

ANNUAL REPORT

2018





A STRONG AND GROWING CORPORATION



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The annual general meeting of shareholders will be held on Thursday, April 4, 2019 at 10:30 a.m., at Novotel, 2599 Alfred-Nobel Blvd., Ville Saint-Laurent, Quebec



IN A HIGHLY INNOVATIVE INDUSTRY

BY INTEGRATING CONTINUOUS IMPROVEMENT
IN EACH ASPECT OF OUR ORGANIZATION,
RESPECTING OUR CORE VALUES,
AND STRIVING FOR CUSTOMER SERVICE EXCELLENCE,
WE CONTINUE TO GROW THROUGH INNOVATION,
STRATEGIC ACQUISITIONS IN NORTH AMERICA,
AND OPERATIONAL EFFICIENCY.

**RICHELIEU REMAINS FIRMLY
CUSTOMER- AND
INNOVATION- DRIVEN.**



NORTH AMERICAN LEADER

IN THE IMPORT, DISTRIBUTION,
AND MANUFACTURING OF SPECIALTY HARDWARE
AND COMPLEMENTARY PRODUCTS

OVER **80,000** ACTIVE
CUSTOMERS IN NORTH AMERICA



MANUFACTURERS of kitchen and bathroom cabinets, storage solutions and closets, and home and office furniture — Residential and commercial woodworkers,



as well as hardware **RETAILERS** including renovation superstores.

OVER **2,100** EMPLOYEES

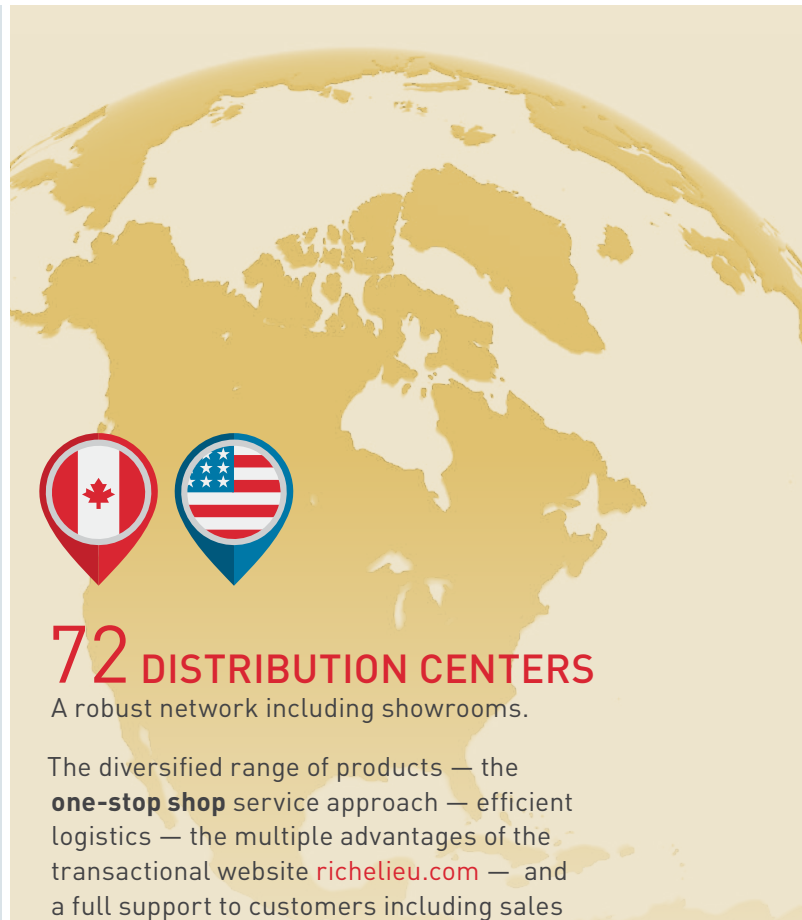


50% are dedicated to sales and marketing.



Over **50%** are shareholders of the Corporation.

A PERSONALIZED SERVICE provided by a qualified and skilled team working in close collaboration with architects and designers — **an outstanding expertise** provided to customers. With its **proactive approach**, Richelieu is expert at bringing innovative products to market.



72 DISTRIBUTION CENTERS

A robust network including showrooms.

The diversified range of products — the **one-stop shop** service approach — efficient logistics — the multiple advantages of the transactional website richelieu.com — and a full support to customers including sales tools that are unique in the market, result in an optimal customer response rate.

2 MANUFACTURING PLANTS

Les Industries Cedan Inc. and **Menuiserie des Pins Ltée** manufacture product lines offering distinctive features, including a variety of veneer sheets and edgbanding products, a wide selection of decorative mouldings, and components for the window and door industry.



DRIVER OF CHANGE IN THE NORTH AMERICAN MARKET

AT THE LEADING EDGE OF MARKET

OVER 110,000 PRODUCTS (SKUs)

in a wide variety of categories, including decorative and functional hardware for furniture and buildings — lighting systems — finishing and decorating products — ergonomic workstations — kitchen and closet storage solutions — sliding door systems — decorative and functional panels — high-pressure laminates.

Private brands products and/or exclusive products coupled with product lines from the world's leading suppliers.

Several products are manufactured according to Richelieu's specifications and those of its customers.



A GLOBAL NETWORK OF PARTNER SUPPLIERS

World-leading partners renowned for their technological skills and creativity, with whom Richelieu has built **lasting relationships of trust**.



richelieu.com

Available in three languages, Richelieu.com is the leading tool of its kind in the industry. It was designed to facilitate customers' projects and transactions and provide users with information on Richelieu's entire offering — the most comprehensive and innovative in North America.

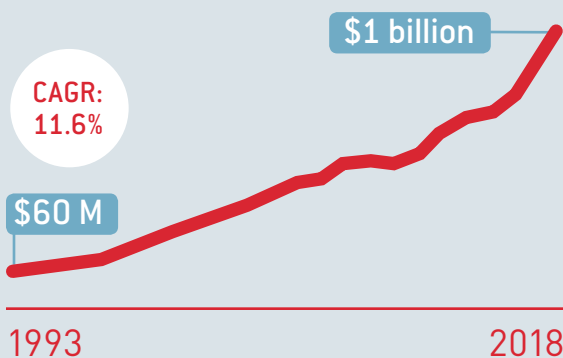


62 SUCCESSFUL ACQUISITIONS

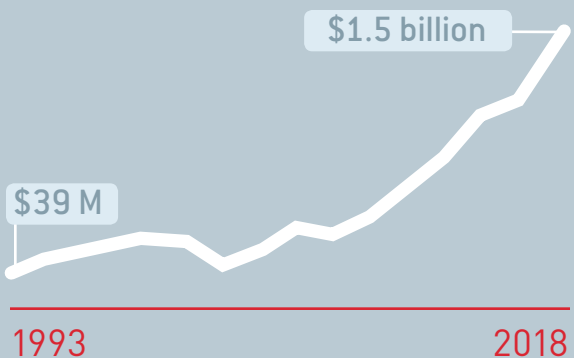
37 IN CANADA, 25 IN THE UNITED STATES

AN ACQUISITION STRATEGY TAILORED TO THE CORPORATION, ITS VISION AND ITS MARKET.

SALES



MARKET CAPITALIZATION

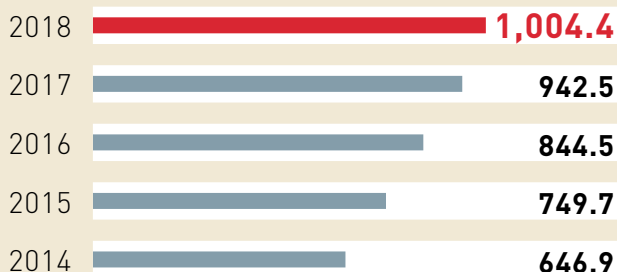


SUSTAINED GROWTH

FINANCIAL SOUNDNESS AND STABILITY

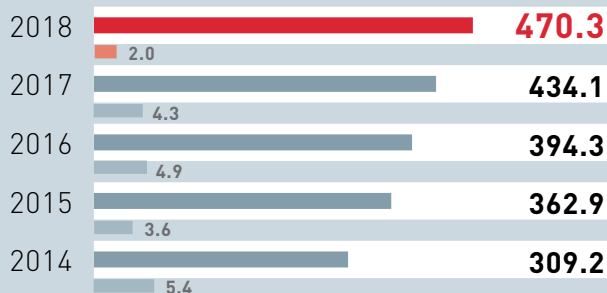
SALES

(in millions \$)



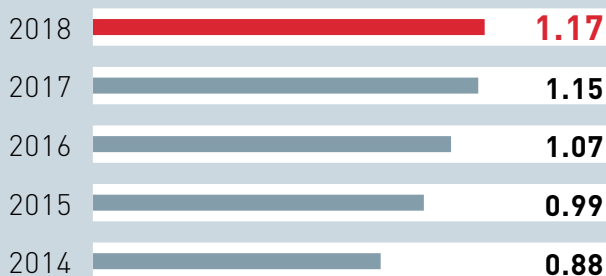
EQUITY ATTRIBUTABLE TO SHAREHOLDERS/DEBT

(in millions \$)



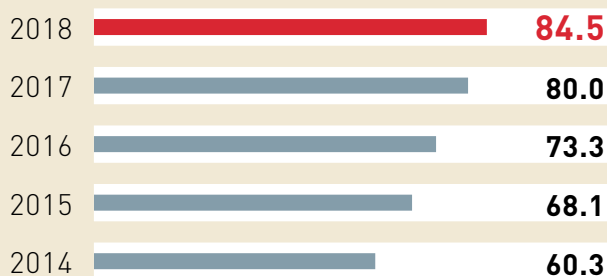
NET EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS (DILUTED)

(in \$)



CASH FLOWS FROM OPERATING ACTIVITIES ⁽¹⁾

(in millions \$)



(1) Cash flows from operating activities is a non-IFRS measure, as indicated on page 26 of this report.

Appreciation in share price (RCH) since initial stock listing:

3,479%

Total return on share/10 years*:

436%

Average annual return on share/10 years*:

18.3%

*Including dividend reinvestment

FINANCIAL HIGHLIGHTS

YEARS ENDED NOVEMBER 30

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

	2018	2017	2016	2015	2014
Sales	1,004,400	942,545	844,473	749,646	646,909
EBITDA ⁽¹⁾	105,991	102,974	94,422	87,681	77,417
<i>EBITDA margin (%)</i>	10.6	10.9	11.2	11.7	12.0
Net earnings	67,964	67,932	63,013	58,878	52,573
Net earnings attributable to the shareholders of the Corporation	67,777	67,704	62,814	58,739	52,393
• basic per share (\$) ⁽³⁾	1.18	1.17	1.08	1.00	0.89
• diluted per share (\$) ⁽³⁾	1.17	1.15	1.07	0.99	0.88
<i>Net margin attributable to the shareholders of the Corporation (%)</i>	6.7	7.2	7.4	7.8	8.1
Cash flows from operating activities ⁽²⁾	84,456	79,951	73,296	68,052	60,253
• diluted per share (\$) ⁽³⁾	1.45	1.36	1.25	1.15	1.01
Dividends paid to shareholders of the Corporation	13,824	13,157	12,374	11,717	11,023
• per share (\$) ⁽³⁾	0.240	0.227	0.213	0.200	0.187
Weighted average number of shares outstanding (diluted) (in thousands) ⁽³⁾	58,064	58,659	58,781	59,343	59,754
<i>As at November 30</i>					
Total assets	569,119	542,667	486,046	449,792	390,721
Working capital	329,343	300,116	280,747	260,579	214,866
<i>Current ratio</i>	4.6	4.0	4.4	4.4	4.0
Equity attributable to shareholders of the Corporation	470,278	434,092	394,268	362,885	309,149
Return on average equity (%)	15.0	16.3	16.6	17.5	17.5
Book value per share (\$)	8.23	7.51	6.81	6.19	5.27
Total debt	2,023	4,294	4,864	3,580	5,354
Cash and cash equivalents	7,408	29,162	42,969	29,454	33,721

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

(2) Cash flows from operating activities and cash flows from operating activities per share are non-IFRS measures, as indicated on page 26 of this report.

