i>1.062</i>	<i>0.9936</i>

### Assets

**Total assets** amounted to \$356.3 million as at November 30, 2013, compared with \$349.9 million a year earlier, up by 1.8% or \$6.5 million. This increase resulted from the Corporation's growth and the two acquisitions closed in 2013. **Current assets** grew by 2.4% or \$6.0 million over November 30, 2012, notably reflecting the increases of \$9.1 million in inventories, \$2.6 million in accounts receivable and \$0.2 million in prepaid expenses, whereas cash and cash equivalents decreased by \$5.4 million and income taxes receivable by \$0.5 million.

### Net cash

(in thousands of \$)

	2013	2012
As at November 30	\$	\$
Current portion of long-term debt	1,354	1,743
Long-term debt	–	820
<b>Total</b>	<b>1,354</b>	2,563
<i>Cash and cash equivalents</i>	<i>46,187</i>	<i>51,587</i>
<b>Total cash net of debt</b>	<b>44,833</b>	49,024

The Corporation benefits from an excellent financial position to pursue its business strategy. As at November 30, 2013, **total debt**, consisting entirely of the current portion of long-term debt, amounted to \$1.4 million, representing balances payable on prior acquisitions.

**Equity** reached \$293.1 million as at November 30, 2013, compared with \$287.9 million as at November 30, 2012, an increase of 1.8% stemming mainly from the growth of \$1.9 million in share capital and the change of \$3.3 million in accumulated other comprehensive income, less the change of \$0.4 million in contributed surplus. Retained earnings varied by \$0.2 million, reflecting the effect of the year's net earnings, less share repurchases and dividends paid during the year. As at November 30, 2013, **the book value per share** was \$14.41, compared with \$13.65 as at November 30, 2012.

**Return on average equity** stood at 16.2% as at November 30, 2013, compared with 16.9% a year earlier.

At 2013 year-end, the Corporation's **share capital** consisted of 20,046,061 common shares (20,794,484 shares as at November 30, 2012). The Corporation issued 124,577 common shares at an average price of \$18.34 (121,375 in 2012 at an average price of \$21.22) upon the exercise of options under its stock option plan in 2013. Also during the year, 873,000 common shares were purchased for cancellation under the Corporation's normal course issuer bid for a cash consideration of \$36.6 million (173,600 common shares for a cash consideration of \$5.9 million in 2012), resulting in a premium on the redemption of \$35.4 million recorded as a reduction in retained earnings (premium of \$5.7 million in 2012). Finally, the Corporation granted 78,000 stock options during the year (41,000 in 2012). Consequently, as at November 30, 2013, 711,673 stock options were outstanding (762,000 as at November 30, 2012).

#### EVENT SUBSEQUENT TO YEAR-END

On December 2, 2013, Richelieu acquired all of the outstanding common shares of Procraft, a distributor of finishing products serving a customer base of residential and commercial woodworkers and kitchen cabinet manufacturers in the Maritime Provinces from its three distribution centres located in Halifax (N.S.), Moncton and Fredericton (N.B.). This acquisition will add approximately \$4 million to the Corporation's total sales.

#### CONTRACTUAL COMMITMENTS

##### Summary of contractual financial commitments as at November 30, 2013

(in thousands of \$)

	Less than a year	1 to 5 years	More than 5 years	Total
Long-term debt	1,354	–	–	1,354
Operating leases	7,265	15,292	469	23,026
<b>Total</b>	<b>8,619</b>	<b>15,292</b>	<b>469</b>	<b>24,380</b>

For 2014 and the foreseeable future, the Corporation expects cash flows from operating activities and other sources of financing 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 the Richelieu's requirements, the availability of credit will remain stable in 2014, and no usual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under "Risk Factors".

#### 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.

In notes (1) and (12) of the audited consolidated financial statements for the year ended November 30, 2013, 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, 2013. 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, 2013, management verified 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, 2013 have been prepared by management in accordance with 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:

Valuation of inventory impairment, including loss and obsolescence, customer rebates, contingent liabilities, allowance for doubtful accounts, goodwill and intangible assets with indefinite useful lives, deferred tax assets and stock options 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.

### **NEW ACCOUNTING METHODS**

#### **Adopted in 2013**

##### **IAS 1, Presentation of Financial Statements**

In June 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. Items of other comprehensive income and the corresponding tax are required to be grouped into those that will and will not subsequently be reclassified to earnings. These amendments are in effect since July 1<sup>st</sup>, 2013 and had no impact on the presentation of the consolidated financial statements of the Corporation.

#### **Recently Issued**

The IASB recently issued new standards with effective dates for fiscal years 2014 and thereafter, as presented below.

##### **IFRS 9, Financial Instruments**

In November 2009, the International Accounting Standards Board ["IASB"] published IFRS 9, *Financial Instruments*. This new standard simplifies the classification and measurement of financial assets set out in IAS 39, *Financial Instruments: Recognition and Measurement*. Financial assets are to be measured at amortized cost or fair value. They are to be measured at amortized cost if the following two conditions are met:

- (a) the assets are held within a business model whose objective is to collect contractual cash flows; and
- (b) the contractual cash flows are solely payments of principal and interest on the outstanding principal.

All other financial assets are to be measured at fair value through earnings. The entity may, if certain conditions are met, elect to use the fair value option instead of measurement at amortized cost. As well, the entity may choose upon initial recognition to measure non-trading equity investments at fair value through comprehensive income. Such a choice is irrevocable.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39. For financial liabilities measured at fair value through earnings using the fair value option, the amount of change in a liability's fair value attributable to changes in its credit risk is recognized directly in other comprehensive income.

In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1<sup>st</sup>, 2015. Early adoption is permitted under certain conditions. An entity is not required to restate comparative financial periods for its first time application of IFRS 9, but must comply with the new disclosure requirements.

##### **IFRS 10, Consolidated Financial Statements**

In May 2011, the IASB published IFRS 10, *Consolidated Financial Statements*, which supersedes SIC-12, *Consolidation - Special Purpose Entities* and certain parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, employing the following factors to identify control:

- (a) power over the investee;
- (b) exposure or rights to variable returns from involvement with the investee; and
- (c) the ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 is applied to fiscal years beginning on or after January 1<sup>st</sup>, 2013.

