WESTPEAK RESEARCH

March 16, 2017

Hardwoods Distribution Inc. (HWD.TO:TSE)

Wholesale – Hardwood lumber

"Branching Out"

Company Profile

Hardwoods Distribution Inc. (Hardwoods) is one of the largest distributors of hardwood, sheet wood and specialty products in North America. Its customer base consists of over 10,000 customers in North America, most of which are manufacturers of products involved in residential construction.

Thesis Summary

Hardwoods Distribution is a strong growing company with increasing market share in the North American region. Our confidence in Hardwoods' growth stems from a strong series of inorganic acquisitions, as well as a strong management team with strong expertise and/or history within the lumber industry. Potential catalysts for strong performances include a strong US dollar relative to the Canadian dollar, larger dividends to stimulate investor interest, and effective distribution channels. With risks such as low consumer income growth in the United States, we believe Hardwoods' ability to maintain healthy margins and position favorably can curtail those risks very effectively.

Valuation & Recommendation

We believe that Hardwoods is currently undervalued due to its nature of slow yet strong growth and low liquidity. Utilizing a comparable company analysis and discounted cash flow analysis, we determined a 12-month target share price of $23.00, which indicates an upside of 36%; hence, we have issued a buy rating. We expect Hardwoods to achieve an EV/EBITDA of 12.4x over the next five years. We are initiating a buy rating for the stock. We recommend Hardwoods to investors willing to hold stock for long periods, with slow and consistent growth expectations.

Analyst: Tony Chen, BCom 2019

Contact@westpeakresearch.com

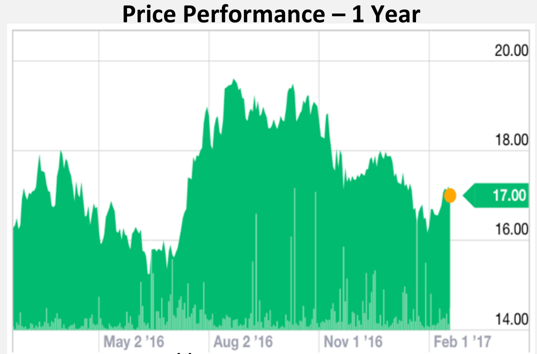
Equity Research	Canada
Price Target	**CAD$ 23.00**
Rating	Buy
Current Share Price, close	CAD$ 16.94
Total Return	36%

Key Statistics	
52 week H/L	$19.72/$15.06
Market Capitalization	$349M
Net Debt	$100.9M
Enterprise Value	$542M
Net Debt/Enterprise Value	22.8%
Diluted Shares Outstanding	20.5M
Free Float %	67.1%
Dividend Yield	0.38%
LTM P/E	14.0x
LTM EV/EBITDA	10.6x

WestPeak's Forecast (CAD)

	2015E	2016E	2017E
Revenue	$571M	$753M	$843M
EBITDA	$36M	$44M	$42M
EBIT	$32M	$39M	$39M
Net Income	$20M	$23M	$24M
P/E	13.8x	14.6x	14.2x
EV/EBITDA	14.97x	12.28x	12.82x
Price/Book	1.46x	1.29x	1.18x

Price Performance – 1 Year



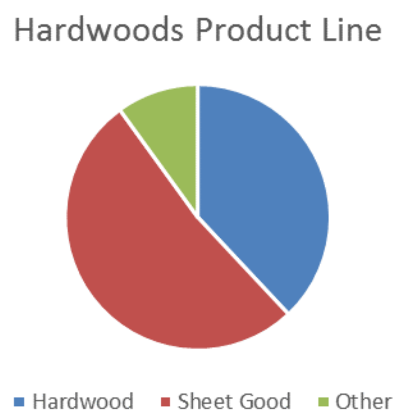
Source: https://finance.yahoo.com

Business Overview/Fundamentals

Company History

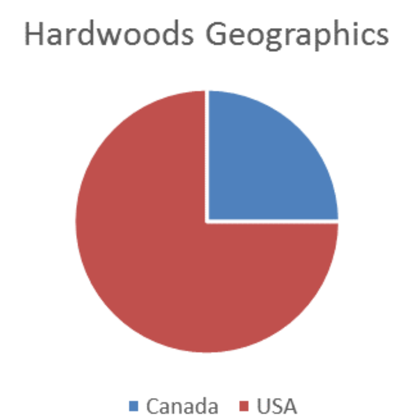
Hardwoods was founded in 1926 as “Hardwoods Specialty Products” in Vancouver, British Columbia, before expanding across Canada and into Western United States as a wholesale distributor of lumber products. It underwent its initial IPO in July of 2011 under the stock ticker “HWD” on the Toronto Stock Exchange.

Product Line Overview



Source: https://hardwoods-inc.com/investors

Hardwoods’ product line consists of 52% sheet good products, 38% hardwood lumber and 10% other specialty goods by sales revenue. Hardwoods serves as a distributor of goods for manufacturing companies. Approximately 60% of Hardwoods’ products end up being used in new residential construction, with the remaining 40% being used in commercial/institution construction and renovation/remodeling by sales. Not only does Hardwoods provide products for companies in North America, but its lumber mill in Michigan is also able to reach customers in Europe and Asia. Currently, Hardwoods has 33 locations all across North America; between Canada and United States, roughly 75% of sales are in the US while the remaining are in Canada. Their most recent acquisition of Rugby Architectural Building Products focuses specifically on their hardwood sector, and management has also raised desires for Hardwoods to grow to become the number one hardwood lumber distributor in the US.