(3) All share data in this report have been restated to reflect the impact of the three-for-one split of all common shares effective February 29, 2016.

2014-2018: 14 ACQUISITIONS

2018 • Cabinet & Top Supply Inc. (Fort Myers, Florida)

• Chair City Supply, Inc. (North Carolina, Tennessee)

2017 • Tamarack Distributors Inc. (Cincinnati, Ohio)

• Weston Premium Woods Inc. (Brampton, Ontario)

2016 • Cabinetmakers Supply, Inc. (Houston, Texas)

• JFH Corporation (Memphis, Tennessee)

• Eveready Hardware Manufacturing Co, Inc. (Long Island City, New York)

• Neils Sorenson Hardware, Inc. (Portland, Maine)

2015 • BD Enterprises, Inc. (Single Source Cabinet Supplies) (Dallas, Texas)

2014 • Procraft Industrial Ltd. (Maritimes Provinces, Canada)

• Pleasantside Distribution Ltd. (Western Canada)

• CabinetWare, Inc. (Florida)

• XM Export-Import Canada Inc. (Quebec)

• Thruway Hardwood and Plywood Corp. (New York State)

34



DISTRIBUTION
CENTERS

2



MANUFACTURING
CENTERS

36



DISTRIBUTION
CENTERS



BARRIE | BRAMPTON | CALGARY (2) | DARTMOUTH | EDMONTON (2) | KELOWNA | KITCHENER | LAVAL (2) | LONGUEUIL (2)
 MONCTON | MONTREAL | OTTAWA | QUEBEC (3) | REGINA | SASKATOON | ST. JOHN'S | SUDBURY | THUNDER BAY
 TORONTO (2) | VANCOUVER (5) | VICTORIA (2) | WINNIPEG

MANUFACTURING CENTERS: LONGUEUIL | NOTRE-DAME-DES-PINS

ATLANTA | BOSTON | BUFFALO | BURLINGTON | CHARLOTTE | CHICAGO | CINCINNATI | DALLAS | DANIA | DETROIT
 FORT MYERS | GREENSBORO | GREENVILLE | HARTFORD | HIALEAH | HICKORY | HOUSTON | INDIANAPOLIS | JACKSONVILLE
 LINCOLN PARK | LOUISVILLE | MEMPHIS | MORRISTOWN | NASHVILLE | NEW YORK (2) | ORLANDO | POMPANO
 PORTLAND | RIVIERA BEACH | SARASOTA | SAVANNAH | SEATTLE | SYRACUSE | TAMPA BAY | THOMASVILLE

MESSAGE TO SHAREHOLDERS

RICHARD LORD
President and
Chief Executive Officer



THE YEAR 2018 WAS HIGHLIGHTED BOTH BY RICHELIEU'S 50TH ANNIVERSARY AND RECORD SALES OF OVER \$1 BILLION.



THIS GREAT MILESTONE IS A SOURCE OF STIMULATION FOR OUR WHOLE TEAM IN CANADA AND THE UNITED STATES. IT IS THE RESULT OF OUR COMMITMENT TO PROVIDING THE BEST CUSTOMER SERVICE BY POOLING OUR CREATIVE TALENTS, DEDICATION, AND PASSION FOR WHAT WE DO.

In line with previous years, 2018 was marked by good growth, an excellent financial situation, two new acquisitions that strengthened our presence in Florida, North Carolina, and Tennessee, as well as investments aimed at optimizing operational efficiency and the customer experience.

Richelieu continues to stand out in its market for its innovation strategy and its comprehensive service concept across its network and on line. We are pursuing our strategy of internal and acquisition-based growth as we build on our solid financial position, our culture of innovation, the expertise of our team, and our commitment to excellence.

THROUGH OUR INNOVATION, MARKET DEVELOPMENT, AND ACQUISITION STRATEGIES, WE CONTINUED TO STRENGTHEN OUR PRESENCE IN THE CANADIAN AND U.S. MARKETS, EACH OF WHICH MADE A SOLID CONTRIBUTION TO GROWTH IN 2018.

Our market development efforts, the sales synergies created with our acquisitions, and the contribution of the acquisitions completed in 2018 resulted in a 6.6% increase in total sales, driven in equal parts by internal growth and acquisitions. This increase reflects the strong performances in our manufacturer and retailer markets, where sales increased by 6.4% and 7.7% respectively. Our Canadian markets contributed to growth with a 6.9% increase in sales, as did our U.S. markets. U.S. sales also benefited from the strong contribution of our acquisitions. We are stepping up our development efforts in our main market segments in both Canada and the United States and have recently made new inroads in the market for retailers.

Our gross margin and EBITDA margin remain satisfactory despite a small decline due mainly to the lower gross margins of certain acquisitions whose product mixes differ from that of Richelieu. We continue to focus our efforts on profitability when integrating acquisitions.

In 2018, our investments totalled \$21.4 million, including \$9.0 million in acquisitions and \$12.4 million in technology implementation and network improvements, part of which went toward the reorganization of distribution centers to achieve operational synergies. We acquired \$26.5 million in shares in the normal course of business and paid dividends of \$13.8 million to shareholders, up 5.1%. As at November 30, 2018, our working capital stood at \$329.3 million.

Year after year, we are proud to report a very strong balance sheet, which enables us to enjoy excellent financial stability, pursue our growth strategy at a good pace, and remain an innovative and successful company.

THE ACQUISITIONS CLOSED EVERY YEAR ARE BASED ON COMPATIBILITY, COMPLEMENTARITY, AND VALUE CREATION CRITERIA. THEY PROVIDE A KEY CONTRIBUTION TO RICHELIEU'S GROWTH.

The highly fragmented market in which we operate provides us with diversified acquisition opportunities in our field. We take a patient and cautious approach that involves a rigorous research of suitable acquisition targets, which are consistent with our criteria of value creation and belief in our corporate culture.

The acquisition strategy we have followed for over three decades is a major growth driver for Richelieu. It allows us to establish strong anchor points in new territories and strengthen our operations in markets where we already operate — while at the same time integrating expert local resources and new customers.

With the February 2018 acquisition of Cabinet & Top Supply, a distributor with a distribution center in Florida, we continued to expand our operations in this important market, where we now operate nine distribution centers. Then, on September 4, we closed the acquisition of Chair City Supply, a distributor of specialty products serving a broad customer base of furniture manufacturers from three distribution centers in North Carolina and one in Tennessee. We are very satisfied with these acquisitions, which strengthen our local teams and expand our customer base in these markets.

As always with our previous acquisitions, we are integrating these businesses by combining our respective strengths in order to improve systems and processes, and by creating sales and operational synergies in our network.

Over the past five years, we have completed fourteen acquisitions — ten in the United States and four in Canada — representing additional annual sales of approximately \$130 million, including \$23 million from the two acquisitions closed in 2018.

IN KEEPING WITH ITS CUSTOMER- AND INNOVATION- DRIVEN APPROACH, RICHELIEU CONTINUED TO MAKE A DIFFERENCE FOR ITS NORTH AMERICAN CUSTOMERS IN 2018 — BY STANDING AS THEIR PARTNER IN INNOVATION.

We are operating in a highly creative industry in which, over the years, we have developed a global network of partners who are leading manufacturers of innovative products. We remain constantly aware of the emerging trends, listening closely to our customers and interacting with them and our suppliers. This is how we can bring the best decorative and functional hardware products and systems in the world to our Canadian and U.S. markets.

Our product strategy is built around design-forward technological innovations and decorative functional hardware products that meet the highly diverse needs of our manufacturer and retailer customers. We are motivated by a constant concern for quality regardless the product range level, since quality is one of our core values.

We provide precise, high-performance products that, because of their quality manufacturing and finish, help optimize production efficiency for our customers, saving them time, especially in the context of a skilled-labor shortage.

In 2018, we continued to expand and diversify our product lines in step with global trends, including those aimed at improving the quality of life. Major innovations have been made in the area of functional furniture, for instance. These innovations are reflected in our incomparable selection of stylish, ergonomic storage systems for kitchens, offices, and closets and in our unique offering of functional and comfortable organization solutions for small living spaces. Very innovative solutions are also found in our wide range of sliding door systems, our vast selection of decorative panels, and our diverse categories of eco-friendly products and architectural hardware.

We are forging ahead on the path of innovation in order to anticipate our customers' needs, provide them with ever more trendy and effective solutions for their residential and commercial projects, and contribute to the further evolution of the market.

RICHELIEU ADAPTS AND IMPROVES ITS MULTI-ACCESS SERVICE CONSTANTLY IN ORDER TO SUPPORT ITS MANUFACTURER AND RETAILER CUSTOMERS IN THEIR COMPETITIVENESS STRATEGY, AND PROVIDE THEM WITH A FIRST-RATE CUSTOMER EXPERIENCE.

Our comprehensive service concept is based on the efficiency of our supply chain and our information management system. It relies equally on our ability to further innovate, to provide our customers with market-leading sales support tools, as well as to keep welcoming and informative showrooms, and an outstanding transactional website. The efficiency of our customer service reflects our team's expertise and quality execution, and especially the skills and competencies of our sales and service staff — whether it's by phone, at our sales counters, in our showrooms, directly at customer locations, or on **richelieu.com**.

Therefore, we always ensure that our ongoing training programs maximize skills and remain well adapted to rapidly changing needs. We continue to invest in our sales and service workforce, who represents over 50% of our team.

In 2018, we implemented our modular AutoStore® storage and order picking system. This robotic system has proven its effectiveness in the order picking process and storage space management, as the number of products increases to accommodate growth.

Our adaptability, product availability, and supply chain management, which is well suited to our customers' needs, enable us to operate in "just-in-time" mode for our 80,000 manufacturer and retailer customers in North America. We deliver the right product to the right place at the right time.

We are our customers' warehouse. Hence, we offer them the opportunity to minimize their inventory and streamline their stock management.

In 2018, we further improved our information management system in order to optimize our operational efficiency and our customer service. Our IT system also includes tools for tracking customer purchasing habits and assessing their satisfaction, which expands our individual and overall knowledge of customers for a more proactive and personalized approach.

In 2018, our customers were able to access the new mobile version of **richelieu.com**, which includes all the site's available functions, thus making it the most complete and efficient transactional mobile version in our market. Richelieu continues to differentiate itself in North America with its highly effective, trilingual transactional website for manufacturers and retailers, which is also an outstanding showcase of its complete range of products for the public. The many functions and benefits of richelieu.com optimize the customer experience. It is the ultimate tool for product selection and configuration and complete order administration, as evidenced by the steady increase in our online sales.

In the future, innovation will remain at the core of our business model and continue to be our primary growth leverage. With our acquisition strategy, our ability to anticipate change, and ongoing operational improvements, we will seize and create opportunities that generate value for our customers, employees, suppliers, and shareholders.

We are focusing our priorities on market share gains, profitability, and new acquisitions, as we continue to build on our leadership and the distinctive strengths that make Richelieu a sound, forward-looking company.

We would like to thank our team, customers, suppliers, directors, and shareholders as well as all our business partners.

DIRECTORS

Jocelyn Proteau

Chairman of the Board
Richelieu Hardware Ltd.
Corporate Director

Richard Lord

President and Chief Executive Officer
Richelieu Hardware Ltd.

Denyse Chicoyne ⁽²⁾

Corporate Director

Robert Courteau ⁽²⁾

President
CM Management Inc.