### **IFRS 12, Disclosure of Interests in Other Entities**

In May 2011, the IASB published IFRS 12, *Disclosure of Interests in Other Entities*, which requires that an entity disclose information on the nature of and risks associated with its interests in other entities (i.e., subsidiaries, joint arrangements, associates and unconsolidated structured entities) and the effects of those interests on its financial statements. IFRS 12 is applied to fiscal years beginning on or after January 1<sup>st</sup>, 2013.

### **IFRS 13, Fair Value Measurement**

In May 2011, the IASB published IFRS 13, *Fair Value Measurement* to establish a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosure of certain information on fair value measurements. IFRS 13 is applied to fiscal years beginning on or after January 1<sup>st</sup>, 2013.

### **IAS 32, Financial Instruments: Presentation**

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* clarifying the requirements for offsetting financial assets and liabilities. The amendments shall be applied to fiscal years beginning on or after January 1<sup>st</sup>, 2014. The IASB also issued amendments to IFRS 7, *Financial Instruments: Disclosure* improving disclosure on offsetting of financial assets and liabilities. These amendments shall be applied to annual and interim periods beginning on or after January 1<sup>st</sup>, 2013.

### **IAS 36, Impairment of Assets**

In May 2013, the IASB issued amendments to IAS 36, *Impairment of Assets* to require disclosures about assets or cash generating units for which an impairment loss was recognized or reversed during the period. IAS 36 will be applied to fiscal years beginning on or after January 1<sup>st</sup>, 2014 with earlier adoption permitted.

The Corporation assesses that the above-mentioned amendments will not significantly impact its income, financial position and cash flows.

## **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 through its import business. Thus, any increase in foreign currencies (U.S. dollar and the 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 approximately 25% of 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 North American 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 20% 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 and expects to maintain sound working relations. 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 approximately 65% 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.

## Crisis management and IT contingency plan

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.

## BOOK VALUE

In 2013, the share price fluctuated between \$33.75 and \$46.21, and the volume traded on the Toronto Stock Exchange totalled approximately 4.8 million shares. The closing price was \$44.68 on November 30, 2013, compared with \$33.54 as at November 30, 2012. Richelieu's share price has increased by 1,990% since its 1993 listing on the stock market. It should also be pointed out that the Corporation has paid shareholder dividends since 2002 and that the dividends paid in 2013 represented 23.2% of net earnings attributable to shareholders.

## SHARE INFORMATION AS AT JANUARY 23, 2014

Issued and outstanding common shares: 20,047,061

Stock options under stock option plan: 710,673

## OUTLOOK


During 2014, Richelieu will pursue its growth initiatives in accordance with its two strategic drivers, consisting of acquisitions in North America and internal growth fuelled by innovations, targeted market development, the creation of synergies with its acquisitions, and further operating efficiency improvements.

## 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).



**Richard Lord**  
President and Chief  
Executive Officer



**Antoine Auclair**  
Vice-President and Chief  
Financial Officer

January 23, 2014

## Management's Report

Related to the consolidated financial statements

The consolidated financial statements of Richelieu Hardware Ltd. (the "Corporation") and other financial information included in this Annual Report are the responsibility of the Corporation's management. These consolidated financial statements have been prepared by management in accordance with IFRS and approved by the Board of Directors.

Richelieu Hardware Ltd. maintains accounting and internal control systems which, in management's opinion, reasonably ensure the accuracy of the financial information and maintain proper standards of conduct in the Corporation's activities.

The Board of Directors fulfills its responsibility regarding the consolidated financial statements included in the Annual Report, primarily through its Audit Committee. This committee which meets periodically with the Corporation's managers and external auditors, has reviewed the consolidated financial statements of Richelieu Hardware Ltd. and has recommended that they be approved by the Board of Directors.

The consolidated financial statements have been audited by the Corporation's external auditors, Ernst & Young LLP, Chartered Professional Accountants.

Montreal, Canada  
January 23, 2014



**Richard Lord**

President and Chief Executive Officer



**Antoine Auclair**

Vice-President and Chief Financial Officer

## Independent Auditors' Report

To the Shareholders of **Richelieu Hardware Ltd.**

We have audited the accompanying consolidated financial statements of Richelieu Hardware Ltd., which comprise the consolidated statements of financial position as at November 30, 2013 and 2012 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years the ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Richelieu Hardware Ltd. as at November 30, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Montreal, Canada  
January 23, 2014

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A120803

## Consolidated Statements of Financial Position

As at November 30  
(In thousands of dollars)

	Notes	2013 \$	2012 \$
<b>ASSETS</b>			
<b>Current assets</b>			
	3		
Cash and cash equivalents		<b>46,187</b>	51,587
Accounts receivable		<b>78,343</b>	75,721
Income taxes receivable		<b>–</b>	514
Inventories		<b>136,746</b>	127,607
Prepaid expenses		<b>975</b>	781
		<b>262,251</b>	256,210
<b>Non-current assets</b>			
Property, plant and equipment	3, 4	<b>22 291</b>	23 740
Intangible assets	3, 5	<b>15 661</b>	15 601
Goodwill	3, 5	<b>52 788</b>	51 405
Deferred taxes	9	<b>3 334</b>	2 913
		<b>356 325</b>	349 869
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
	3		
Accounts payable and accrued liabilities		<b>56,462</b>	54,379
Income taxes payable		<b>318</b>	–
Current portion of long-term debt	7	<b>1,354</b>	1,743
		<b>58,134</b>	56,122
<b>Non-current liabilities</b>			
Long-term debt	7	<b>–</b>	820
Deferred taxes	9	<b>3,246</b>	3,246
Other liabilities		<b>1,831</b>	1,739
		<b>63,211</b>	61,927
<b>Equity</b>			
Share capital	8	<b>25,288</b>	23,349
Contributed surplus	8	<b>2,356</b>	2,761
Retained earnings		<b>258,965</b>	258,775
Accumulated other comprehensive income (loss)	11	<b>2,236</b>	(1,050)
Equity attributable to shareholders of the Corporation		<b>288,845</b>	283,835
Non-controlling interests		<b>4,269</b>	4,107
		<b>293,114</b>	287,942
		<b>356,325</b>	349,869

Commitments and contingencies [note 10]

Subsequent event [note 17]

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



Director



Director

## Consolidated Statements of Earnings

Years ended November 30  
(In thousands of dollars, except earnings per share)