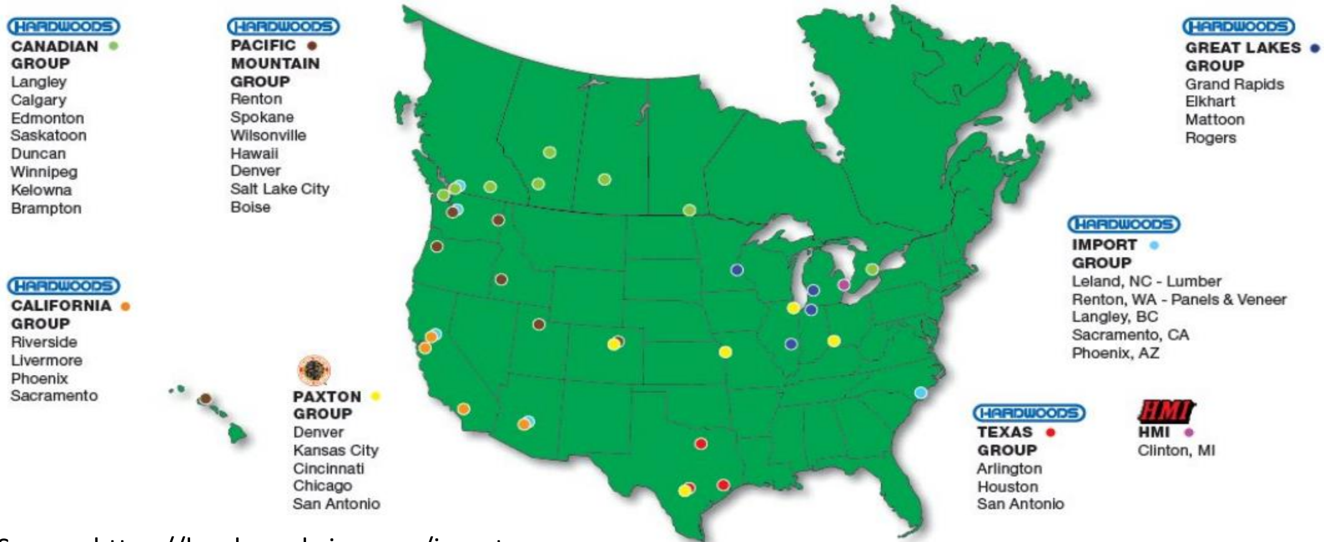


Source: https://hardwoods-inc.com/investors

Revenue, Growth, Acquisitions

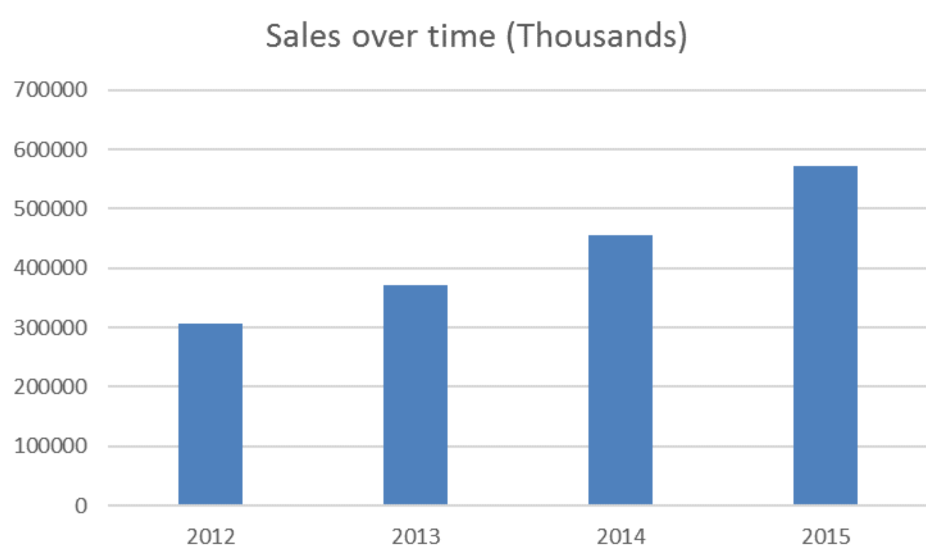
Hardwoods’ growth comes from both organic and inorganic means, the latter of which involved three acquisitions in the past, all of which are listed below:

- Acquired the Frank Paxton Lumber Company (Paxton) through a US$13.9 million purchase of assets in 2011. Paxton at the time was a leading distributor of premium hardwood lumber, with locations in Chicago, Cincinnati, Kansas City and San Antonio. Their locations can be found on the map of Hardwoods distribution locations on the next page.



Source: https://hardwoods-inc.com/investors

- Acquired Hardwoods of Michigan (HMI) in 2014 in a CAD$16.5 million deal. HMI at time of acquisition was a fully integrated producer and exporter of high-quality, value-added hardwood lumber located in Clinton, Michigan. According to Hardwoods 10-K filed in 2015, this acquisition contributed CAD$10.7 million to sales for that business year.
- Acquired Rugby Architectural Building Products in 2016 in a US$107 million deal. Rugby is a leading US wholesale distributor of non-structural architectural grade building products to suppliers of end-products which are then sold to the commercial market. Rugby manages 31 facilities serving over 22,000 customers over 48 states. Rugby's management as well as employees remained affiliated with Rugby under Hardwoods.

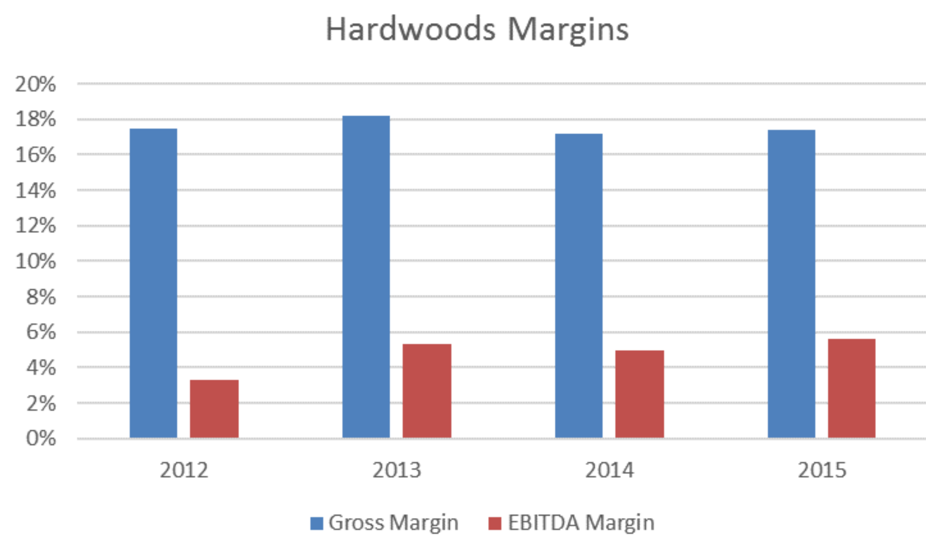


Source: https://hardwoods-inc.com/investors

Comparing the years ended 2014 and 2015, Hardwoods' total sales increased from CAD$455.7 million in 2014 to CAD$571.6 million in 2015, a 25.4%. This represents the change in Hardwoods' sales after a full year of operations with Hardwoods of Michigan under the Hardwoods company, illustrating a successful acquisition which allowed for a more efficient supply chain. In comparison, Hardwoods sales increased from CAD$371.2 million to CAD$455.7 million from 2013 to 2014, or a much lower 22.7% growth, due to the lack of any acquisitions. However, Hardwoods' may not be getting maximum mileage out of acquisitions, shown by a decrease in sales-to-assets ratio from 0.10 to 0.058 between 2015 and 2016.