Pierre Pomerleau ⁽¹⁾

President and Chief Executive Officer
Pomerleau Group

Mathieu Gauvin ⁽¹⁾

Senior Vice-President Investments-
Private Equity Quebec
Caisse de dépôt et placement
du Québec

Marc Poulin ⁽¹⁾

Corporate Director

Sylvie Vachon ⁽²⁾

President and Chief Executive Officer
Montreal Port Authority

⁽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
— Industrial

Geneviève Quevillon

Vice-President
— Logistics and Supply Chain

Marjolaine Plante

Vice-President
— Human Resources

Jeff Crews

Vice-President, Business Development
— Retailers Market, Canada

Craig Ratchford

Vice-President, General Manager
— United States

Éric Daignault

General Manager of Divisions

Marion Kloibhofer

General Manager
— Central Canada

John Statton

General Manager
— Western Canada
and Western United States

Yannick Godeau

Legal Affairs and Corporate Secretary

OUR VALUES

Customer focus

Understand the challenges, objectives, and needs of our manufacturer and retailer customers — Put ourselves in their place — Make their lives easier and exceed their expectations.

Innovation

Be always on the lookout for the most suitable emerging trends for our customers — Constantly provide customers with new ideas and solutions that help them differentiate and be competitive — Be their innovation partner.

Quality of service Accessibility Proximity

Attitude, accessibility, proximity, and expertise: the watchwords of our professional sales and customer service team. Personalized local service for our 80,000 customers. Every customer is unique. No compromise on service quality.

Performance Responsibility Intrapreneurship

Entrepreneurial spirit, interest, passion, consistent focus on performance. Maintain a work environment conducive to creating value for the Corporation's four pillars: our customers, employees, suppliers, and shareholders.

Ethical behavior Respect Integrity

Mutual assistance, respect, fairness, and integrity: the values that guide us within the company and in our professional practices and that earn the trust of our partners. They make us proud to work for Richelieu.

LEADERSHIP
 IN DECORATIVE AND
 FUNCTIONAL HARDWARE
 PRODUCTS. THE MOST
 DIVERSIFIED AND
 WIDEST SELECTION OF
 MATERIALS, FINISHES,
 TRENDY AND TIMELESS
 DESIGN, INNOVATIVE
 SYSTEMS
 AND MECANISMS.



Flowing
 lines
 Elegance
 Beauty

COLLECTION **Muse**

Collection
Autore



Produced by world-renowned designers and manufacturers according to strict quality guidelines, our collections include innovative and unique solutions for any renovation and construction project of every size and scale.





ARCHITECTS AND DESIGNERS

WE SHARE THE
SAME GOALS:
MEET AND EXCEED
CUSTOMER EXPECTATIONS
WITH THE MOST
APPROPRIATE AND
INNOVATIVE SOLUTIONS.



By working with architects and designers, we foster a fertile exchange of new ideas and expertise. Functionality, visual appeal, ergonomics, and respect for the environment are key to the success of residential, commercial, and institutional renovation and construction projects.

These designers of structures and spaces are among our partners in expertise and innovation. They are regularly informed of our innovations.

richelieu.com



**HIGHLY PERFORMANT
TRILINGUAL
USER-FRIENDLY
— INTERACTIVE
ALL OUR OFFERINGS
AND MORE
AT YOUR FINGERTIPS**

For our customers: Selection, product configuration, and complete order processing

For the public: A one-stop source of inspiration

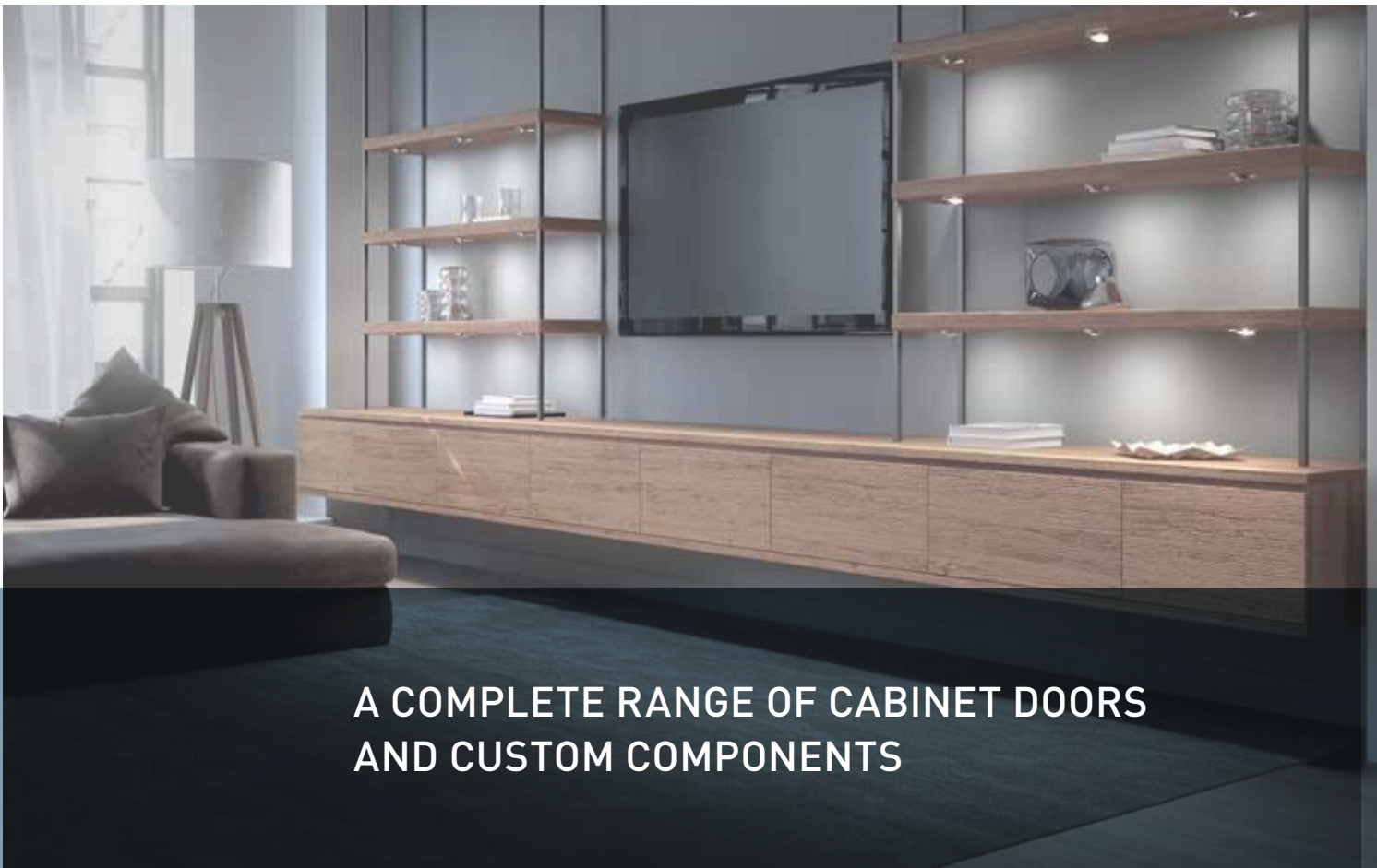
richelieu.com is constantly evolving to provide access to new features that are even more convenient and user-friendly for customers.

A brand new module offers customers the opportunity to configure products according to their own specifications.

The new mobile version includes all the functions of **richelieu.com**, making it the most comprehensive mobile app in our market.



**NEW MOBILE
VERSION**



A COMPLETE RANGE OF CABINET DOORS AND CUSTOM COMPONENTS

A wide choice of materials and colors for great-looking residential and commercial projects in any style.

Customers will find an outstanding selection of panels at Richelieu, including antibacterial and scratch-, UV-, and fade-resistant models. Made of high quality materials, they are easy to match and maintain.

Our exclusive collections of high-tech LED lighting enhance and brighten up functional layouts while illuminating work surfaces, shelving, and drawers.





FULL EXTENSION SLIDING SYSTEMS — EFFORTLESS, FLUID, AND SILENT MOVEMENT



Sliding system with high storage capacity that adapts to kitchen cabinets and provides complete visibility and access to content.



Intelligent system in an elegant design ideally suited for large wall units, with a compactly folding cabinet door with a multifunctional stop secured in each position when lifted.



**WHETHER IN A RESTAURANT OR AT HOME,
THE WINE CELLAR REQUIRES AN EFFICIENT,
SAFE, AND VISUALLY APPEALING LAYOUT.**

A wide range of storage solutions for traditional and contemporary wine cellars. Frames and systems in various materials such as aluminium and chemical-free torrefied wood.



Bottle holder in aluminium

Most innovative products and systems which facilitate the implementation of every commercial and institutional project.





Energy-efficient lighting in elegant, modern designs to illuminate and enhance closets, various storage spaces, and bathrooms.

FOR CLOSET STORAGE SOLUTIONS: THE MOST COMPREHENSIVE RANGE OF HARDWARE PRODUCTS AND SYSTEMS ON THE MARKET.





A wide selection of **decorative panels** provides customers with inspiration for their renovation projects. Manufactured to the highest quality standards, these panels help dress up and soundproof living and working spaces.

Smart living

A complete and versatile lineup of products and mechanisms for multifunctional beds, sliding doors, and retractable tables, benches, and accessories—ideal for optimizing space in small apartments and offices.





State-of-the-art materials and integrated lighting for stylish and sustainable commercial decors.



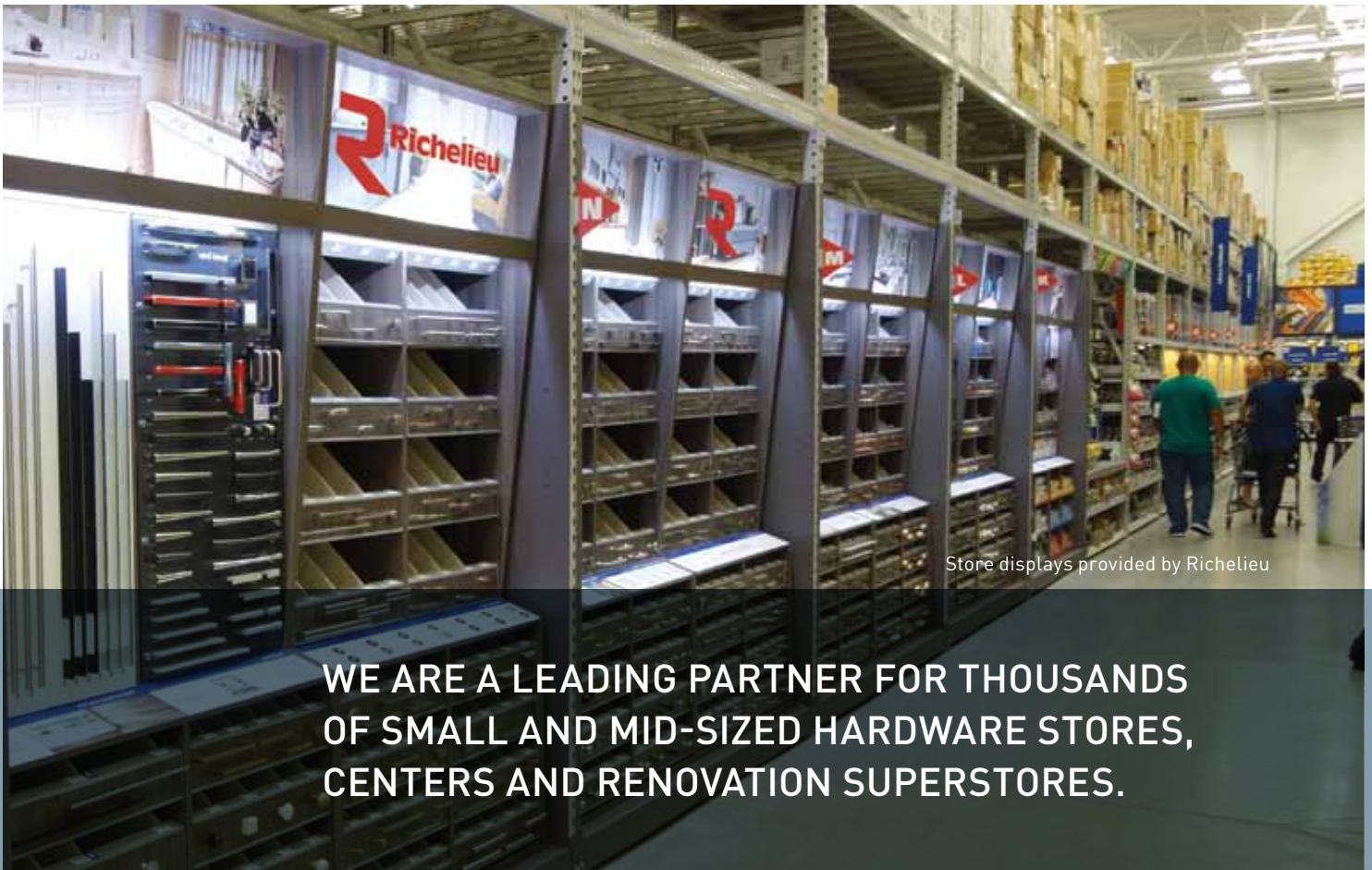
Sound-deadening panels, adjustable mechanisms, innovative casters, and accessories for the ergonomic office.