	Notes	2013 \$	2012 \$
<b>Sales</b>		<b>586,775</b>	565,798
Cost of goods sold, warehousing, selling and administrative expenses		<b>516,402</b>	494,635
<b>Earnings before amortization, financial costs and income taxes</b>		<b>70,373</b>	71,163
Amortization of property, plant and equipment		<b>5,060</b>	5,162
Amortization of intangible assets		<b>2,218</b>	2,351
Financial costs, net		<b>(464)</b>	(198)
		<b>6,814</b>	7,315
<b>Earnings before income taxes</b>		<b>63,559</b>	63,848
Income taxes	9	<b>16,902</b>	17,939
<b>Net earnings</b>		<b>46,657</b>	45,909
<b>Net earnings attributable to:</b>			
Shareholders of the Corporation		<b>46,403</b>	45,404
Non-controlling interests		<b>254</b>	505
		<b>46,657</b>	45,909
<b>Net earnings per share attributable to shareholders of the Corporation</b>	8		
Basic		<b>2.25</b>	2.17
Diluted		<b>2.22</b>	2.15

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Years ended November 30  
(In thousands of dollars, except earnings per share)

	Notes	2013 \$	2012 \$
<b>Net earnings</b>		<b>46,657</b>	45,909
<b>Other comprehensive income (loss)</b>			
Exchange differences on translation of foreign operations	11	<b>3,286</b>	(1,153)
<b>Comprehensive income</b>		<b>49,943</b>	44,756
<b>Comprehensive income attributable to:</b>			
Shareholders of the Corporation		<b>49,689</b>	44,251
Non-controlling interests		<b>254</b>	505
		<b>49,943</b>	44,756

See accompanying notes to the consolidated financial statements.



## Consolidated Statements of Changes in Equity

Years ended November 30  
[In thousands of dollars]

	Attributable to shareholders of the Corporation				Total \$	Non- controlling interests \$	Total equity \$
	Share capital \$	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$			
<i>Notes</i>	8			11			
Balance as at November 30, 2011	19,714	3,586	229,064	103	252,467	3,720	256,187
Net earnings	–	–	45,404	–	45,404	505	45,909
Other comprehensive income (loss)	–	–	–	(1,153)	(1,153)	–	(1,153)
Comprehensive income	–	–	45,404	(1,153)	44,251	505	44,756
Shares repurchased	(188)	–	(5,667)	–	(5,855)	–	(5,855)
Stock options exercised	3,823	(1,247)	–	–	2,576	–	2,576
Share-based compensation expense	–	422	–	–	422	–	422
Dividends [note 16]	–	–	(10,026)	–	(10,026)	–	(10,026)
Other liabilities	–	–	–	–	–	(118)	(118)
	3,635	(825)	(15,693)	–	(12,883)	(118)	(13,001)
<b>Balance as at November 30, 2012</b>	<b>23,349</b>	<b>2,761</b>	<b>258,775</b>	<b>(1,050)</b>	<b>283,835</b>	<b>4,107</b>	<b>287,942</b>
Net earnings	–	–	46,403	–	46,403	254	46,657
Other comprehensive income (loss)	–	–	–	3,286	3,286	–	3,286
Comprehensive income	–	–	46,403	3,286	49,689	254	49,943
Shares repurchased	(1,151)	–	(35,445)	–	(36,596)	–	(36,596)
Stock options exercised	3,090	(805)	–	–	2,285	–	2,285
Share-based compensation expense	–	400	–	–	400	–	400
Dividends [note 16]	–	–	(10,768)	–	(10,768)	–	(10,768)
Other liabilities	–	–	–	–	–	(92)	(92)
	1,939	(405)	(46,213)	–	(44,679)	(92)	(44,771)
<b>Balance as at November 30, 2013</b>	<b>25,288</b>	<b>2,356</b>	<b>258,965</b>	<b>2,236</b>	<b>288,845</b>	<b>4,269</b>	<b>293,114</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

Years ended November 30  
[In thousands of dollars]

	Notes	2013 \$	2012 \$
<b>OPERATING ACTIVITIES</b>			
Net earnings		<b>46,657</b>	45,909
Items not affecting cash:			
Amortization of property, plant and equipment		<b>5,060</b>	5,162
Amortization of intangible assets		<b>2,218</b>	2,351
Deferred taxes		<b>(354)</b>	–
Share-based compensation expense	8	<b>1,397</b>	981
		<b>54,978</b>	54,403
Net change in non-cash working capital balances		<b>(6 613)</b>	(8 781)
		<b>48 365</b>	45 622
<b>FINANCING ACTIVITIES</b>			
Repayment of long-term debt		<b>(737)</b>	(2,909)
Dividends paid	16	<b>(10,768)</b>	(10,026)
Common shares issued	8	<b>2,285</b>	2,576
Common shares repurchased for cancellation	8	<b>(36,596)</b>	(5,855)
		<b>(45,816)</b>	(16,214)
<b>INVESTING ACTIVITIES</b>			
Business acquisitions	3	<b>(4,447)</b>	(2,386)
Additions to property, plant and equipment and intangible assets		<b>(3,451)</b>	(4,797)
		<b>(7,898)</b>	(7,183)
Effect of exchange rate changes on cash and cash equivalents		<b>(51)</b>	267
Net change in cash and cash equivalents		<b>(5,400)</b>	22,492
Cash and cash equivalents, beginning of period		<b>51,587</b>	29,095
<b>Cash and cash equivalents, end of period</b>		<b>46,187</b>	51,587
<b>Supplementary information</b>			
Income taxes paid		<b>16,351</b>	16,647
Interest received, net		<b>(464)</b>	(335)

See accompanying notes to the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### NATURE OF BUSINESS

Richelieu Hardware Ltd. [the "Company"] is incorporated under the laws of Quebec, Canada. The Corporation is a distributor, importer, and manufacturer of specialty hardware and complementary products. Its products are targeted to an extensive customer base of kitchen and bathroom cabinet, furniture, and window and door manufacturers plus the residential and commercial woodworking industry, as well as a large customer base of hardware retailers, including renovation superstores. The Corporation's head office is located at 7900 Henri-Bourassa Blvd, W., Saint-Laurent, Quebec, Canada, H4S 1V4.

### 1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's consolidated financial statements, presented in Canadian dollars, 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:

Valuation of inventory impairment, including loss and obsolescence, customer rebates, contingent liabilities, allowance for doubtful accounts, goodwill and intangible assets with indefinite useful lives, deferred tax assets and stock options 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.