Financials

Key Margins & Profitability

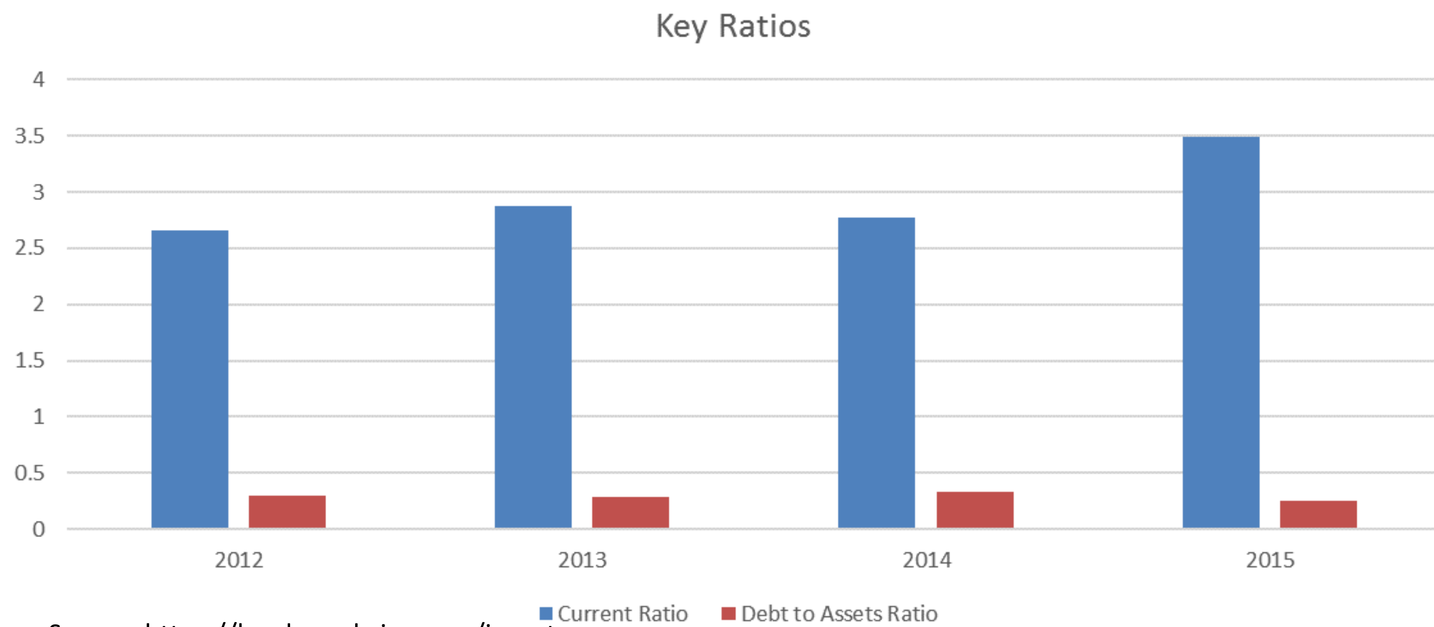


Source: https://hardwoods-inc.com/investors

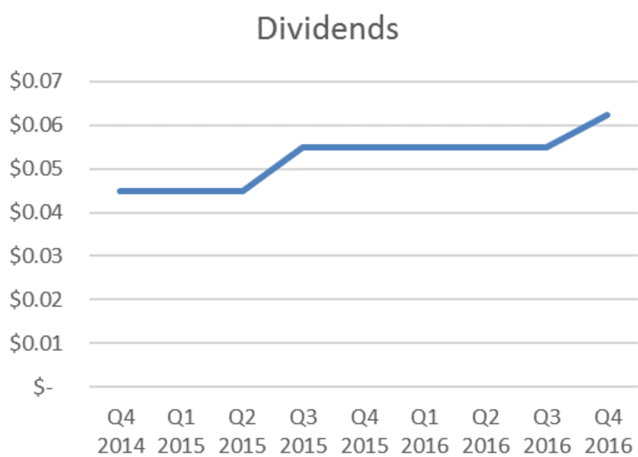
The graph attached demonstrates Hardwoods' very consistent margins over the past four years. As with all metrics, they are not useful without a comparison and thus we will use Universal Forest Products (UFP). UFP is a similar company to Hardwoods geographically and is larger than Hardwoods so it will serve as a good comparison to judge the healthiness of margins. Despite a large amount of acquisitions and inorganic growth, Hardwoods remains able to consistently convert gross profits from sales. Compared to Universal Forest Products, Hardwoods has a higher gross margin of 17.5% over Universal Forest Products' 13.9% reported in their 2015 10-K. Similarly, Hardwoods has a superior EBITDA margin of approximately 5% compared to Universal Forest Products' 4.5%. When compared to the TSX industry average gross margin of 23.1%, Hardwoods' performance is considered slightly below average, however, since the industry "Forest & Paper Products" contains paper products, which has an inherently higher margin, Hardwoods' position can be considered healthy. Given Hardwoods' consistent margins over the past four years, they have set a very good historic track record for consistency and we are positive that Hardwoods will remain a very stable business.

Liquidity and Solvency

We have tested Hardwoods for liquidity and solvency by computing its current and debt to assets ratios over the past four years. Similarly, we will be using Universal Forest Products as a frame of reference regarding how Hardwoods' ratios compare to competitors. We found that when compared to Universal Forest Products' current ratio of 3.17 and debt-to-assets ratio of 0.308, Hardwoods' own ratios tend to be in a favorable position at 3.49 and 0.25 respectively. When compared to the TSX industry average current ratio of 1.8, Hardwoods' metrics appear desirable. Hardwoods' debt-to-assets ratio is at par with the TSX average of 0.248. Hardwoods' current ratio is continuing to grow, while its debt-to-assets ratio has been fairly stagnant since fiscal year 2012. We are positive that in the future Hardwoods will continue to display healthy ratios as the business continues to grow and Hardwoods continues to expand, especially once revenues from the Rugby Architectural Building Products acquisition becomes realized during fiscal year 2016. One risk to consider is that Hardwoods incurred heavy debt in order to acquire Rugby, and it is very possible that Hardwoods may use debt financing for any further large-scale acquisitions.



Source: https://hardwoods-inc.com/investors



Source: https://hardwoods-inc.com/investors

Dividends

With increased sales, Hardwood gradual increased dividends, which has gone up from CAD$0.03 in Q1 2013 to CAD$0.0625 in Q1 2017, an increase by more than 100%. Over the past two years Hardwoods' sales have gone up by at least 20% per year. Compared to Universal Forest Products' dividend of CAD$0.82 per share, Hardwoods clearly favors retained earnings over dividends for shareholders. We are confident that Hardwoods will continue to increase their dividends as sales continue to grow at a similar pace of approximately CAD$0.01 every year.