New line of casters by Philippe Stark



New line of handles by Jean-Claude Poitras



Store displays provided by Richelieu

WE ARE A LEADING PARTNER FOR THOUSANDS OF SMALL AND MID-SIZED HARDWARE STORES, CENTERS AND RENOVATION SUPERSTORES.



We provide our customers with high quality sales tools, which are regularly updated to reflect our evolving offer, as well as we give the closest attention to the quality of welcoming and service in our showrooms adjacent to our distribution centers.



SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

More than ever, we are concerned with environmental issues. We strive to minimize the environmental impact of our activities by ensuring the responsible management of waste, energy consumption, and greenhouse gas emissions.

- We work closely with our suppliers and distribution centers to reduce waste as much as possible by paying special attention to product packaging and optimizing product transportation.
- To facilitate the management of recyclable materials, we analyze each of our sites according to waste material type and recovery and use appropriate collection equipment.
- We promote energy conservation through a variety of measures applied across all our departments and centers.
- To minimize environmental impact, waste, and printing costs, we are working on eliminating paper reports as much as possible, and optimizing our printer fleet.
- We have established partnerships with carriers to minimize our carbon footprint.

We are committed to supporting causes that contribute to the well-being of the communities we have connections with. Our social role focuses in large part on education, culture and sports for young people, and on physical and mental health and heritage conservation. Each year, we renew and diversify our commitment to community and charitable organizations that support these vital causes.

Our ecolabeled product offerings continue to expand to meet the needs of green construction and renovation projects. Thousands of certified products and innovative, high-quality solutions are available at our centers and at richelieu.com, including laminates made from all-natural materials, panels made of recycled oak wood, product lines made with recycled fiber, and handles, knobs, LED lighting, and finishing products that meet the highest standards and specifications.



MANAGEMENT'S REPORT

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

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HIGHLIGHTS OF THE YEAR ENDED NOVEMBER 30, 2018

Richelieu continued to grow at a steady pace in 2018 while making acquisitions and investing in market development, facility improvements and implementing new technologies. Its innovation, acquisition, development and web strategies, which have proven themselves over the years, resulted in solid internal and acquisition-based growth, enabling the Corporation to surpass the \$1 billion mark in sales in 2018, the year of its 50th anniversary. With the acquisition of Cabinet & Top Supply, Inc., Richelieu further enhanced its position in Florida, where it now operates nine distribution centers, while the acquisition of Chair City Supply, Inc. strengthened its presence, product offering and client base in the important furniture manufacturer market. As at November 30, 2018, as in previous years, the Corporation's financial position was impeccable, with almost no debt and an excellent liquidity ratio. Richelieu is pursuing its growth strategy on a solid footing by focusing on operational profitability, sales synergies with its recent acquisitions, and strategic investments aimed at increasing its long-term value.

- **Consolidated sales** totalled \$1,004.4 million, up 6.6%, 3.2% of which from internal growth and 3.4% from acquisitions.
- **Earnings before income taxes, interest and amortization (EBITDA)** ⁽¹⁾ grew by 2.9% to \$106 million. EBITDA margin stood at 10.6%.
- **Net earnings attributable to shareholders** amounted to \$67.8 million or \$1.18 per share (basic) and \$1.17 (diluted), up by 0.9% and 1.7% respectively.
- **Cash flows from operating activities** ⁽¹⁾ (before net change in non-cash working capital balances) grew by 5.6% to \$84.5 million.
- **Working capital** increased by 9.7% to \$329.3 million, with a current ratio of 4.6:1.
- **Cash and cash equivalents** totalled \$7.4 million.
- **Total debt** was \$2.0 million.
- **Repurchase** of 966,143 common shares for \$26.5 million and payment of \$13.8 million in dividends to shareholders (representing 20.4% of net earnings attributable to shareholders for fiscal year 2018). Richelieu thus distributed \$40.3 million to shareholders in 2018 while retaining the financial resources necessary for growth in 2019.

Two (2) acquisitions during the year:

- February 26, 2018 — Principal net assets of Cabinet & Top Supply, Inc., a specialty products distributor located in Fort Myers, Florida;
- September 4, 2018 — Principal net assets of Chair City Supply, Inc., a distributor of specialty products operating four distribution centers, three in North Carolina and one in Tennessee.

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

This Management's Discussion and Analysis ("MD&A") relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the year ended November 30, 2018, in comparison with the year ended November 30, 2017, as well as the Corporation's financial position as at those dates. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended November 30, 2018, appearing in the Corporation's Annual Report. In this MD&A, "Richelieu" or the "Corporation" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, such as the Annual Information Form, interim MD&As, Management Proxy Circular, certificates signed by the Corporation's President and Chief Executive Officer and Vice-President and Chief Financial Officer, as well as press releases issued during the year ended November 30, 2018, is available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The information contained in this MD&A accounts for any major event occurring prior to January 24, 2019, on which date the audited consolidated financial statements and annual MD&A 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").

FORWARD-LOOKING STATEMENTS

Certain statements set forth in this MD&A, including statements relating to the expected sufficiency of cash flows to cover contractual commitments, maintain growth and provide for financing and investing activities, the 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 were prepared and management's good-faith assumptions and expectations regarding future events. Assumptions are that economic conditions and exchange rates will not significantly deteriorate, the Corporation's deliveries will be sufficient to fulfil Richelieu's needs, the availability of credit will remain stable during the year and no extraordinary events will require supplementary capital expenditures.

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they were prepared, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability, as well as other factors set forth in the Corporation's 2018 Annual Report (see the "Risk Factors" section on page 34 of the 2018 Annual Report available on SEDAR at 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 place undue reliance on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items, any business combination or any other transaction that may be announced or occur subsequent to the date hereof. Richelieu undertakes no obligation to update or revise the forward-looking statements to account for new events or new circumstances, except where provided for by applicable legislation.

NON-IFRS MEASURES

Richelieu uses earnings before interest, income taxes and amortization ("EBITDA") as we believe this measure enables management to assess the Corporation's operational performance. This measure is a widely accepted 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. Since EBITDA is not a standardized measurement prescribed by IFRS, it may not be comparable to 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 cash flows from operating activities of other companies.

GENERAL BUSINESS OVERVIEW as at November 30, 2018

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

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

Richelieu offers customers a broad mix of products sourced from manufacturers worldwide. The solid relationships Richelieu has built with the world's leading suppliers enable it to provide customers with the latest innovative products tailored to their business needs. The Corporation's product selection consists of **over 110,000 different items** targeting a base of **more than 80,000 customers** served by **72 centers across North America** with 34 distribution centers in Canada, 36 distribution centers in the United States and two manufacturing plants in Canada.

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

The Corporation employs over 2,100 people at its head office and throughout the network, nearly to half of whom work in marketing, sales and customer service. More than 50% of its employees are Richelieu's 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 service quality and results, partnership and entrepreneurship.

To sustain its growth and remain a leader in its specialty market, the Corporation continues to implement a proven, highly beneficial strategy focused on:

- Continuously strengthening product selection by introducing diversified new products each year to meet market segment needs and develop its niche as a functional and decorative hardware specialist for manufacturers and retailers.
- Further developing current markets in Canada and the United States with the support of a specialized sales and marketing force to provide customers with personalized service.
- Continuing to expand in North America by opening new distribution centres and making attractively priced, efficiently integrated and profitable acquisitions that offer high growth potential and a good fit for its product mix and expertise.

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

FINANCIAL HIGHLIGHTS

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

	2018	2017	2016	2015	2014
	\$	\$	\$	\$	\$
Years ended November 30					
Sales	1,004,400	942,545	844,473	749,646	646,909
EBITDA ⁽¹⁾	105,991	102,974	94,422	87,681	77,417
EBITDA margin (%)	10.6	10.9	11.2	11.7	12.0
Net earnings	67,964	67,932	63,013	58,878	52,573
Net earnings attributable to shareholders of the Corporation	67,777	67,704	62,814	58,739	52,393
• per share - basic (\$) ⁽³⁾	1.18	1.17	1.08	1.00	0.89
• per share - diluted (\$) ⁽³⁾	1.17	1.15	1.07	0.99	0.88
Net margin attributable to the shareholders of the Corporation (%)	6.7	7.2	7.4	7.8	8.1
Cash flows from operating activities ⁽²⁾	84,456	79,951	73,296	68,052	60,253
• per share - diluted (\$) ⁽³⁾	1.45	1.36	1.25	1.15	1.01
Dividends paid to Shareholders of the Corporation	13,824	13,157	12,374	11,717	11,023
• per share (\$) ⁽³⁾	0.240	0.227	0.213	0.200	0.187
Weighted average number of shares outstanding (diluted) (in thousands) ⁽³⁾	58,064	58,659	58,781	59,343	59,754
As at November 30					
Total assets	569,119	542,667	486,046	449,792	390,721
Working capital	329,343	300,116	280,747	260,579	214,866
Current ratio	4.6	4.0	4.4	4.4	4.0
Equity attributable to shareholders of the Corporation	470,278	434,092	394,268	362,885	309,149
Return on average equity (%)	15.0	16.3	16.6	17.5	17.5
Book value per share (\$) ⁽³⁾	8.23	7.51	6.81	6.19	5.27
Total debt	2,023	4,294	4,864	3,580	5,354
Cash and cash equivalents	7,408	29,162	42,969	29,454	33,721

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

(2) Cash flows from operating activities and cash flows from operating activities per share are non-IFRS measures, as indicated on page 26 of this report.

(3) All share data in this report have been restated to reflect the impact of the three-for-one split of all common shares effective February 29, 2016.

ANALYSIS OF OPERATING RESULTS FOR THE YEAR ENDED NOVEMBER 30, 2018, COMPARED WITH THE YEAR ENDED NOVEMBER 30, 2017

Consolidated sales

(in thousands of \$, except exchange rates)

	2018	2017	
	\$	\$	Δ (%)
Years ended November 30			
Canada	678,314	634,676	+6.9
United States (CA\$)	326,086	307,869	+5.9
(US\$)	252,738	236,504	+6.9
Average exchange rates	1.2902	1.3017	
Consolidated sales	1,004,400	942,545	+6.6

Consolidated sales reached \$1,004.4 million, an increase of \$61.9 million or 6.6% over 2017, of which 3.2% from internal growth and 3.4% from acquisitions. At comparable exchange rates to 2017, consolidated sales growth would have been 6.9% for the year ended November 30, 2018.