The Corporation's consolidated financial statements have been properly prepared within the reasonable limits of materiality in accordance with the accounting policies summarized below:

#### Consolidation

The consolidated financial statements include the accounts of Richelieu Hardware Ltd. and its subsidiaries described in note 13. All significant intercompany balances and transactions have been eliminated upon consolidation.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with an initial term of three months or less. Cash and cash equivalents were classified in "financial assets at fair value through net earnings" and measured at fair value. Gains (losses) arising from remeasurement at each period-end are recorded in the consolidated statement of earnings.

#### Accounts receivable

Accounts receivable are classified in "loans and receivables" and carried at cost, which is equivalent to fair market value on initial recognition. Subsequent measurements are recorded at amortized cost using the effective interest method. For the Corporation, this measurement is usually equivalent to cost due to their short-term maturities.

#### Inventories

Inventories, which consist primarily of finished goods, are valued at the lower of average cost and net realizable value. Net realizable value is the expected selling price in the normal course of business, less estimated costs to sell. The Corporation uses significant judgment when estimating the effect of certain factors on the net realizable value of inventory, such as inventory obsolescence and loss. The quantity, age and condition of inventory are measured and assessed regularly during the year.

#### Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives. The main components have different useful lives and are amortized separately. The amortization method and useful life estimates are reviewed annually.

Buildings	20 years
Leasehold improvements	Lease terms, maximum 5 years
Machinery and equipment	5-10 years
Rolling stock	5 years
Furniture and fixtures	3-5 years
Computer equipment	3-5 years

#### Intangible assets

Intangible assets are acquired assets that lack physical substance and that meet the specified criteria for recognition apart from goodwill and property, plant and equipment. Intangible assets consist mainly of purchased or internally developed software, customer relationships, non-competition agreements and trademarks. Software and customer relationships are amortized on a straight-line basis over their useful lives of 3 and 10-20 years, respectively, while non-competition agreements are amortized over the terms of the agreements. Trademarks have an indefinite life and are therefore not amortized.

#### Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. The goodwill arising from the acquisitions corresponds to the development potential of the acquired businesses, combined with the Corporation's operations. Goodwill is not amortized.

#### Impairment of non-current assets

At the end of each reporting period, the Corporation must determine whether indicators of impairment exist for its non-current assets, excluding goodwill and intangible assets with indefinite useful lives. If such indicators exist, the non-current assets are tested for impairment. When the impairment test indicates that the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in net earnings in an amount equal to the excess.

The Corporation is required to test goodwill and intangible assets with indefinite lives for impairment at least once a year, whether or not indicators of impairment exist.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 1. SIGNIFICANT ACCOUNTING POLICIES [cont'd]

Impairment tests are carried out on the asset itself, the cash-generating unit ["CGU"] or group of CGUs as at November 30. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and the supporting assets that cannot be wholly allocated to a single CGU are tested for impairment at the group of CGUs level.

Impairment tests consist in a comparison between the carrying and recoverable amounts of an asset, CGU or group of CGUs. The recoverable amount is the higher of value in use and fair value less costs to sell. Where the carrying amount exceeds the recoverable amount, an impairment loss equal to the excess is recognized in net earnings. Impairment losses related to CGUs or groups of CGUs are allocated proportionately to the assets of the CGU or group of CGUs; however, the carrying amount of the assets is not reduced below the higher of their fair value less costs to sell and their value in use.

Other than for goodwill, if a reversal of an impairment loss occurs, it must be recognized immediately in net earnings. Reversals of impairment losses related to a CGU or group of CGUs are allocated proportionately to the assets of the CGU or group of CGUs. On reversal of an impairment loss, the increased recoverable amount of an asset must not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized in respect of the asset in prior years.

In impairment testing of goodwill and intangible assets with indefinite useful lives, value in use is estimated using a discounted future cash flow model. The application of this method is based on different assumptions such as estimated future cash flows as described in notes 5.

#### Other financial liabilities

Accounts payable and accrued liabilities are classified in "other financial liabilities" and are initially recorded at fair value. They are subsequently measured at amortized cost using the effective interest method. For the Corporation, this measurement is usually equivalent to cost. Options to purchase non-controlling interests that correspond to the definition of a financial liability are measured at fair value and presented under other liabilities.

#### Revenue recognition

Revenues are recognized when finished products are shipped to customers.

#### Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to be in effect in the years in which the temporary differences are expected to reverse. Changes in these balances are recognized in net earnings in the year in which they arise.

Deferred tax assets are recognized when it is probable that the Corporation will have future taxable income against which these tax assets may be offset. In determining these deferred tax assets, assumptions are considered, such as the period for tax loss carry forwards to be completely used up and the level of future taxable income in accordance with tax planning strategies.

#### Foreign currency translation

The consolidated financial statements are presented in the Corporation's functional currency, which is the Canadian dollar. Monetary assets and liabilities of the Corporation are translated at the exchange rate in effect at the end of the reporting period and the other items in the statements of financial position and earnings are translated at the exchange rates in effect at the date of transaction. Foreign exchange gains and losses are recognized in net earnings in the year in which they arise.

The assets and liabilities of the U.S. subsidiary are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenues and expenses are translated at the rate in effect at the date of transaction. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income.

#### Foreign exchange forward contracts

The Corporation periodically enters into foreign exchange forward contracts with major financial institutions to partially hedge the effects of changes in foreign exchange rates related to foreign currency liabilities, as well as to hedge anticipated purchase transactions. The Corporation does not use derivatives for speculative purposes.

The Corporation uses hedge accounting only when IFRS documentation criteria are met. Derivative financial instruments designated as cash flow hedges are classified as available-for-sale financial assets and liabilities and are measured at fair value, which is the instruments' approximate settlement value at market rates. Gains and losses on remeasurement at each year-end are recorded in comprehensive income. If the instrument is not designated and documented as a hedge, changes in fair value are recognized in the statement of consolidated earnings for the year. Assets or liabilities related to financial instruments are included in accounts receivable or accounts payable and accrued liabilities in the consolidated statements of financial position.

#### Share-based payment

The Corporation recognizes stock-based compensation and other share-based payments in net earnings using the fair value method for stock options granted. The Black & Scholes model is used to determine the grant date fair value of stock options. The application of this method is based on different assumptions such as risk free interest rate, expected life, volatility and dividend yield as described in note 8.