Industry Overview

American Lumber

The United States is currently the largest producer and consumer of lumber products, with over 900,000 employed in the industry and producing over 30 billion board feet annually. Due to high labor costs, exports are primarily raw materials that are to be turned into finished goods elsewhere; the primary importers are Japan, Mexico, Germany and the UK. There is a total of 751 million acres of forest land available as lumber supply in the United States, most of which is privately owned. Therefore, we see great potential in further expansion into the American lumber market.

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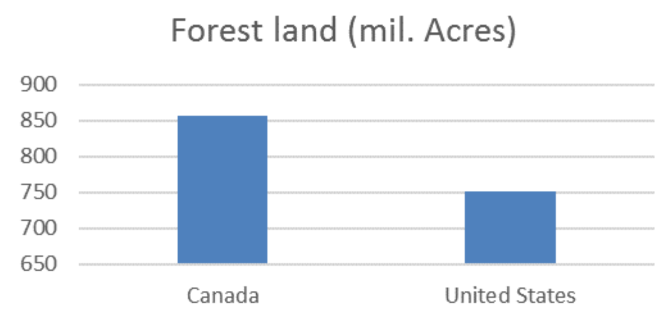
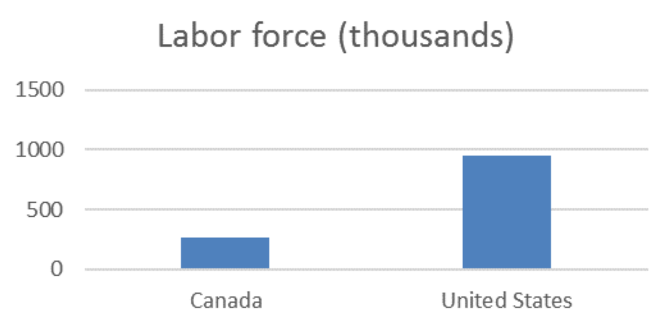
Canadian Lumber

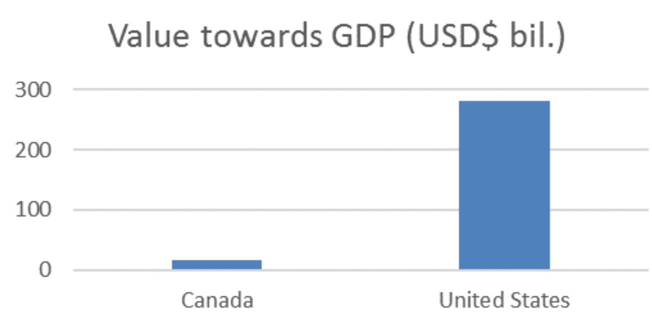


Sources: https://cfs.nrcan.gc.ca/; https://www.statista.com/

The main difference between the Canadian and the American lumber industry is that most Canadian forests are provincially owned. This naturally leads to lower costs for Canadian lumber and allows Canadian lumber to undercut the prices of American lumber; not only that, this results in potential governmental subsidies that go towards the lumber industry. In terms of forest land, Canada has approximately 857 million acres available, or approximately 14% more than the amount available in the United States. However, over 75% of all forest land in Canada is provincially owned, meaning very little forest land is available for corporations to purchase. When it comes to the housing market, Canadian housing market has grown by an unprecedented 11.4% during August 2015-2016, and is likely to continue to grow.

Implications for Hardwoods





Sources: https://cfs.nrcan.gc.ca/; https://www.statista.com/

Hardwoods is aiming to have 90% of their operations in the United States. Currently, 75% of Hardwoods' operations in the US and 25% in Canada. Despite Canada having more forest land than the United States, the amount of value associated with the Canadian lumber industry is merely a fraction of that of the US. Hardwoods moving towards more operations in the United States may be beneficial in the short run because of the large amount of lumber being exported on an annual basis, and demand and supply remains fairly stable. In the long run, Canadian lumber industry is expected to grow massively due to how undeveloped it is compared to the American lumber industry; despite this, strict Canadian regulations by organizations such as the Canadian Lumber Standards Accreditation Board (CLSAB) may limit growth potential. We firmly believe that within the next ten years or so, the Canadian lumber industry will not see sufficient development to justify Hardwoods moving towards Canadian markets.

Catalysts

Acquisitions

Having completed three acquisitions over the past three years, Hardwoods' pursuit of inorganic growth has allowed Hardwoods' revenues to grow massively compared to the industry average of approximately 5-8%. However, consistency in efficiency is rather questionable as Hardwoods' sales-to-assets ratio fluctuated between 0.06 to 0.10 to 0.05 between the years 2014 and 2016. Hardwoods' net margin remained around 3% before and after acquisitions. Acquisitions also help Hardwoods expand in a physical perspective: the most recent acquisition of Rugby saw the introduction of more than 30 facilities to Hardwoods' network of facilities. However, gross margins remain around 18%, likely due to the competitiveness of the industry. Hardwoods funded its Rugby acquisition through two primary methods: approximately half of the CAD$137 million deal was funded from bank indebtedness and the other half through an equity issuance of roughly 3,800,000 shares for CAD$63.5 million. Going into 2017 and 2018, Hardwoods is likely to continue the lookout for new companies for possible acquisition as they continue their strategy of inorganic growth. However, it will be crucial for acquisitions to prove effective, as Hardwoods has very low holdings in cash and must rely on debt and new equity to finance acquisitions, the former of which is especially risky. In order to pay off debt, Hardwoods must be able to maintain strong sales and margins. In the case that debt cannot be paid off, Hardwoods' credit rating may become tarnished and result in an inhibited ability to pursue further acquisitions. Prior to the Rugby acquisition, Hardwoods has accumulated more than CAD$150 million additional sales from acquired facilities. Due to Rugby's high margin product mix, the acquisition is likely very beneficial for Hardwoods; we believe further acquisitions will be even more effective to Hardwoods due to their experience with acquisitions and proven positive historical results.

Growing Dividends

Currently distributing dividends of CAD$0.065 per share in Q1 of 2017, Hardwoods maintains an increasing trend in dividends per share, up from CAD$0.03 per share in 2017. Hardwoods rarely issues large amounts of stock unless in times of acquisitions. In terms of dividend trends, their low yield of 0.38% as well as their consistent margins do not indicate any potential dividend cuts.

Additional Expansion into the United States

As stated in their 10-Q filed in Q3 of 2016, Hardwoods is looking to shift its business such that over 90% of operations are done in the United States, compared to the previous 75%. The United States serves as a more favourable country of operations, as there are higher supplies of Cherry, Cedar, Douglas Fir and Walnut, all of which are commonly used as hardwood and/or construction. An image is attached showing the most common types of hardwood, many of which are plentiful in supply in the United States. Canadian forests are also generally more strictly regulated, so we believe increasing presence in the United States have the potential to be a great catalyst for sales.