Sales to **manufacturers** grew to \$850.9 million, compared with \$800.0 million for 2017, an increase of \$50.9 million or 6.4%, 2.4% of which from internal growth and 4.0% from acquisitions. Sales to hardware **retailers** and renovation super-stores grew by 7.7% or \$11.0 million to total \$153.5 million.

In Canada, Richelieu achieved sales of \$678.3 million, compared with \$634.6 million for 2017, up by \$43.7 million or 6.9%, of which 4.1% from internal growth and 2.8% from acquisitions. Sales to **manufacturers** rose to \$549.1 million, up by \$42.1 million or 8.3%, of which 4.8% from internal growth and 3.5% from acquisitions. Sales to hardware **retailers** and renovation superstores reached \$129.2 million, compared with \$127.6 million, up by \$1.6 million or 1.3% over 2017.

In the United States, the Corporation recorded sales of US\$252.7 million, compared with US\$236.5 million for 2017, an increase of US\$16.2 million or 6.9%, of which 2.2% from internal growth and 4.7% from acquisitions. Sales to **manufacturers** totalled US\$233.9 million, compared with US\$225.0 million, an increase of US\$8.9 million or 4.0% over 2017, of which 4.8% from acquisitions and, due to the termination of a supply agreement with a major customer, an internal decrease of 0.8%. With comparable sales, internal growth in the manufacturers market would have been 6.3%. Sales to hardware **retailers** and renovation superstores were up by 63.5% from the previous year resulting primarily from our market development efforts, the addition of new customers and significant cyclical sales. Considering exchange rates, U.S. sales expressed in Canadian dollars amounted to \$326.1 million, compared with \$307.9 million for 2017, an increase of 5.9%. They accounted for 32.5% of consolidated sales in 2018, whereas they represented 32.6% of the year's consolidated sales in 2017.

Consolidated EBITDA and EBITDA margin

(in thousands of \$, unless otherwise indicated)

	2018	2017
Years ended November 30	\$	\$
Sales	1,004,400	942,545
EBITDA	105,991	102,974
EBITDA margin (%)	10.6	10.9

Earnings before income taxes, interest and amortization (EBITDA) totalled \$106.0 million, up by \$3.0 million or 2.9% over 2017. The **gross margin** was slightly down from 2017 influenced by the lower gross margins of some recent acquisitions due to their different product mix. Considering the continued investments in market development, the reorganization of some distribution centers and the cost of implementing new technologies, the **EBITDA margin** stood at 10.6%, compared with 10.9% for 2017.

Amortization expenses amounted to \$13.2 million compared with \$11.5 million for the corresponding quarter of 2017, an increase of \$1.7 million resulting mainly from investments made in property, plant and equipment. **Income taxes** amounted to \$24.8 million, an increase of \$1.0 million over 2017.

Consolidated net earnings attributable to shareholders

(in thousands of \$, unless otherwise indicated)

	2018	2017
Years ended November 30	\$	\$
EBITDA	105,991	102,974
Amortization of property, plant and equipment and intangible assets	13,200	11,454
Financial costs, net	65	(193)
Income taxes	24,762	23,781
Net earnings	67,964	67,932
Net earnings attributable to shareholders of the Corporation	67,777	67,704
Net margin attributable to the shareholders of the Corporation(%)	6.7	7.2
Non-controlling interests	187	228
Net earnings	67,964	67,932

Net earnings remained stable. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled \$67.8 million, an increase of 0.1% over 2017. **Net earnings per share** amounted to \$1.18 basic and \$1.17 diluted, compared with \$1.17 basic and \$1.15 diluted for 2017, an increase of 0.9% and 1.7% respectively.

Comprehensive income totalled \$71.7 million, considering a positive adjustment of \$3.7 million on translation of the financial statements of the subsidiary in the United States, compared with \$63.5 million for 2017, considering a negative adjustment of \$4.4 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
2018				
• Sales	221,980	263,365	260,565	258,490
• EBITDA	19,803	28,080	28,926	29,182
• Net earnings attributable to shareholders of the Corporation	12,704	18,174	18,389	18,510
basic per share	0.22	0.31	0.32	0.32
diluted per share	0.22	0.31	0.32	0.32
2017				
• Sales	195,909	243,269	253,190	250,177
• EBITDA	18,341	26,648	27,924	30,061
• Net earnings attributable to shareholders of the Corporation	11,998	17,587	18,135	19,984
basic per share	0.21	0.30	0.31	0.34
diluted per share	0.20	0.30	0.31	0.34
2016				
• Sales	188,909	217,413	220,155	217,996
• EBITDA	16,170	23,074	25,942	28,696
• Net earnings attributable to shareholders of the Corporation	10,861	15,408	17,331	19,214
basic per share	0.19	0.27	0.30	0.33
diluted per share	0.18	0.26	0.30	0.33

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 2018, the reader is referred to the interim management's reports available on SEDAR's website at www.sedar.com.

FOURTH QUARTER ENDED NOVEMBER 30, 2018

Fourth-quarter consolidated sales amounted to \$258.5 million, compared with \$250.2 million for the corresponding quarter of 2017, an increase of \$8.3 million or 3.3%, of which 1.0% from internal growth and 2.3% from acquisitions. At comparable exchange rates to the fourth quarter of 2017, the consolidated sales growth would have been 2.0% for the quarter ended November 30, 2018.

Richelieu achieved sales of \$224.2 million in the **manufacturers** market, compared with \$213.7 million for the fourth quarter of 2017, an increase of \$10.5 million or 4.9%, of which 2.2% from internal growth and 2.7% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at \$34.3 million, down by \$2.2 million or 6.0% over the fourth quarter of 2017.

In Canada, Richelieu recorded sales of \$174.6 million, an increase of \$0.1 million over the fourth quarter of 2017. Sales to **manufacturers** amounted to \$144.2 million, an increase of 2.3% from internal growth. Sales to hardware **retailers** and renovation superstores reached \$30.4 million, down by \$3.2 million or 9.5%, caused by higher cyclical sales in the same period of 2017 and a decrease in the level of purchases from some major customers in the fourth quarter of 2018.

In the United States, sales totalled US\$64.1 million, compared with US\$60.3 million for the fourth quarter of 2017, an increase of US\$3.8 million or 6.3%, of which 7.2% from acquisitions and an internal decrease of 0.9% (up 8.6% at comparable sales). Sales to **manufacturers** amounted to US\$61.1 million, an increase of US\$3.1 million or 5.3% over the fourth quarter of 2017, of which 7.5% from acquisitions, while the internal decrease was 2.2% due to the termination of a supply agreement with a major customer (up 7.7% at comparable sales). Sales to hardware **retailers** and renovation superstores were up by 30.4% from the corresponding quarter of 2017. Considering exchange rates, total U.S. sales expressed in Canadian dollars stood at \$83.9 million, an increase of 10.8%. They accounted for 32.5% of consolidated sales for the fourth quarter of 2018, whereas they had represented 30.3% of the period's consolidated sales for the fourth quarter of 2017.

Earnings before income taxes, interest and amortization (EBITDA) amounted to \$29.2 million compared with \$30.1 million in the fourth quarter of 2017. The **gross margin** and the **EBITDA margin** were influenced by lower gross margins of certain recent acquisitions due to their different product mix as well as to lower sales in the Canadian retailers market and US market development costs. The **EBITDA margin** stood at 11.3%, compared with 12.0% for the fourth quarter of 2017.

Amortization expenses amounted to \$3.5 million compared with \$2.9 million for the corresponding quarter of 2017, an increase of \$0.6 million resulting mainly from investments made in property, plant and equipment. **Income taxes** amounted to \$7.2 million, stable compared with 2017.

Net earnings was down by 7.3% year over year. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to \$18.5 million, down by 7.4% over the fourth quarter of 2017. **Net earnings per share** reduced to \$0.32 basic and diluted, compared with \$0.34 basic and diluted for the fourth quarter of 2017, a decrease of 5.9%.

Comprehensive income amounted to \$20.7 million, considering a positive adjustment of \$2.2 million on translation of the financial statements of the subsidiary in the United States, compared with \$22.8 million for the fourth quarter of 2017, considering a positive adjustment of \$2.8 million on translation of the financial statements of the subsidiary in the United States.

Cash flows from operating activities (before net change in non-cash working capital balances) amounted to \$23.4 million or \$0.40 per share, compared with \$22.2 million or \$0.38 per share for the fourth quarter of 2017, an increase of 5.4% resulting primarily from deferred taxes. Net change in non-cash working capital balances represented a cash inflow of \$2.2 million, reflecting the change in inventory (\$5.4 million), whereas the change in accounts receivable and payable and other items represented a cash inflow of \$7.6 million. Consequently, operating activities provided cash flows of \$25.5 million, compared with \$19.8 million for the fourth quarter of 2017.

Financing activities used cash flows of \$14.8 million, compared with \$13.7 million for the fourth quarter of 2017. This change was primarily driven by common shares buyback of \$12.4 million in the fourth quarter of 2018 compared with \$10.6 million for the same quarter in 2017.

Investing activities represented a cash outflow of \$11.2 million in the fourth quarter, of which \$7.0 million for the acquisition of Chair City Supply, Inc. and \$4.2 million for equipment to improve operational efficiency, improvements to some buildings and IT equipment.

FINANCIAL POSITION

Analysis of principal cash flows for the year ended November 30, 2018

Change in cash and cash equivalents and capital resources

(in thousands of \$, unless otherwise indicated)

Years ended November 30	2018 \$	2017 \$
Cash flows provided by (used for):		
Operating activities	42,272	55,956
Financing activities	(42,284)	(26,547)
Investing activities	(21,373)	(43,324)
Effect of exchange rate fluctuations	(369)	108
Net change in cash and cash equivalents	(21,754)	(13,807)
Cash and cash equivalents, beginning of year	29,162	42,969
Cash and cash equivalents end of year	7,408	29,162
As at November 30		
Working capital	329,343	300,116
Renewable line of credit (CA\$)	50,000	50,000
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) reached \$84.5 million or \$1.45 diluted per share, compared with \$80.0 million or \$1.36 diluted per share for 2017, an increase of 5.6% stemming primarily from depreciation and deferred taxes. Net change in non-cash working capital balances used cash flows of \$42.2 million, mainly due to investment in inventory as a result of adding new products in order to increase sales in the future. Consequently, operating activities provided cash flows of \$42.3 million compared with \$56.0 million for 2017.

Financing activities

Financing activities used cash flows of \$42.3 million, compared with \$26.5 million for 2017. During the year, Richelieu repurchased common shares for cancellation for \$26.5 million, compared with \$14.8 million in 2017. The Corporation paid dividends to shareholders of \$13.8 million, up by 5.1% over 2017 and made a debt repayment in the amount of \$3.9 million compared with \$1.2 million for fiscal 2017.

Investing activities

Investing activities represented a total cash outflow of \$21.4 million, of which \$9.0 million for business acquisitions and \$12.4 million for equipment to improve operational efficiency.

Sources of financing

As at November 30, 2018, **cash and cash equivalents** amounted to \$7.4 million, compared with \$29.2 million as at November 30, 2017. The Corporation posted a **working capital** of \$329.3 million for a current ratio of 4.6:1, compared with \$300.1 million (4.0:1 ratio) as at November 30, 2017.