#### Net earnings per share

Net earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

## 2. CHANGES IN ACCOUNTING METHODS

### Adopted in 2013

#### IAS 1, Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements. Items of other comprehensive income and the corresponding tax are required to be grouped into those that will and will not subsequently be reclassified to earnings. These amendments are in effect since July 1<sup>st</sup> 2013 and had no impact on the presentation of the consolidated financial statements of the Corporation.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 2. CHANGES IN ACCOUNTING METHODS [cont'd]

#### Recently issued

The IASB recently issued new standards with effective dates for fiscal years 2014 and thereafter, as presented below.

#### IFRS 9, Financial Instruments

In November 2009, the International Accounting Standard Board ["IASB"] published IFRS 9, *Financial Instruments*. This new standard simplifies the classification and measurement of financial assets set out in IAS 39, *Financial Instruments: Recognition and Measurement*. Financial assets are to be measured at amortized cost or fair value. They are to be measured at amortized cost if the two following conditions are met:

- [a] The assets are held within a business model whose objective is to collect contractual cash flows; and
- [b] The contractual cash flows are solely payments of principal and interest on the outstanding principal.

All other financial assets are to be measured at fair value through earnings. The entity may, if certain conditions are met, elect to use the fair value option instead of measurement at amortized cost. As well, the entity may choose upon initial recognition to measure non-trading equity investments at fair value through comprehensive income. Such a choice is irrevocable.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39. For financial liabilities measured at fair value through earnings using the fair value option, the amount of change in a liability's fair value attributable to changes in its credit risk is recognized directly in other comprehensive income.

In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1<sup>st</sup> 2015. Early adoption is permitted under certain conditions. An entity is not required to restate comparative financial periods for its first time application of IFRS 9, but must comply with the new disclosure requirements.

#### IFRS 10, Consolidated Financial Statements

In May 2011, the IASB published IFRS 10, *Consolidated Financial Statements*, which supersedes SIC-12, *Consolidation – Special Purpose Entities* and certain parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, employing the following factors to identify control:

- [a] Power over the investee;
- [b] Exposure or rights to variable returns from involvement with the investee;
- [c] The ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 is applied to fiscal years beginning on or after January 1<sup>st</sup>, 2013.

#### IFRS 12, Disclosure of Interests in Other Entities

In May 2011, the IASB published IFRS 12, *Disclosure of Interests in Other Entities* which requires that an entity disclose information on the nature of and risks associated with its interests in other entities (i.e., subsidiaries, joint arrangements, associates and unconsolidated structured entities) and the effects of those interests on its financial statements. IFRS 12 is applied to fiscal years beginning on or after January 1<sup>st</sup>, 2013.

#### IFRS 13, Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement* to establish a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosure of certain information on fair value measurements. IFRS 13 is applied to fiscal years beginning on or after January 1<sup>st</sup>, 2013.

#### IAS 32, Financial Instruments: Presentation

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* clarifying the requirements for offsetting financial assets and liabilities. The amendments shall be applied to fiscal years beginning on or after January 1<sup>st</sup>, 2014. The IASB also issued amendments to IFRS 7, *Financial Instruments: Disclosure* improving disclosure on offsetting of financial assets and liabilities. These amendments shall be applied to annual and interim periods beginning on or after January 1<sup>st</sup>, 2013.

#### IAS 36, Impairment of Assets

In May 2013, the IASB issued amendments to IAS 36, *Impairment of Assets* to require disclosures about assets or cash generating units for which an impairment loss was recognized or reversed during the period. IAS 36 will be applied to fiscal years beginning on or after January 1<sup>st</sup>, 2014 with earlier adoption permitted.

The Corporation assesses the above-mentioned amendments will not significantly impact its income, financial position and cash flows.

### 3. BUSINESS ACQUISITIONS

#### 2013

On September 3, 2013, the Corporation purchased the net assets of Hi-Tech Glazing Supplies ["Hi-Tech"] for a cash consideration of \$4,150 and a balance of sale of \$500. This Corporation based in Vancouver is a distributor of door and window hardware, which serves the British Columbia market.

On March 21, 2013, the Corporation purchased the net assets of CourterCo Savannah LLC ["Savannah"] for a cash consideration of \$297 [\$290 US]. This distributor of speciality and decorative hardware product operates a distribution center based in Savannah [Georgia, United-States] and serves a base of residential and commercial woodworkers customers and kitchen, bathroom cabinet and furniture manufacturers.

Since their acquisition, Hi-Tech and Savannah jointly generated sales of \$2,700. If these acquisitions had been completed on December 1<sup>st</sup> 2012, management estimates that generated sales would have been approximately \$7,000.

#### 2012

On May 1<sup>st</sup>, 2012, the Corporation purchased the net assets of CourterCo Inc. ["CourterCo"] for a cash consideration of \$2,386 [\$2,415 US], and a balance of sale of \$606 [\$613 US]. From its 3 locations in the United States, Indianapolis [Indiana], Louisville [Kentucky], and Greensboro [North Carolina], this business serves a base of residential and commercial woodworkers customers and kitchen, bathroom cabinet and furniture manufacturers.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 3. BUSINESS ACQUISITIONS [cont'd]

These transactions were accounted for using the acquisition method and the results of operations are included in the consolidated financial statements as of the respective acquisition date for each acquisition.

#### Summary of acquisitions

The preliminary purchase price allocations for Hi-Tech and Savannah and the final purchase price allocation of CourterCo, at the transaction dates, are summarized as follows:

	2013 \$	2012 \$
<b>Net assets acquired</b>		
Accounts receivable	694	1,509
Inventories	2,253	1,930
Prepaid expenses	–	24
	<b>2,947</b>	3,463
Property, plant and equipment	137	66
Customer relationships	1,332	439
Non-competition agreements	162	57
Trademark	96	205
Goodwill	1,117	316
	<b>5,791</b>	4,546
Current liabilities assumed	844	1,556
<b>Net assets acquired</b>	<b>4,947</b>	2,990
<b>Considerations</b>		
Cash, net of cash acquired	4,447	2,384
Considerations payable	500	606
	<b>4,947</b>	2,990

During the year ended November 30, 2013, the Corporation paid balances of sale amounting to \$737 and reduced the balances of sales by \$972 as a result of purchase price adjustments on acquisitions from previous years.