Source: https://www.logsend.com

Management Team

Overview

Every member on the Board of Directors and Management teams has tremendous background experience with the lumber industry. Each member currently holds or has held management positions with at least one other company in the lumber industry or another similar industry. Among management, every member has over 10 years of experience either with Hardwoods or within their specific area of management. Therefore, Hardwoods' management should be well equipped to support the firm's continual growth.

Hardwoods' payments to "key management personnel," which includes the Board of Directors, President, Chief Financial Officer and regional Vice Presidents, were approximately CAD$3.886 million in fiscal year 2015, which was a major increase from payments ranging between CAD$2.3 and CAD$2.5 million in fiscal years 2012, 2013, and 2014. Considering that every year between 2012 and 2015 Hardwoods has maintained at least a 20% revenue growth rate, this comes as no surprise and the additional compensation for management does not raise any concerns.

Robert Brown, CEO and President

The CEO of Hardwoods Distribution is Robert Brown, who joined Hardwoods in August 2004 as their VP Finance, and went through positions such as CFO and COO before becoming the CEO of Hardwoods in January of 2016. Brown's past experiences include manager with the Weyerhaeuser Company and MacMillan Bloedel Limited between 1998 and 2004. Both companies are located in Vancouver, BC and produce and distribute forest-related products. Brown holds multiple titles in different areas of expertise: he is a Charted Professional Accountant, holds a Chartered Financial Analyst position as well as a Bachelor of Commerce degree from the University of British Columbia. In 2014, Robert Brown was paid CAD$236,000 in salary and CAD$488,862 in overall compensation, which represents approximately 20% of Hardwoods' total compensation to key management personnel. As the CEO, this payroll amount is very reasonable and not problematic due to Brown's extensive knowledge in many aspects, all of which are relevant to helping Hardwoods become an excellent company.

Risks

Exchange Rate Fluctuations

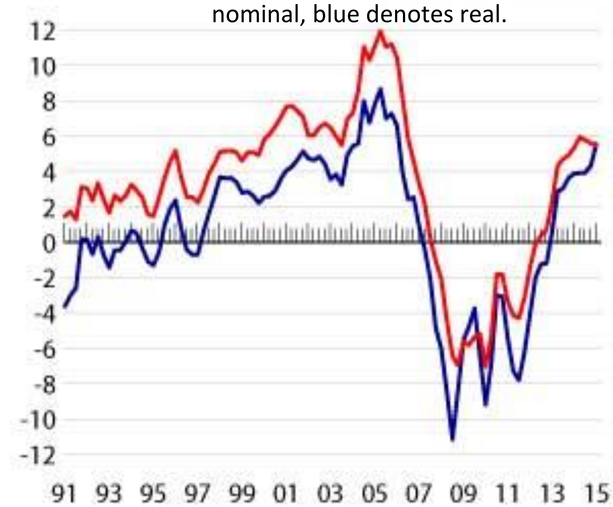
Approximately three-quarters of all Hardwoods sales originate from the United States, while the rest are scattered around the world. However, since all accounting is done in terms of Canadian dollars, any changes in exchange rate will heavily affect Hardwoods' financial statements. Additionally, fluctuations in the exchange rate may significantly impact demand for Canadian exports. Under Trump's presidency, the Canadian-American dollar exchange rate will likely be

Source: www.xe.com

extremely volatile and unpredictable, and is therefore a very real risk. Hardwoods does not have any currency hedging program in place.

Market Supply and Demand

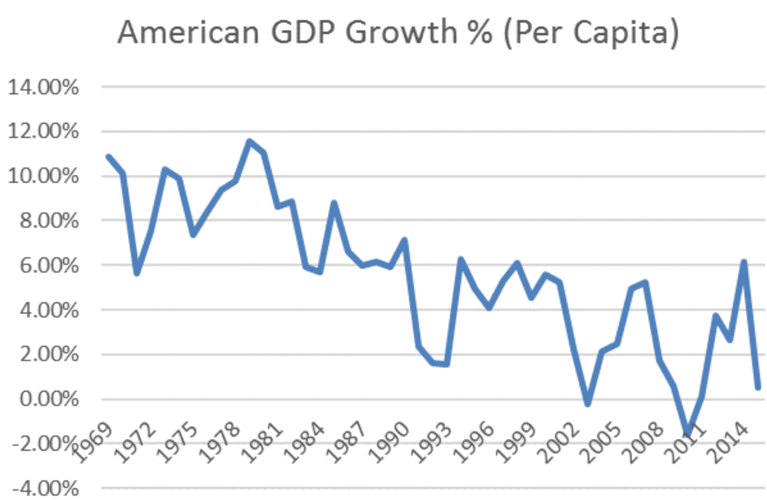
American housing market growth by percentage. Red denotes nominal, blue denotes real.



Source: http://www.globalpropertyguide.com/

As a wholesale distributor, Hardwoods' sales are entirely dependent on customer demand for hardwood products. For example, housing demand, interest rates, customer confidence in the housing market, and demographic trends all drastically affect Hardwoods' operations.

Recently, the rise in the American housing market serves as a huge opportunity for Hardwoods in the US. Since 2013, the American housing market growth has broken positive after a negative trend lasting six years. This significantly lowers the risk that the housing market presents to Hardwoods in the recent five-year projected future. Prior to the 2008 financial crisis, the housing markets showed positive growth for ten years. Unless an economic breakdown of a similar or larger scale happens, it is unlikely for the housing market to return to a recession. However, it should be viewed as a possibility, albeit low, that under President Trump the overall economy may show signs of weakness.



Source: https://www.multpl.com

Another factor to consider is the US income per capita growth rate. Since a high of 11.58% in 1979, income growth for Americans have slowed down gradually, to a mere 0.5% in 2015. As a growing company, it is crucial for consumer income, and by extension consumer demand to grow in order for Hardwoods to maintain its successful sales and margins.

Credit to Customers

Hardwoods offers credit to customers purchasing hardwood lumber and sheet goods in amounts that they may generally be unable to obtain from traditional lenders. Historically Hardwoods has had approximately 0.4% of sales lost to bad debt. However, this number may increase without warning and will severely harm Hardwoods' financial condition and results of operations.