Richelieu believes it has the capital resources to fulfill its ongoing commitments and obligations and to assume the funding requirements needed for its growth and the financing and investing activities between now and the end of 2019. The Corporation continues to benefit from an authorized line of credit of \$50 million as well as a line of credit of US\$6 million renewable annually and bearing interest at prime and base rates respectively. In addition, Richelieu considers it could obtain access to other outside financing if necessary.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, the availability of credit will remain stable in 2019, and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under the "Risk Factors" section.

Analysis of financial position as at November 30, 2018

Summary of financial position

(in thousands of \$, except exchange rates)

As at November 30	2018 \$	2017 \$
Current assets	419,844	399,187
Non-current assets	149,275	143,480
Total	569,119	542,667
Current liabilities	90,501	99,071
Current liabilities	5,132	5,392
Equity attributable to shareholders of the Corporation	470,278	434,092
Non-controlling interests	3,208	4,112
Total	569,119	542,667
Exchange rates on translation of a subsidiary in the United States	1.330	1.289

Assets

Total assets amounted to \$569.1 million as at November 30, 2018, compared with \$542.7 million as at November 30, 2017. **Current assets** increased by 5.2% or \$20.7 million from November 30, 2017. Owing mainly to inventory growth in fiscal 2018.

Cash position

(in thousands of \$)

	2018	2017
As at November 30	\$	\$
Current portion of long-term debt	2,023	4,294
Long-term debt	—	—
Total debt	2,023	4,294
Cash and cash equivalents	7,408	29,162

As at November 30, 2018, the Corporation continues to benefit from a healthy and solid financial position. **Total debt** was \$2.0 million representing balances payable on acquisitions.

Equity attributable to shareholders of the Corporation totalled \$470.3 million as at November 30, 2018, compared with \$434.1 million as at November 30, 2017, an increase of \$36.2 million. That increase is mainly due to a rise of \$28.5 million in retained earnings, which amounted to \$405.4 million, and \$3.9 million of share capital and contributed surplus, while accumulated other comprehensive income increased by \$3.7 million. As at November 30, 2018, **the book value per share** was \$8.23, up by 9.6% over November 30, 2017, and the return on average shareholders' equity was 15.0%.

As at November 30, 2018, the Corporation's **share capital** consisted of 57,114,234 common shares (57,795,603 shares as at November 30, 2017). In 2018, upon the exercise of stock options under the stock option plan, Richelieu issued 284,774 common shares at an average price of \$8.11 (333,225 in 2017 at an average price of \$8.34). In addition, 966,143 common shares were repurchased for cancellation under the normal course issuer bid for a cash consideration of \$26.5 million (458,088 common shares for a cash consideration of \$14.8 million in 2017).

The Corporation granted 357,000 stock options during the year (329,500 in 2017). Consequently, as at November 30, 2018, 1,669,475 stock options were outstanding (1,637,361 as at November 30, 2017).

CONTRACTUAL COMMITMENTS

Summary of contractual financial commitments as at November 30, 2018

(in thousands of \$)

	Between			Total
	Less than 1 year	1 and 5 years	More than 5 years	
Long-term debt	2,023	—	—	2,023
Operating leases	12,678	30,980	14,184	57,842
Total	14,701	30,980	14,184	59,865

For 2019 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 Richelieu's requirements, the availability of credit will remain stable in 2019, and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under the "Risk Factors" section.

FINANCIAL INSTRUMENTS

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

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

In notes (1) and (12) of the audited consolidated financial statements for the year ended November 30, 2018, 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, 2018. 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, 2018,

management ensured that there were no material changes in the Corporation's procedures that were reasonably likely to have a material impact on its internal control over financial reporting. No such changes were identified.

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Corporation's audited consolidated financial statements for the year ended November 30, 2018, 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. 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

Recently issued

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and includes a single approach to determine whether a financial asset is measured at amortized cost or fair value, a new hedge accounting model to enable financial statement users to better understand an entity's risk exposure and its risk management activities, and a new impairment model for financial assets based on expected credit losses. IFRS 9 is effective for the Corporation's fiscal year beginning on December 1, 2018. The Corporation has completed its assessment of IFRS 9 and concluded that it will not have a significant impact on the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue*, IAS11, *Construction Contracts* and related interpretations. Under IFRS15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 is effective for the Corporation's fiscal year beginning on December 1, 2018. The Corporation has completed its assessment of IFRS 15 and concluded that it will not have a significant impact on the consolidated financial statements.

IFRS 16, Leases

IFRS 16, *Leases* replaces IAS 17, *Leases* and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019, thus for the Corporation's fiscal year beginning on December 1, 2019. Earlier adoption is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been applied.

The Corporation being committed under operating leases for warehouse and office premises, it expects that the adoption of IFRS 16 will result in the recognition, in the consolidated statement of financial position, of a related asset and a liability and, in the consolidated statement of earnings, of a reduction in rent expense and an increase in financial costs and amortization of property, plant and equipment. The Company is currently evaluating the impact of the new standard on its consolidated financial statements

RISK FACTORS

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

Economic conditions

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

Market and competition

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

Foreign currency

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

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

Sales made abroad are mainly recorded in the United States and account for approximately 32% of Richelieu's total sales. Any volatility in the Canadian dollar therefore tends to affect consolidated results. This risk is partially offset by the fact that major purchases are denominated in U.S. dollars.

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

Supply and inventory management

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

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

Acquisitions

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

Credit

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

Labour relations and qualified employees

To achieve its objectives, Richelieu must attract, train and retain qualified employees while controlling its payroll. The inability to attract, train and retain qualified employees and to control its payroll could have an impact on the Corporation's financial performance. Close to 18% of Richelieu's workforce is unionized. The Corporation's policy is to negotiate collective agreements at conditions enabling it to maintain its competitive edge and a positive and satisfactory working environment for its entire team. Richelieu has not experienced any major labour conflicts over the past five years. Any interruption in operations as a result of a labour conflict could have an adverse impact on the Corporation's financial results.

Stability of key officers

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

Product liability

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

Crisis management, IT contingency plan and data security

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

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

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

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

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

SHARE INFORMATION AS AT JANUARY 24, 2019

Issued and outstanding common shares:	57,148,234
Outstanding stock options:	1,857,725

OUTLOOK

In 2019, as in the past, Richelieu will be customer-oriented, focusing on quality of service and innovation. Its two major sources of growth will remain innovation and business acquisition strategies in its sector. The Corporation will pursue its current market development in North America and its efforts to penetrate new territories, especially in the United States. It remains on the lookout for strategic acquisitions to further strengthen its positioning and create additional sales and operational synergies, while giving priority to operational efficiency and sound financial management.

SUPPLEMENTARY INFORMATION

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



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



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

January 24, 2019

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.

The Corporation 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 the Corporation 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 24, 2019



(Signed) **Richard Lord**

President and Chief Executive Officer



(Signed) **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, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then 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

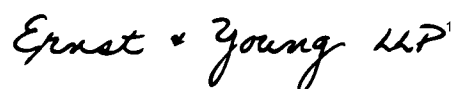
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



(Signed) Ernst & Young LLP

Montreal, Canada, January 24, 2019

¹ CPA auditor, CA, public accountancy permit no. A118111

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at November 30
[In thousands of dollars]

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents		7,408	29,162
Accounts receivable		138,767	134,187
Inventories		270,275	233,585
Prepaid expenses		3,394	2,253
		419,844	399,187
Non-current assets			
Property, plant and equipment	4	41,725	38,558
Intangible assets	5	29,340	29,282
Goodwill	5	71,984	68,931
Deferred taxes	9	6,226	6,709
		569,119	542,667
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	8	88,359	91,858
Income taxes payable		119	2,919
Current portion of long-term debt	7	2,023	4,294
		90,501	99,071
Non-current liabilities			
Deferred taxes	9	3,289	3,511
Other liabilities		1,843	1,881
		95,633	104,463
Equity			
Share capital	8	41,398	39,230
Contributed surplus	8	4,122	2,358
Retained earnings		405,445	376,922
Accumulated other comprehensive income	11	19,313	15,582
Equity attributable to shareholders of the Corporation		470,278	434,092
Non-controlling interests		3,208	4,112
		473,486	438,204
		569,119	542,667

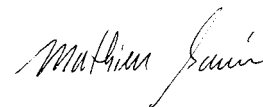
Commitments and contingencies [note 10]

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:



(Signed) **Richard Lord**
Director



(Signed) **Mathieu Gauvin**
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended November 30

[In thousands of dollars, except earnings per share]

	Notes	2018 \$	2017 \$
Sales		1,004,400	942,545
Operating expenses excluding amortization	8, 12	898,409	839,571
Earnings before amortization, financial costs and income taxes		105,991	102,974
Amortization of property, plant and equipment		9,203	7,634
Amortization of intangible assets		3,997	3,820
Financial costs, net		65	(193)
		13,265	11,261
Earnings before income taxes		92,726	91,713
Income taxes	9	24,762	23,781
Net earnings		67,964	67,932
Net earnings attributable to:			
Shareholders of the Corporation		67,777	67,704
Non-controlling interests		187	228
		67,964	67,932
Net earnings per share attributable to shareholders of the Corporation			
	8		
Basic		1.18	1.17
Diluted		1.17	1.15

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended November 30

[In thousands of dollars]

	Notes	2018 \$	2017 \$
Net earnings		67,964	67,932
Other comprehensive income that will be reclassified to net earnings			
Exchange differences on translation of foreign operations	11	3,731	(4,384)
Comprehensive income		71,695	63,548
Comprehensive income attributable to:			
Shareholders of the Corporation		71,508	63,320
Non-controlling interests		187	228
		71,695	63,548

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						
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
	\$	\$	\$	\$	\$	\$	\$
Notes	8	8		11			
Balance as at November 30, 2016	36,050	1,417	336,835	19,966	394,268	4,043	398,311
Net earnings	—	—	67,704	—	67,704	228	67,932
Other comprehensive income	—	—	—	(4,384)	(4,384)	—	(4,384)
Comprehensive income	—	—	67,704	(4,384)	63,320	228	63,548
Shares repurchased	(303)	—	(14,460)	—	(14,763)	—	(14,763)
Stock options exercised	3,483	(703)	—	—	2,780	—	2,780
Share-based compensation expense	—	1,644	—	—	1,644	—	1,644
Dividends [note 16]	—	—	(13,157)	—	(13,157)	(190)	(13,347)
Other liabilities	—	—	—	—	—	31	31
	3,180	941	(27,617)	—	(23,496)	(159)	(23,655)
Balance as at November 30, 2017	39,230	2,358	376,922	15,582	434,092	4,112	438,204
Net earnings	—	—	67,777	—	67,777	187	67,964
Other comprehensive income	—	—	—	3,731	3,731	—	3,731
Comprehensive income	—	—	67,777	3,731	71,508	187	71,695
Shares repurchased	(675)	—	(25,856)	—	(26,531)	—	(26,531)
Stock options exercised	2,843	(534)	—	—	2,309	—	2,309
Share-based compensation expense	—	2,298	—	—	2,298	—	2,298
Dividends [note 16]	—	—	(13,824)	—	(13,824)	(311)	(14,135)
Other liabilities	—	—	—	—	—	38	38
Acquisition of non-controlling interests [note 3]	—	—	426	—	426	(818)	(392)
	2,168	1,764	(39,254)	—	(35,322)	(1,091)	(36,413)
Balance as at November 30, 2018	41,398	4,122	405,445	19,313	470,278	3,208	473,486

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30
[In thousands of dollars]

	Notes	2018 \$	2017 \$
OPERATING ACTIVITIES			
Net earnings		67,964	67,932
Items not affecting cash and cash equivalent			
Amortization of property, plant and equipment	4	9,203	7,634
Amortization of intangible assets	5	3,997	3,820
Deferred taxes	9	321	(1,700)
Share-based compensation expense	8	2,971	2,265
		84,456	79,951
Net change in non-cash working capital balances		(42,184)	(23,995)
		42,272	55,956
FINANCING ACTIVITIES			
Repayment of long-term debt		(3,927)	(1,217)
Dividends paid to Shareholders of the Corporation	16	(13,824)	(13,157)
Other dividends paid		(311)	(190)
Common shares issued	8	2,309	2,780
Common shares repurchased for cancellation	8	(26,531)	(14,763)
		(42,284)	(26,547)
INVESTING ACTIVITIES			
Business acquisitions	3	(9,004)	(30,203)
Additions to property, plant and equipment and intangible assets	4, 5	(12,369)	(13,121)
		(21,373)	(43,324)
Effect of exchange rate changes on cash and cash equivalents		(369)	108
Net change in cash and cash equivalents		(21,754)	(13,807)
Cash and cash equivalents, beginning of year		29,162	42,969
Cash and cash equivalents, end of year		7,408	29,162
Supplementary information			
Income taxes paid		27,139	24,507
Interest paid (received), net		65	(193)

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

NATURE OF BUSINESS

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

1. 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 the valuation of inventory impairment, including loss and obsolescence and require 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 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 a 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 judgment when estimating the effect of certain factors on the net realizable value of inventory, such as inventory obsolescence and losses. 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 meet the specified criteria for recognition apart from property, plant and equipment. Intangible assets consist mainly of purchased or internally developed software, non-competition agreements, customer relationships, and trademarks. Software and customer relationships are amortized on a straight-line basis over their useful lives of 3 and 8-20 years, respectively, while non-competition agreements are amortized over the terms of the agreements. Trademarks have an indefinite useful life and are therefore not amortized.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and corresponds to the development potential of the acquired businesses, combined with the Corporation's operations and from the expected synergies and expanding of the product offering and network. Goodwill is not amortized.