### 4. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Buildings \$	Leasehold improvements \$	Machinery and equipment \$	Rolling stock \$	Furniture and fixtures \$	Computer equipment \$	Total \$
Net carrying amount as at November 30 <sup>th</sup> 2011	3,652	10,702	1,310	5,302	1,469	1,565	927	24,927
Acquisitions	–	281	181	1,070	605	1,507	312	3,956
Acquisitions through business combinations	–	–	31	9	–	26	–	66
Amortization	–	(1,274)	(435)	(1,548)	(588)	(801)	(516)	(5,162)
Effect of changes in foreign exchange rates	–	(1)	(18)	(14)	(5)	(8)	(1)	(47)
Net carrying amount as at November 30 <sup>th</sup> , 2012	3,652	9,708	1,069	4,819	1,481	2,289	722	23,740
Cost	3,652	21,170	4,262	23,164	6,272	12,076	9,262	79,858
Accumulated amortization	–	(11,462)	(3,193)	(18,345)	(4,791)	(9,787)	(8,540)	(56,118)
Net carrying amount as at November 30 <sup>th</sup> , 2012	3,652	9,708	1,069	4,819	1,481	2,289	722	23,740

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 4. PROPERTY, PLANT AND EQUIPMENT [cont'd]

	Land	Buildings	Leasehold improvements	Machinery and equipment	Rolling stock	Furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Net carrying amount as at November 30 <sup>th</sup> 2012	3,652	9,708	1,069	4,819	1,481	2,289	722	23,740
Acquisitions	–	797	6	371	862	879	372	3,287
Acquisitions through business combinations	–	–	–	33	57	47	–	137
Amortization	–	(1,275)	(395)	(1,267)	(586)	(1,015)	(522)	(5,060)
Effect of changes in foreign exchange rates	–	–	36	44	21	80	6	187
Net carrying amount as at November 30 <sup>th</sup> , 2013	3,652	9,230	716	4,000	1,835	2,280	578	22,291
Cost	3,652	21,967	4,322	23,670	7,156	13,118	9,663	83,548
Accumulated amortization	–	(12,737)	(3,606)	(19,670)	(5,321)	(10,838)	(9,085)	(61,257)
Net carrying amount as at November 30 <sup>th</sup> , 2013	3,652	9,230	716	4,000	1,835	2,280	578	22,291

### 5. INTANGIBLE ASSETS AND GOODWILL

	Software	Non-competition agreements	Customer relationships	Trademarks	Total	Goodwill
	\$	\$	\$	\$	\$	\$
Net carrying amount as at November 30 <sup>th</sup> , 2011	1,250	673	11,421	3,295	16,639	50,748
Acquisitions	749	33	33	–	815	–
Acquisitions through business combinations	–	57	439	205	701	316
Adjustment for business combinations	–	–	–	–	–	396
Amortization	(831)	(217)	(1,303)	–	(2,351)	–
Effect of changes in foreign exchange rates	–	(4)	(165)	(34)	(203)	(55)
Net carrying amount as at November 30 <sup>th</sup> , 2012	1,168	542	10,425	3,466	15,601	51,405
Cost	5,044	1,346	20,288	3,466	30,144	51,405
Accumulated amortization	(3,876)	(804)	(9,863)	–	(14,543)	–
Net carrying amount November 30 <sup>th</sup> , 2012	1,168	542	10,425	3,466	15,601	51,405
Net carrying amount as at November 30 <sup>th</sup> , 2012	1,168	542	10,425	3,466	15,601	51,405
Acquisitions	164	–	–	–	164	–
Acquisitions through business combinations	–	162	1,332	96	1,590	1,117
Amortization	(717)	(127)	(1,374)	–	(2,218)	–
Effect of changes in foreign exchange rates	–	9	411	104	524	266
Net carrying amount as at November 30 <sup>th</sup> , 2013	615	586	10,794	3,666	15,661	52,788
Cost	5,209	1,697	22,494	3,666	33,066	52,788
Accumulated amortization	(4,594)	(1,111)	(11,700)	–	(17,405)	–
Net carrying amount November 30 <sup>th</sup> , 2013	615	586	10,794	3,666	15,661	52,788

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 5. INTANGIBLE ASSETS AND GOODWILL [cont'd]

For impairment test purposes, the carrying value of goodwill and intangible assets has been allocated to CGUs or groups of CGUs. The recoverable value of the CGUs or groups of CGUs was determined on the basis of their value in use, which was calculated using forecasted cash flows before taxes over a period of five years. The discount rates before taxes used as at November 30, 2013 and 2012 are between 13% and 14%, considering a terminal value of 2%. No reasonably possible change to the main assumptions used for the impairment tests would result in a carrying amount higher than the recoverable amount.

### 6. BANK INDEBTEDNESS

The Corporation has a line of credit with a Canadian banking institution with an authorized amount of \$26 million in Canadian dollar and \$6 million in US dollar, bearing interest at the bank's prime and base rates, which were respectively 3% and 3.75% as at November 30, 2013 and 2012. The line of credit is renewable annually.

### 7. DEBT LONG-TERM

	2013 \$	2012 \$
Business acquisition considerations payable not bearing interests, including US\$181 [US\$1,017 in 2012];	1,354	2,563
Current portion of long-term debt	1,354	1,743
Long-term debt	—	820

### 8. SHARE CAPITAL

#### Authorized

Unlimited number of:

Common shares.

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

	2013 \$	2012 \$
20,046,061 common shares [2012 - 20,794,484]	25,288	23,349

#### Issued

During 2013, the Corporation issued 124,577 common shares [2012 - 121,375] at an average price of \$18.34 per share [2012 - \$21.22] pursuant to the exercise of options under the stock option plan. In addition, during 2013, the Corporation, through a normal course issuer bid, purchased 873,000 common shares for cancellation in consideration of \$36,596 [2012 - 173,600 for a consideration of \$5,855] which resulted in a premium on the redemption in the amount of \$35,445 recorded in the consolidated statements of retained earnings [premium of \$5,667 in 2012].

#### Stock option plan

The Corporation offers a stock option plan to its directors, officers and key employees. The subscription price of each share issuable under the plan is equal to the market price of the shares five days prior to the day the option was granted and must be paid in full at the time the option is exercised. Options vest at a rate of 25% per year starting one year after grant date and expire on the tenth anniversary of the grant date.