Externalities

Lumber products are a commonplace for government intervention; for example, governments may impose taxes on certain imports and/or exports which will adversely affect the lumber industry, and specifically Hardwoods. Hardwoods also uses a mix of import products from other countries in their product line: approximately 14% of all sales originate from products imported from China, resulting in even more risk.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

As of January 13, 2017, the largest shareholders of Hardwoods are Arbutus Distributors Ltd (19.34%), Connor Clark & Lunn (7.39%) and London Life Investment Management (3.17%). There are no other shareholder currently holding more than 2.5% of total shares outstanding. Hardwoods also has very low institutional investment interest, with approximately 21.3% of all shares are owned by institutional buyers. Arbutus Distributors Ltd. is not only the largest shareholder, but also owned by Peter M. Bull, who currently sits on the Hardwoods Board of Directors. There are no other noteworthy (>1% shares outstanding) shareholders that have any affiliation with Hardwoods management or board.

Arbutus Distributors Ltd., Largest Shareholder (19.34% of shares held)

Arbutus Distributors Ltd. serves as the largest holder of Hardwoods' common stock, with over 4 million of shares owned. Arbutus Distributors has shown extensive interest in suppliers of lumber: Arbutus's acquisitions has included 2.9 million shares from CanWel Building Materials (TSX:CWX), which represented 10% of shares outstanding at the time, as well as 9.2 million shares of Tree Island Steel Ltd., which represented 18.67% of all shares outstanding. Arbutus' interest in Hardwoods and effective seat on the board of directors is likely to be beneficial for Hardwoods, as it provides a set of opportunities for Hardwoods to acquire other companies under the partial ownership of Arbutus. Arbutus's role in Hardwoods is even more crucial when recognizing that they have multiple lumber distributors under their wing. It is very likely that Arbutus sees untapped potential within Hardwoods, and wants to help Hardwoods realize that potential.

Liquidity and Short Interest

In terms of liquidity, an average of 47,300 shares of Hardwoods are traded each day on the Toronto Stock Exchange (0.22% of all shares outstanding). When compared to CanWel Building Materials Group (TSX:CWX), which trades a daily average of 179 thousand shares (0.28% of its 61.15 million common shares), Hardwoods' liquidity appears to be fairly average compared to other companies in the industry. Currently, 46,817 out of Hardwoods' 21 million shares are being shorted, representing 0.33% out of all shares available. The stable trend of short interest signifies that overall confidence in Hardwoods has remained constant in the past year.

Comparable Companies (all figures in CAD)

We have conducted comparable analysis using the companies outlined under comparable companies, those being GoodFellow Inc., CanWel Building Products, Taiga Building Products and Huttig Building Products. Using the EV/EBITDA method, we have computed an implied target share price of $21.03, while from P/E method we have computed an implied target share price of $27.37. However, we expect Hardwoods to be above average in that they have less debt, higher market cap, and more cash to fund further acquisitions. The companies were picked on a basis of industry, position on the supply chain (distributors), products, and capital size, in that order of significance. All companies chosen operate in the same industry with similar products and roles in the supply chain as wholesale distributors.

Goodfellow Inc. (TSX: GDL)

Goodfellow Inc. is a company headquartered in Richmond, Canada and is the leader in the processing and distribution of exotic woods, construction timber and other hardwoods. Similar to Hardwoods, Goodfellow's product line includes flooring, decking, and panel wood.

CanWel Building Materials Group Ltd. (TSX:CWX)

CanWel Building Materials Group Ltd. is a company also headquartered in Vancouver, Canada and is one of North America's largest distributors of building products and home renovation materials. CanWel also operates 9 wood preservation plants that produce quality treated wood products.

Taiga Building Products (TSX: TBL)

Taiga Building Products is an independent wholesale distributor of building materials headquartered in Burnaby, Canada. Today, Taiga operates 15 distribution centres in Canada and 2 distribution centres in Northern California, while Taiga also has 6 reload stations in the Eastern United States.

Huttig Building Products, Inc. (NASDAQCM: HBP)

Huttig Building Products, Inc. is one of the largest wholesale distributors of millwork and building products for light commercial use. The company is currently headquartered in St. Louis, United States, and has 27 distribution centres serving 41 states in the United States.

Valuation (all figures in CAD)

Key Assumptions

Revenue Analysis

For the purpose of Revenue Analysis, we predicted that Hardwoods' expansion through the Rugby acquisition will massively increase their hardwood sector revenues in 2016 Q4 relative to other revenues, as the United States is full of hardwood resources such as Cherry, Walnut, Cedar and Douglas Fir. Furthermore, Hardwoods moving towards more operations in the United States can only be beneficial towards their hardwood product segment. Consequently, we expect their sheet goods and specialty goods revenues to remain somewhat constant as they did between Q1 and Q2 of 2016. For the three segments, we used the numbers 52%, 38% and 10% of total sales as described in their 2015 10-K report. In the future, we anticipate that Hardwoods will go through another minor acquisition in 2018, as Hardwoods has undergone an acquisition every two years.

Therefore, revenue growth rates are projected to remain strong. With TSX industry average growth rates of around 5.2%, we expect at least a 15% growth in 2017 for the hardwood sector and 10% growth for all other sectors due to Hardwoods' nature of rapid expansion. Understandably, we expect revenue growth rates to slow down as Hardwoods expands, but with active catalysts such as acquisitions and growing housing markets, we expect sustainable growth rates for the next five years. Furthermore, we project a tapering revenue growth rate for two reasons. First, we find it very unrealistic for a growing company to continue growing at a linear pace. Second, Hardwoods' ability to generate profits with increasing efficiency after acquisition is questionable. With a sales-to-asset ratio which nearly halved after their Rugby acquisition, we have decided to be conservative when estimating growth margins.

B.A.S.E Analysis (Beginning, Additions, Subtractions and Ending PP&E)

As technology becomes more advanced and volatile, we expect the useful life of equipment to decrease as technology becomes obsolete faster. Over the three quarters of 2016, we saw a drastic decrease in the useful life of PP&E, likely due to equipment overhaul which happened as a result of the Rugby acquisition in Q3 of 2016. For Q4 of 2016, we decided that 18.0 years would be a suitable number as it is an increase from Q3 of 2016, and results in a yearly average of 17 years, which is more realistic given 20+ years of useful life for equipment in Q1 and Q2. We estimate this number to fall drastically to 14 years in 2017 as Hardwoods continue to undergo further capital development, and we expect that to taper to 12.5 years by the end of 2021.

COGS and SG&A Margins

Historically, Hardwoods' COGS margin has remained around 82%. As the industry becomes more competitive and Hardwoods continues mergers and acquisitions, we expect it to remain at around 82%. However, since it is relatively unknown whether the expansion will result in higher costs of goods sold due to increasing scale of lumber harvesting, we assumed an 83% COGS margin for the next five years. We expect the SG&A margin to remain at 12% as Hardwoods' SG&A margins have remained somewhat constant between 11% and 13% since 2012. Since all members of administrative management have stayed with the company for more than four years, it is unlikely that they will cause an increase in any additional administrative expenses. This results in an EBITDA margin of roughly 5%.