Impairment of non-current assets

At the end of each reporting period, the Corporation determines 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 tangible or intangible asset exceeds its recoverable amount, 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 useful lives for impairment at least once a year, whether or not indicators of impairment exist. 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, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 note 5.

Other financial liabilities

Accounts payable, accrued liabilities and long-term debt 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 products are shipped to customers. They are measured at the fair value of the consideration received or receivable, net of returns and discounts granted.

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 at the tax rates that are expected to apply 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 to the extent that 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 carrying forwards to be completely used up and the level of future taxable income in accordance with tax planning strategies.

Leases

Leases are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the lessee. At the moment of initial recognition, the lessee records the leased item as an asset at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability to the lessor is recorded in the consolidated statement of financial position as a finance lease obligation. In subsequent periods, the asset is depreciated on the shorter of straight-line basis over the term of the lease or the estimated useful life of the asset, and interest on the obligation is expensed through net earnings. Leases are classified as operating leases if substantially all risks and rewards incidental to ownership are not transferred to the lessee. The lease payments are recognized as an expense on a straight-line basis over the lease term.

Foreign currency translation

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.

Derivative financial instruments

The Corporation periodically enters into foreign exchange forward contracts with financial institutions to partially hedge the effects of fluctuations in foreign exchange rates related to foreign currency liabilities, as well as to hedge anticipated purchase transactions.

The Corporation enters into equity swaps to reduce its exposure on net earnings related to the fluctuations in the Corporation's share price relating to its deferred share unit plan.

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 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.

Fair value measurements hierarchy

Fair value measurements of assets and liabilities recognized at fair value in the consolidated statements of financial position or whose fair value is presented in the notes to the consolidated financial statements are categorized in accordance with the following hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Share-based payment

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 weighted average market price of the shares five (5) business 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. The Corporation recognizes stock-based compensation and other share-based payments in net earnings using the fair value method for stock options granted with a corresponding increase recorded in contributed surplus. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 number of DSUs granted to a director equals the compensation amount to be converted in DSUs divided by the average closing price of the shares on the Toronto Stock Exchange for the five (5) business days immediately preceding the date of the payment. The DSU liability is measured at fair value at each closing date on the basis of the number of outstanding share units and the market price of the Company's common shares is included in *Accounts payable and accrued liabilities*. The Corporation has entered into equity swaps to reduce its exposure on net earnings related to the fluctuations of the Corporation's share price. The net effect of the equity swaps mostly offsets the impact of the change in the Corporation's share price and is included in the *Operating expenses excluding amortization*.

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

Recently issued

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and includes a single approach to determine whether a financial asset is measured at amortized cost or fair value, a new hedge accounting model to enable financial statement users to better understand an entity's risk exposure and its risk management activities, and a new impairment model for financial assets based on expected credit losses. IFRS 9 is effective for the Corporation's fiscal year beginning on December 1, 2018. The Corporation has completed its assessment of IFRS 9 and concluded that it will not have a significant impact on the consolidated financial statements

IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue*, IAS11, *Construction Contracts* and related interpretations. Under IFRS15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 is effective for the Corporation's fiscal year beginning on December 1, 2018. The Corporation has completed its assessment of IFRS 15 and concluded that it will not have a significant impact on the consolidated financial statements.

IFRS 16, Leases

IFRS 16, *Leases* replaces IAS 17, *Leases* and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019, thus for the Corporation's fiscal year beginning on December 1, 2019. Earlier adoption is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been applied.

The Corporation being committed under operating leases for warehouse and office premises, it expects that the adoption of IFRS 16 will result in the recognition, in the consolidated statement of financial position, of a related asset and a liability and, in the consolidated statement of earnings, of a reduction in rent expense and an increase in financial costs and amortization of property, plant and equipment. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

2018

On September 4, 2018, the Corporation purchased the principal net assets of Chair City Supply, Inc. a distributor operating four (4) distribution centers, three (3) in North Carolina and one (1) in Tennessee. Chair City Supply distributes a diverse range of specialty products targeted to an extensive customer base of furniture manufacturers.

On February 26, 2018, the Corporation purchased the principal net assets of Cabinet & Top Supply Inc., a distributor of specialty products located in Fort Myers, Florida.

Those acquisitions generated sales of \$8.0 million since their acquisition. If those acquisitions had been acquired on December 1, 2017, management believes that the sales included in the consolidated statement of earnings would have been approximately \$23 million.

2017

On August 1, 2017, the Corporation purchased the principal net assets of Tamarack Distributors Inc., a specialty product distributor located in Cincinnati, Ohio.

On April 18, 2017, the Corporation purchased the principal net assets of Weston Premium Woods Inc., a distributor of materials, decorative products and hardwoods located in Brampton, Ontario.

Summary of acquisitions

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

	2018	2017
	\$	\$
Current assets assumed	5,759	15,810
Non-current assets assumed	6,077	20,491
Current liabilities assumed	11,836	36,301
Non-current liabilities assumed	(1,612)	(2,297)
Net assets acquired	10,224	34,004
Considerations		
Cash, net of cash acquired	8,612	30,203
Considerations payable [note 7]	1,612	3,801
	10,224	34,004

Goodwill deductible for tax purposes with regard to those acquisitions amounted to \$2,646 [\$9,525 in 2017].

On November 1, 2018, the Corporation acquired an additional 5% interest in the voting shares of Menuiserie des Pins Ltée, increasing its ownership interest to 80%, for a cash consideration of \$392.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Machinery and equipment	Rolling stock	Furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost	3,652	27,591	6,515	32,752	10,838	17,641	12,695	111,684
Accumulated amortization	—	(16,888)	(4,937)	(23,831)	(7,306)	(15,244)	(10,220)	(78,426)
Net carrying amount as at November 30, 2016	3,652	10,703	1,578	8,921	3,532	2,397	2,475	33,258
Acquisitions	—	510	524	6,017	2,409	1,799	1,423	12,682
Acquisitions through business acquisitions <i>[note 3]</i>	—	—	—	72	250	10	25	357
Amortization	—	(1,392)	(494)	(1,825)	(1,602)	(1,256)	(1,065)	(7,634)
Effect of changes in foreign exchange rates	—	—	(20)	(26)	(30)	(21)	(8)	(105)
Net carrying amount as at November 30, 2017	3,652	9,821	1,588	13,159	4,559	2,929	2,850	38,558
Cost	3,652	28,101	6,945	38,574	13,246	19,266	14,094	123,878
Accumulated amortization	—	(18,280)	(5,357)	(25,415)	(8,687)	(16,337)	(11,244)	(85,320)
Net carrying amount as at November 30, 2017	3,652	9,821	1,588	13,159	4,559	2,929	2,850	38,558
Acquisitions	—	1,484	1,006	3,555	2,455	1,528	1,286	11,314
Acquisitions through business acquisitions <i>[note 3]</i>	—	—	—	143	708	19	—	870
Amortization	—	(1,377)	(578)	(2,533)	(1,935)	(1,563)	(1,217)	(9,203)
Effect of changes in foreign exchange rates	—	—	19	47	90	22	8	186
Net carrying amount as at November 30, 2018	3,652	9,928	2,035	14,371	5,877	2,935	2,927	41,725
Cost	3,652	29,584	8,012	42,380	16,022	20,971	15,380	136,001
Accumulated amortization	—	(19,656)	(5,977)	(28,009)	(10,145)	(18,036)	(12,453)	(94,276)
Net carrying amount as at November 30, 2018	3,652	9,928	2,035	14,371	5,877	2,935	2,927	41,725

5. INTANGIBLE ASSETS AND GOODWILL

	Software	Non-competition agreements	Customer relationships	Trademarks	Total	Goodwill
	\$	\$	\$	\$	\$	\$
Cost	6,686	3,353	35,274	5,238	50,551	62,256
Accumulated amortization	(6,066)	(2,627)	(18,977)	—	(27,670)	—
Net carrying amount as at November 30, 2016	620	726	16,297	5,238	22,881	62,256
Acquisitions	439	—	—	—	439	—
Acquisitions through business acquisitions <i>[note 3]</i>	—	1,125	8,314	1,170	10,609	9,525
Write-off	—	—	—	(243)	(243)	(2,334)
Amortization	(486)	(788)	(2,546)	—	(3,820)	—
Effect of changes in foreign exchange rates	(1)	(15)	(450)	(118)	(584)	(516)
Net carrying amount as at November 30, 2017	572	1,048	21,615	6,047	29,282	68,931
Cost	7,124	4,394	42,600	6,047	60,165	68,931
Accumulated amortization	(6,552)	(3,346)	(20,985)	—	(30,883)	—
Net carrying amount as at November 30, 2017	572	1,048	21,615	6,047	29,282	68,931
Acquisitions	1,055	—	—	—	1,055	—
Acquisitions through business acquisitions <i>[note 3]</i>	—	351	2,209	—	2,560	2,646
Amortization	(443)	(579)	(2,975)	—	(3,997)	—
Effect of changes in foreign exchange rates	3	10	345	82	440	407
Net carrying amount as at November 30, 2018	1,187	830	21,194	6,129	29,340	71,984
Cost	8,119	4,680	45,637	6,129	64,565	71,984
Accumulated amortization	(6,932)	(3,850)	(24,443)	—	(35,225)	—
Net carrying amount as at November 30, 2018	1,187	830	21,194	6,129	29,340	71,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

5) IMMOBILISATIONS INCORPORELLES ET GOODWILL (cont'd)

For impairment test purposes, the carrying amounts of goodwill and intangible assets have been allocated to CGUs or groups of CGUs. The carrying amounts of goodwill for the three groups of CGUs that are significant in comparison with the total carrying amount of goodwill are \$56 million and \$13.9 million, while \$2.1 million is allocated across CGUs with carrying amounts of goodwill that are not significant in comparison with the total carrying amount of goodwill. The carrying amounts of intangible assets with indefinite useful lives are allocated across multiple CGUs or groups of CGUs and the amount allocated is not individually significant in comparison with the total carrying amount. 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, discount rates before taxes of 12.6% and a terminal value calculated at a rate of 2%. Main assumptions are based on historical data. 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 lines of credit with a Canadian banking institution with respective authorized amount of \$50 million in Canadian dollars and \$6 million in US dollars, bearing interest at the bank's prime and base rates, which were respectively 3.95% and 5.75% as at November 30, 2018 [3.20% and 5% in 2017]. Those lines of credit are renewable annually. As at November 30, 2018 and 2017, both were undrawn.