As at November 30, 2013, 145,650 options [2012 - 219,900] were still available to be granted.

Changes in stock options are summarized as follows:

	Number of options	Exercise price per share \$	Aggregate \$
Outstanding, November 30, 2011	883,000	11.35 to 30.68	18,759
Granted	41,000	27.43	1,125
Exercised	(121,375)	11.35 to 30.68	(2,576)
Cancelled	(40,625)	15.89 to 30.68	(1,034)

Outstanding, November 30, 2012	762,000	14.50 to 30.68	16,274
Granted	78,000	38.14	2,975
Exercised	(124,577)	14.50 to 30.45	(2,285)
Cancelled	(3,750)	27.43 to 38.14	(127)

Outstanding, November 30, 2013	711,673	15.89 to 38.14	16,837
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The table below summarizes information regarding the stock options outstanding as at November 30, 2013 :

Range in exercise price [in dollars]	Options outstanding			Exercisable options	
	Number of options	Weighted average remaining period [years]	Weighted average exercise price [in dollars]	Number of options	Weighted average exercise price [in dollars]
15.89 - 21.69	286,500	3.83	19.18	286,500	19.18
21.70 - 24.76	287,173	2.32	23.25	285,298	23.25
24.77 - 30.44	38,500	8.14	27.44	9,875	27.46
30.45 - 38.14	99,500	8.73	36.32	11,750	30.45
	<b>711,673</b>	<b>4.14</b>	<b>23.67</b>	<b>593,423</b>	<b>21.50</b>

During 2013, the Corporation granted 78,000 options [2012 - 41,000] with an average exercise price of \$38.14 per share [2012 - \$27.43] and an average fair value of \$9.95 per option [2012 - \$6.56] as determined using the Black & Scholes option pricing model using an expected dividend yield of 1.34% [2012 - 1.75%], a volatility of 25% [2012 - 25%], a risk free interest rate of 2.04% [2012 - 2.31%] and an expected life of 7 years [2012 - 7 years]. The compensation expense charged to earnings for the options granted in 2013 amounted to \$400 [2012 - \$422].

#### Deferred share unit plan

The Corporation offers a deferred share unit ("DSU") plan to its directors who can elect to receive part or all of their compensation in DSUs. The value of DSUs is redeemable for cash only when a director ceases to be a member of the Board. The financial liability resulting from the plan of \$3,156 [2012 - \$2,159] is presented under the Accounts payable and accrued liabilities. The compensation expense charged to earnings for the DSU in 2013 amounted to \$997 [2012 - \$559] and is recognized under *Cost of goods sold, warehousing, selling and administrative expenses*.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 8. SHARE CAPITAL[cont'd]

#### Share purchase plan

The Corporation has a share purchase plan entitling any employees to purchase shares up to a maximum percentage of their total compensation in cash. The Corporation contributes an amount equivalent to a percentage of any amounts invested by the employee to the purchase of additional shares. The Corporation's contribution is determined annually. Compensation expense related to the share purchase plan amounted to \$413 for 2013 [2012 - \$391] and is recognized under *Cost of goods sold, warehousing, selling and administrative expenses*.

#### Earnings per share

Basic earnings per share and diluted earnings per share were calculated based on the following number of shares:

	2013	2012
Weighted average number of shares outstanding		
– Basic	20,632	20,885
Dilutive effect under stock option plan	298	252
Weighted average number of shares outstanding		
– Diluted	20,930	21,137

The computation of diluted net earnings per share includes all outstanding options as at November 30, 2013 and 2012.

### 9. INCOME TAXES

The main components of the provision for income taxes are as follows:

	2013	2012
	\$	\$
Current	17,256	17,939
Deferred		
– Temporary differences	772	–
– Deferred tax assets not previously recognized	(1,126)	–
	16,902	17,939

The effective income tax rate differs from the combined statutory rates for the following reasons:

	2013	2012
	%	%
Combined statutory rates	26.87%	26.96%
Income taxes at combined statutory rates	17,076	17,212
Increase (decrease) resulting from:		
– Impact of statutory rates changes for the subsidiary outside Canada	353	(21)
– Share-based compensation	108	265
– Other non-deductible expenses	115	103
– Deferred tax assets not previously recognized	(1,126)	–
– Other	376	380
	16,902	17,939

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The major components of deferred tax assets and liabilities of the Corporation were as follows:

	2013	2012
	\$	\$
<b>Deferred taxes</b>		
Translation of foreign exchange currencies, other reserves only recognized for tax purposes upon disbursement and other tax attributes	3,080	2,545
Excess of the tax value of Property, plant and equipment over their net carrying value	1,593	1,607
Excess of the net carrying value of intangible assets and goodwill over their tax value	(4,585)	(4,485)
<b>Net amount</b>	88	(333)

The net deferred taxes included the following as at November 30:

	2013	2012
	\$	\$
Deferred tax assets	3,334	2,913
Deferred tax liabilities	(3,246)	(3,246)
<b>Net amount</b>	88	(333)

The variations of deferred taxes for the years ended November 30 are detailed as follows :

	2013	2012
	\$	\$
Balance at the beginning of the year, net	(333)	(168)
– In net earnings	354	–
– Other	67	(165)
Balance at the end of the year, net	88	(333)

The amount of deductible temporary differences and unused tax losses for which no deferred tax assets is recognised in the statement of financial position amounts to \$29,600 as at November 30, 2013 [\$31,900 - 2012].

### 10. COMMITMENTS AND CONTINGENCIES

#### [a] Leases

The Corporation has commitments under operating leases for warehouse and office premises expiring on various dates up to 2019. The future minimum payments, excluding incidental costs for which the Corporation is responsible, are as follows:

	\$
Less than a year	7,265
Between 1 and 5 years	15,292
More than 5 years	469
	23,026

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 10. COMMITMENTS AND CONTINGENCIES [cont'd]

#### [b] Forward exchange contracts

As at November 30, 2013, the Corporation held the following exchange forward contracts having maturity dates in December 2013.

Type	Currency in thousands	Average exchange rate
Purchase	3,300 Euros	1.42

#### [c] Claims

In the normal course of business, various proceedings and claims are instituted against the Corporation. Management believes that any forthcoming settlement in respect of these claims will not have a material effect on the Corporation's financial position or net consolidated earnings.