Accounts Receivable Days Outstanding, Days of Inventory

As Hardwoods expands, and takes in more and more sales, it becomes possible that they will have to maintain their lenient credit policy, resulting in a significant increase in accounts receivable. Therefore, we assumed that Days Sales Outstanding will be stagnant at 40 days. Also due to expansion, we foresee that Hardwoods will have to hold slightly more inventory year by year, as more locations result in the need of a higher service rate. However, we have also projected fairly positive growth rates for sales. Therefore, inventory holdings may decrease slowly relative to sales, and we have set days of inventory to decrease from 93x to 66x over the next five years. However, we expect an influx of inventory in Q4 of 2016 and Q1 of 2017, as we predict large purchases of inventory to prepare for business operations with the newly acquired Rugby facilities. We do not expect heavy inventory influxes as wholesalers often go through rapid cycles of inventory due to stagnant but high demand of raw material.

Accounts Payable Days Outstanding, Prepaid Expenses as a % of Sales

For accounts payable days outstanding and prepaid expenses, we foresee that Hardwoods will not undergo any increases to the latter as their cash flows will be adequate to support a constant level of purchases on credit. With accounts payable days outstanding however, we expect this amount to increase by 5x after every acquisition year, in the case that debt and equity will not be sufficient to fund their acquisitions.

Acquisitions

Once again, we have projected these numbers off of historical data, and off the assumption that Hardwoods will go through more acquisitions in 2018 and 2020. We have also assumed that the 2020 acquisition will be of a larger scale than that of 2018, as Hardwoods will need time to evaluate whether or not larger acquisitions like the Rugby acquisition are beneficial to sales. It should also be noted that Hardwoods underwent a $66 million increase of bank indebtedness in Q3 2016 to finance their Rugby acquisition. Consequently, we do not expect any large Rugby-level acquisitions on Hardwoods' agenda within the next three years. However, we do expect Hardwoods to undergo small acquisitions as their business continues to expand. This naturally leads to an influx of depreciation during certain years due to PP&E gain. Furthermore, we anticipate that Hardwoods will continue to finance using a mix of bank indebtedness and common shares, with a focus on bank indebtedness as the company strengthens its ability to pay off debt.

With the issuance of common shares, we have decided that Hardwoods will offer shares at the same price as those offered in Q3 of 2016, or $16.83, which was computed by dividing the amount of cash acquired through the offering by the difference in basic shares between Q2 and Q3 of 2016.

DCF Valuation

Due to the consistency of the lumber industry and Hardwoods' fairly large market share when compared to its competitors, we have evaluated a WACC of 8.41% using a pre-tax cost of debt of 6%, 2% risk-free rate, 5% risk premium and a beta of 1.55. Since wholesale companies are constantly competing for market share which leads to inherent risk, we have modified the Bloomberg beta value from 0.536 to 1.55. We concluded this by finding an unlevered beta of 1.30 associated with retail (building products) using Damodaran Online and then levering it using Hardwoods' financials. With an estimated enterprise value of $542 million, we have a target share price of Hardwoods to be $21.53.

Recommendation

We believe that Hardwoods is a company with immense growth potential, with aggressive acquisitions often working out from a cash flow perspective. Most recently, Hardwoods acquired Rugby Architectural Building Products in Q2 of 2016 in a US $107 million deal; as of Q3 2016, that has resulted in estimated revenue growth of over 30% in Hardwoods' hardwood sector. Being a wholesaler of wood, a raw material crucial especially in housing construction, we expect margins to remain consistent as Hardwoods continues to grow especially as the American housing market continues to grow at increasingly high rates. Hardwoods' plans to expand more aggressively into the US are likely going to prove beneficial as the US is rich in supply of hardwoods such as Douglas Fir and Cherry. On the back of the very experienced team of managers and directors, Hardwoods are likely to expand even more efficiently through a strategy geared towards inorganic growth. Despite possible risks of low consumer income growth and possible externalities imposed by governments, Hardwoods' levered position between Canada and the US will help soften the impact of any potential hazards.

Hardwoods currently trades at $16.94, but based on a mix of strong growth, healthy margins and favorable comparative results against similar companies we have determined a fair market price of $23.00, which represents a 36% upside and therefore we will initiate a buy rating. We recommend Hardwoods to investors willing to hold stock for long periods due to Hardwoods' nature of slow but consistent growth, and its fairly low liquidity.

Appendices (all figures in thousands CAD)