7. LONG-TERM DEBT

	2018	2017
	\$	\$
Not-interest bearing business acquisition considerations payable, including US\$ 1,281 [US \$309 in 2017]	2,023	3,810
Non-interest bearing financing contract, repayable in equal installments	—	484
	2,023	4,294
Current portion of long-term debt	2,023	4,294
Long-term debt	—	—

8. SHARE CAPITAL

Authorized

Unlimited number of:

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

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

Changes in common shares are summarized as follows:

<i>(in thousands)</i>	Number of shares	\$
Outstanding, November 30, 2016	57,921	36,050
Issued	333	3,483
Repurchased	(458)	(303)
Outstanding, November 30, 2017	57,796	39,230
Issued	285	2,843
Repurchased	(966)	(675)
Outstanding, November 30, 2018	57,115	41,398

During 2018, the Corporation issued 284,774 common shares [333,225 in 2017] at a weighted average exercise price of \$8.11 per share [\$8.34 in 2017] pursuant to the exercise of stock options under the stock option plan. The weighted average share price on the market at the date of exercise was \$28.02 [\$29.72 in 2017]. In addition, during 2018, the Corporation, through a normal course issuer bid, repurchased 966,143 common shares for cancellation in consideration for \$26,531 [458,088 common shares in consideration for \$14,763 in 2017], which resulted in a premium on the redemption in the amount for \$25,856 recorded in retained earnings [premium of \$14,460 in 2017].

Stock option plan

Changes in stock options are summarized as follows:

<i>(in thousands)</i>	Number of options	Weighted average share price
		\$
Outstanding, November 30, 2016	1,650	13.58
Granted	330	25.71
Exercised	(333)	8.34
Cancelled	(9)	22.93
Outstanding, November 30, 2017	1,638	17.04
Granted	357	32.77
Exercised	(285)	8.11
Cancelled	(40)	27.00
Outstanding, November 30, 2018	1,670	21.69

The table below summarizes information regarding the stock options outstanding as at November 30, 2018:

	Options outstanding				Exercisable options	
	Range in exercise price	Number of options	Weighted average remaining period	Weighted average exercise price	Number of options	Weighted average exercise price
5.56 - 8.56	40	0.27	5.94	40	5.94	
8.57 - 13.57	286	3.69	11.45	286	11.45	
13.58 - 20.58	376	5.73	17.22	323	16.96	
20.59 - 32.77	968	8.24	27.10	236	23.42	
	1,670	6.71	21.69	885	16.40	

During 2018, the Corporation granted 357,000 options [329,500 in 2017] with an average exercise price of \$32.77 per share [\$25.71 in 2017] and an average fair value of \$7.39 per option [\$5.93 in 2017] as determined using the Black & Scholes option pricing model using an expected dividend yield of 0.8% [0.9% in 2017], a volatility of 20% [20% in 2017], a risk-free interest rate of 2.25% [1.86% in 2017] and an expected life of 7 years [7 years in 2017] and 40,112 options were cancelled [9,000 in 2017]. The compensation expense related to stock options amounted to \$2,298 [\$1,644 in 2017] and is recognized under *Operating expenses excluding amortization*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

8. SHARE CAPITAL (cont'd)

Deferred share unit plan

The financial liability resulting from the DSU plan of \$6,426 [\$7,914 in 2017] is presented under the Accounts payable and accrued liabilities. As at November 30, 2018, the fair value of the equity swaps amounted to a liability of \$524 [an asset of \$157 as at November 30, 2017] and is presented under Accounts payable. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data. The compensation expense for the DSUs in 2018, amounted to \$673 [\$621 in 2017] and is recognized under *Operating expenses excluding amortization*.

Number of DSUs	2018	2017
Outstanding, beginning of year	233,823	216,944
Granted	18,203	16,879
Outstanding, end of year	252,026	233,823

Share purchase plan

Compensation expense related to the share purchase plan amounted to \$764 for 2018 [\$697 in 2017] and is recognized under *Operating expenses excluding amortization*.

Net earnings per share

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

	2018	2017
Weighted average number of shares outstanding - Basic	57,597	57,956
Dilutive effect under stock option plan	467	703
Weighted average number of shares outstanding - Diluted	58,064	58,659

The computation of diluted net earnings per share includes all outstanding stock options as at November 30, 2018.

9. INCOME TAXES

The main components of the income tax expense were as follows:

	2018	2017
	\$	\$
Current	24,441	25,481
Deferred:		
Related to temporary differences	722	(147)
Deferred tax expense related to changes in tax rates	1,833	—
Deferred tax assets not previously recognized	(2,234)	(1,553)
	24,762	23,781

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

	2018	2017
	\$	\$
Combined statutory rates	26.68%	26.68%
Income taxes at combined statutory rates	24,740	24,469
Increase (decrease) resulting from:		
Impact of statutory rates changes for the subsidiary outside Canada	(23)	402
Share-based compensation	612	352
Non-deductible expenses	116	143
Deferred tax assets not previously recognized	(2,234)	(1,553)
Changes related to tax laws and tax rates	1,833	—
Other	(282)	(32)
	24,762	23,781

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:

	2018	2017
	\$	\$
Deferred taxes		
Translation of foreign exchange currencies, reserve recognized for tax purposes only upon disbursement and other tax attributes	6,763	6,301
Excess of the tax value of Property, plant and equipment over their net carrying value	924	1,296
Excess of the net carrying value of intangible assets and goodwill over their tax value	(4,750)	(4,399)
Net amount	2,937	3,198

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

	2018	2017
	\$	\$
Deferred tax assets	6,226	6,709
Deferred tax liabilities	(3,289)	(3,511)
	2,937	3,198

Changes in deferred taxes for the years ended November 30 are detailed as follows:

	2018	2017
	\$	\$
Balance at the beginning of the year, net	3,198	1,609
In net earnings	(321)	1,700
Other	60	(111)
Balance at the end of the year, net	2,937	3,198

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

10. COMMITMENTS AND CONTINGENCIES

[a] Leases

The Corporation has commitments under operating leases for warehouse and office premises expiring on various dates up to 2028. The future minimum payments, excluding incidental costs for which the Corporation is responsible, are as follows:

	\$
Less than a year	12,678
Between 1 and 5 years	30,980
More than 5 years	14,184
	<u>57,842</u>

[b] Foreign exchange forward contracts

As at November 30, 2018, the Corporation held the following foreign exchange forward contracts having maturity dates in December 2018 and January 2019.

Type	Currency	Average exchange rate
Purchase	€4,700	1.51

[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 consolidated net earnings.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The accumulated other comprehensive income, including the following items and their variances, were as follows:

	2018	2017
	\$	\$
Balance at the beginning of the period	15,582	19,966
Exchange differences on translation of foreign operations	3,731	(4,384)
Balance at the end of the period	<u>19,313</u>	<u>15,582</u>

12. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

Fair value

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

As at November 30, 2018, the fair value of the foreign exchange forward contracts amounted to a liability of \$1 [an asset of \$83 as at November 30, 2017] representing the amount the Corporation would collect on settlement of these contracts at spot rates. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data.

Credit risk

The Corporation sells its products to numerous customers in Canada, and in 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, 2018 and 2017 are deemed acceptable given the industry in which the Corporation operates.

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

	2018	2017
	\$	\$
Balance, beginning of year	6,486	6,323
Allowance for doubtful accounts	1,726	1,352
Write-offs	(1,498)	(1,254)
Exchange rate variations and others	88	65
Balance, end of year	<u>6,802</u>	<u>6,486</u>

The balance of accounts receivable of the Corporation that are overdue for more than 60 days, but which were not provided for, totalled \$1,894 [\$1,331 in 2017]. As at November 30, 2018 and 2017, 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 US dollars and Euros. Operating expenses included, for the year ended November 30, 2018, an exchange gain of \$2,478 [gain of \$888 in 2017].

The Corporation's policy is to maintain the purchase prices and selling prices of its commercial activities by mitigating its exposure through 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 reducing the exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at November 30, 2018, a decrease of 5% of the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased consolidated net earnings by \$763 [would have had no significant impact on consolidated net earnings as at November 30, 2017] and would have increased the consolidated comprehensive income by \$6,597 [\$5,968 as at November 30, 2017]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at November 30, 2018.

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 mainly the cash generated by the operating activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. FINANCIAL INSTRUMENTS AND OTHER INFORMATION (cont'd)

Operating expenses excluding amortization

	2018	2017
		\$
Inventories from the distribution, imports and manufacturing activities recognized as an expense	732,490	682,189
Salaries and related charges	134,998	128,113
Other charges	30,921	29,269
	898,409	839,571

An expense of \$2,994 [\$2,000 in 2017] for inventory obsolescence was included in Inventories from the distribution, imports and manufacturing activities.

13. RELATED PARTY INFORMATION

Scope of consolidation

Names	Country of incorporation	Equity interest	Voting rights
		%	%
Richelieu America Ltd.	United States	100	100
Richelieu Finances Ltée ⁽¹⁾	Canada	100	100
Les industries Cedan Inc.	Canada	100	100
Distributions 20/20 Inc.	Canada	100	100
Provincial Woodproducts Ltd.	Canada	85	85
Menuiserie des Pins Ltée [note 3]	Canada	80	80

⁽¹⁾ Richelieu Finances Ltée is the owner of 100% of Richelieu Hardware Canada Ltd.

Executive officers' compensation

	2018	2017
	\$	\$
Short-term employee benefits	3,319	3,521
Other long-term benefits	717	622
Share-based compensations	593	590
	4,629	4,733

Accounts payable and accrued liabilities included a retirement allowance amounting to \$2,740 [\$2,520 as at November 30, 2017] payable to an executive officer.

14. GEOGRAPHIC INFORMATION

During the year ended November 30, 2018, nearly 68% of sales had been made in Canada [67% in 2017]. The Corporation's sales to foreign countries, almost entirely directed to the United States, amounted to \$326,086 [\$307,869 in 2017] in Canadian dollars and to \$252,738 [\$236,504 in 2017] in US dollars.

As at November 30, 2018, out of the total amount in property, plant and equipment, \$7,031 [\$3,830 in 2017] is located in the United States. In addition, intangible assets located in the United States amounted to \$14,713 [\$13,302 in 2017] and goodwill to \$13,870 [\$10,818 in 2017] in Canadian dollars and to \$11,062 [\$10,321 in 2017] and goodwill to \$10,428 [\$8,394 in 2017] 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; and
- Provide an adequate shareholders return.

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, 2018 the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.4% [1.0% in 2017] [Long-term debt/Equity]
- Return on average shareholder's equity of 15.0% over the last 12 months [16.3% as at November 30, 2017]

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

16. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the year ended November 30, 2018, the Corporation paid a quarterly dividend of \$0.06 per share to common shareholders [quarterly dividend of \$0.0567 per share in 2017] for a total amount of \$13,824 [\$13,157 in 2017]. On January 24, 2019, the Board of Directors approved the payment of a quarterly dividend of \$0.0633 per common share for the first quarter of 2019.

17. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended November 30, 2018 (including the comparative figures) were approved for issue by the Board of Directors on January 24, 2019.

18. COMPARATIVE FIGURES

Some figures disclosed for the year ended November 30, 2017, have been reclassified to conform to the presentation adopted in the year ended November 30, 2018.

Transfer Agent and Registrar

Computershare Trust Company of Canada

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