### 11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The accumulated other comprehensive income, including the following items and the changes that occurred during the year, were as follows:

	2013 \$	2012 \$
Balance at the beginning of the year	(1,050)	103
Exchange differences on translation of foreign operations	3,286	(1,153)
<b>Balance at the end of the year</b>	<b>2,236</b>	<b>(1,050)</b>

### 12. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

#### Fair values

The carrying value of the cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are a reasonable estimate of their fair value because of their short maturity.

The carrying value of long-term debt approximates their fair value because of the short maturity on balances of sale payable.

As at November 30, 2013, the fair value of the forward exchange contracts resulted in a gain of approximately \$75 [gain of approximately \$25 as at November 30, 2012], representing the amount the Corporation would collect on settlement of these contracts at spot rates.

#### Credit risk

The Corporation sells its products to numerous customers in Canada, and in a lesser proportion in the United States. The credit risk refers to the possibility that customers will be unable to assume their liabilities towards the Corporation. The average days outstanding of accounts receivable, as at November 30, 2013 and 2012 is acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluations of customers and generally does not require collateral. The allowance for doubtful accounts for the years ended November 30, 2013 and 2012 is as follows:

	2013 \$	2012 \$
Balance at the beginning of the year	5,032	5,006
Allowance for doubtful accounts	1,797	2,152
Write-offs	(1,940)	(2,061)
Exchange rate variations	135	(65)
<b>Balance at the end of the year</b>	<b>5,024</b>	<b>5,032</b>

The balance of accounts receivable of the Corporation that are overdue for more than 60 days, but which were not provided for, totals \$863 [\$1,513 in 2012].

As at November 30, 2013 and 2012, no customer accounted for more than 10% of the total accounts receivable.

#### Market risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in U.S. dollars and Euros. Administrative charges included, for the year ended November 30, 2013, an exchange gain of \$600 [2012 - loss of \$9].

The Corporation's policy is to maintain its purchase price and selling prices by mitigating its exposure by use of derivative financial instruments. To protect its operations from exposure to exchange rate fluctuations, foreign exchange contracts are used. Major 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 profits by eliminating the exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at November 30, 2013 and 2012, a decrease of 1% of the Canadian dollar against the U.S. dollar and the Euro, all other variables remaining the same, would have had no significant effect on consolidated net earnings and would have increased the consolidated comprehensive income by \$838 [\$731 - 2012]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as of November 30, 2013 and 2012.

#### 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, if required. During the previous years, the Corporation has financed its growth, its acquisitions, and its payout to shareholders by using the cash generated by the operating activities.

#### Current fiscal year expenses

During the year ended November 30, 2013, the amount relating to inventories recorded as expenses from the distribution, imports and manufacturing activities totals \$419,846 [2012 - \$398,957]. An expense of \$1,750 [2012 - \$2,123] for inventory obsolescence is included in this amount. Salaries and related charges of \$85,984 [2012 - \$81,992] are included in the *Cost of goods sold, warehousing, selling and administrative expenses*.

### 13. RELATED PARTY INFORMATIONS

#### Scope of consolidation

Names	Country of incorporation	Equity interest %	Voting rights %
Richelieu America Ltd.	U.S.	100	100
Richelieu Finances Ltd.	Canada	100	100
Richelieu Hardware Canada Ltd.	Canada	100	100
Cedan Industries Inc.	Canada	100	100
Distributions 20/20 inc.	Canada	100	100
Provincial Woodproducts Ltd.	Canada	85	85
Menuiserie des Pins Ltd.	Canada	75	75

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2013 and 2012 (Amounts are in thousands of dollars, except per-share amounts)

### 13. RELATED PARTY INFORMATIONS [cont'd]

#### Executive officers' compensation

	2013	2012
	\$	\$
Short-term employee benefits	2,473	2,669
Other long-term benefits	509	228
Share-based compensation	16	17
	2,998	2,914

Accounts payable include a retirement allowance amounting to \$2,000 payable to a senior executive officer.

### 14. GEOGRAPHIC INFORMATION

During the year ended November 30, 2013, near 75% of sales had been made in Canada [2012 - 79%]. The Corporation's sales to foreign countries, almost entirely directed to the United States, amounted to \$ 146,941 [2012 - \$120,658] in Canadian dollars and to \$143,337 [2012 - \$120,403] in U.S. dollars.

As at November 30, 2013, out of a total amount of \$22,291 in capital assets [2012 - \$23,740], \$3,019 [2012 - \$3,301] are located in the United States. In addition, intangible assets located in the United States amounted to \$7,841 [2012 - \$7,996] and goodwill to \$4,154 [2012 - \$3,835] in Canadian dollars and to \$7,384 [2012 - \$8,047] and goodwill to \$3,911 [2012 - \$3,860] in US dollars.

### 15. CAPITAL MANAGEMENT

The Corporation's objectives are:

- Maintain a low debt ratio to preserve its 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.

For the year ended November 30, 2013, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.5% [2012 - 0.9%] [Long-term debt/Equity]
- Return on average shareholder's equity of 16.2% over the last 12 months [2012 - 16.9% for the last 12 months]

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

### 16. DIVIDENDS

For the year ended November 30, 2013, the Corporation paid a quarterly dividend of \$0.13 per common share [2012 - quarterly dividend of \$0.12 per share] for a total amount of \$10,768 [2012 - \$10,026]. For 2014, the Board of Directors approved on January 23, 2014 the payment of a quarterly dividend of \$0.14 per common share.

### 17. SUBSEQUENT EVENT

On December 2, 2013, the Corporation acquired all of the outstanding common shares of Procraft Industrial Ltd., a distributor of finishing products, serving a customer base of residential and commercial woodworker and kitchen cabinet manufacturers in the Maritimes Provinces from its three distribution centers. This acquisition will add sales of approximately \$4 million to the Corporation's total revenues.

### 18. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended November 30, 2013 (including the comparative figures) were approved for issue by the Board of Directors on January 23, 2014.

**Transfer Agent and Registrar**

Computershare Trust Company of Canada

**Auditors**

Ernst & Young LLP  
800 René-Lévesque Blvd. West  
Suite 1900  
Montreal, Quebec, H3B 1X9

**Head Office**

Richelieu Hardware Ltd.  
7900 Henri-Bourassa Blvd. West  
Montreal, Quebec, H4S 1V4  
Telephone: 514 336-4144  
Fax: 514 832-4002

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