Appendix 1: Pro Forma Income Statement

WESTPEAK RESEARCH

Income Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Revenue	**306,087.00**	**371,215.00**	**455,694.00**	**571,598.00**	**157,413.00**	**157,031.00**	**235,428.00**	**203,500.00**	**753,372.00**	**843,156.77**	**919,040.88**	**996,186.15**	**1,070,900.11**	**1,145,863.12**
Cost of Goods Sold	251,011.00	302,157.00	374,789.00	469,372.00	128,625.00	127,913.00	190,398.00	168,905.00	615,841.00	699,820.12	762,803.93	826,834.51	888,847.09	951,066.39
Gross Profit	**55,076.00**	**69,058.00**	**80,905.00**	**102,226.00**	**28,788.00**	**29,118.00**	**45,030.00**	**34,595.00**	**137,531.00**	**143,336.65**	**156,236.95**	**169,351.65**	**182,053.02**	**194,796.73**
Sales and Marketing	33,980.00	38,757.00	43,441.00	52,965.00	14,822.00	13,420.00	24,703.00		52,945.00					
General and Administrative	8,749.00	8,933.00	11,986.00	14,457.00	4,533.00	5,467.00	7,141.00		17,141.00					
SG&A	42,252.00	47,254.00	54,733.00	66,123.00	19,068.00	18,519.00	31,519.00	24,420.00	93,526.00	101,178.81	110,284.91	119,542.34	128,508.01	137,503.57
EBITDA	**12,824.00**	**21,804.00**	**26,172.00**	**36,103.00**	**9,720.00**	**10,599.00**	**13,511.00**	**10,175.00**	**44,005.00**	**42,157.84**	**45,952.04**	**49,809.31**	**53,545.01**	**57,293.16**
D&A	1,266.00	1,442.00	2,138.00	2,593.00	750.00	746.00	1,185.00	1,127.83	3,808.83	2,116.65	3,757.69	6,886.84	7,595.06	21,482.94
SBC	477.00	436.00	694.00	1,299.00	287.00	368.00	325.00	300.00	1,280.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
EBIT	**11,081.00**	**19,926.00**	**23,340.00**	**32,211.00**	**8,683.00**	**9,485.00**	**12,001.00**	**8,747.17**	**38,916.17**	**38,791.18**	**40,944.35**	**41,672.47**	**44,699.94**	**34,560.21**
Interest expense	753.00	178.00	381.00	- 143.00	568.00	263.00	- 34.00	- 50.00	747.00	- 100.00	- 125.00	- 100.00	- 200.00	- 150.00
Income Before Income Tax	**10,328.00**	**19,748.00**	**22,959.00**	**32,354.00**	**8,115.00**	**9,222.00**	**12,035.00**	**8,797.17**	**38,169.17**	**38,891.18**	**41,069.35**	**41,772.47**	**44,899.94**	**34,710.21**
Income Tax	4,149.00	6,681.00	8,944.00	12,208.00	3,493.00	3,855.00	4,739.00	2,639.15	14,726.15	14,778.65	15,606.35	15,873.54	17,061.98	13,189.88
Net Income	**6,179.00**	**13,067.00**	**14,015.00**	**20,146.00**	**4,622.00**	**5,367.00**	**7,296.00**	**6,158.02**	**23,443.02**	**24,112.53**	**25,463.00**	**25,898.93**	**27,837.97**	**21,520.33**
Shares Outstanding, Basic	16,156.78	16,394.89	16,539.69	16,652.23	16,762.25	16,778.77	20,553.68	20,553.68	20,553.68	20,553.68	21,741.71	21,741.71	24,711.79	24,711.79
Shares Outstanding, Diluted	16,416.36	16,627.30	16,624.87	16,780.88	16,901.49	16,929.88	20,722.77	20,722.77	20,722.77	20,722.77	21,910.81	21,910.81	24,880.88	24,880.88
Earnings Per Share, Basic	$ 0.38	$ 0.80	$ 0.85	$ 1.21	$ 0.28	$ 0.32	$ 0.35	$ 0.30	$ 1.14	$ 1.17	$ 1.17	$ 1.19	$ 1.13	$ 0.87
Earnings Per Share, Diluted	$ 0.38	$ 0.79	$ 0.84	$ 1.20	$ 0.27	$ 0.32	$ 0.35	$ 0.30	$ 1.13	$ 1.16	$ 1.16	$ 1.18	$ 1.12	$ 0.86

Appendix 2: Pro Forma Cash Flow Statement

WestPeak Research

Cashflow Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Net Income	**6,179.00**	**13,067.00**	**14,015.00**	**20,146.00**	**4,622.00**	**5,367.00**	**7,296.00**	**6,158.02**	**23,443.02**	**24,112.53**	**25,463.00**	**25,898.93**	**27,837.97**	**21,520.33**
Depreciation and Amortization	1,266.00	1,442.00	2,138.00	2,593.00	750.00	746.00	1,185.00	1,127.83	3,808.83	2,116.65	3,757.69	6,886.84	7,595.06	21,482.94
Loss on sale of PP&E	- 37.00	- 79.00	126.00	- 29.00	2.00	- 149.00	- 44.00		- 191.00					
Stock based compensation	477.00	436.00	694.00	1,299.00	287.00	368.00	325.00	300.00	1,280.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
Income tax expense	4,149.00	6,681.00	8,944.00	12,208.00	3,493.00	3,855.00	4,739.00		12,087.00					
Net Finance Costs	753.00	178.00	381.00	- 143.00	568.00	263.00	- 34.00		797.00					
Interest Received	397.00	362.00	386.00	421.00	74.00	94.00	127.00		295.00					
Interest Paid	- 848.00	- 1,117.00	- 1,299.00	- 1,333.00	- 274.00	- 234.00	- 587.00		- 1,095.00					
Income Taxes Paid	- 1,185.00	- 5,203.00	- 5,698.00	- 8,374.00	- 4,541.00	- 3,556.00	- 2,615.00		- 10,712.00					
Cash Flows before Working Capital	**11,151.00**	**15,767.00**	**19,687.00**	**26,788.00**	**4,981.00**	**6,754.00**	**10,392.00**	**7,585.85**	**29,712.85**	**27,479.19**	**30,470.69**	**34,035.77**	**36,683.03**	**44,253.27**
Accounts receivable	- 2,905.00	- 6,198.00	3,257.00	- 2,930.00	- 9,477.00	- 2,138.00	335.00	8,742.92	- 2,537.08	1,522.34	- 8,316.07	- 8,454.28	- 8,187.83	- 8,215.12
Inventory	-12,768.00	- 5,366.00	- 11,783.00	- 4,499.00	- 3,190.00	- 1,879.00	- 2,431.00	- 3,762.36	- 11,262.36	- 9,966.08	- 2,473.34	- 617.73	- 566.33	- 1,509.82
Prepaid expenses and other assets	- 137.00	- 134.00	- 255.00	39.00	284.00	- 1,595.00	148.00	934.50	- 228.50	- 109.34	- 284.57	- 289.29	- 280.18	- 281.11
Accounts payable, accrued and other liabiliti	1,188.00	444.00	1,549.00	1,346.00	1,706.00	5,806.00	456.00	- 2,724.73	5,243.27	5,817.80	14,188.13	5,262.79	17,272.91	5,966.23
Cash Provided By Operating Activities	**- 3,471.00**	**4,513.00**	**12,455.00**	**20,744.00**	**- 5,696.00**	**6,948.00**	**8,900.00**	**10,776.19**	**20,928.19**	**24,743.91**	**33,584.85**	**29,937.26**	**44,921.61**	**40,213.45**
Acquisitions	-	- 2,984.00	- 16,467.00	-	-	-	-137,065.00	- 10,000.00	- 147,065.00	- 20,000.00	- 40,000.00	- 10,000.00	- 175,000.00	- 15,000.00
Long-Term Receivables	1,034.00	405.00	699.00	358.00	67.00	34.00	47.00		148.00					
Proceeds from sale of PP&E	112.00	212.00	100.00	140.00	-	374.00	155.00	140.00	669.00	500.00	800.00	500.00	800.00	500.00
Purchase of PP&E	- 848.00	- 944.00	- 1,507.00	- 1,850.00	- 442.00	- 1,545.00	- 730.00	- 600.00	- 3,317.00	- 3,712.31	- 4,046.42	- 4,386.08	- 4,715.04	- 5,045.09
Cash Used in Investing Activities	**298.00**	**- 3,311.00**	**- 17,175.00**	**- 1,352.00**	**- 375.00**	**- 1,137.00**	**-137,593.00**	**- 10,460.00**	**- 149,565.00**	**- 23,212.31**	**- 43,246.42**	**- 13,886.08**	**- 178,915.04**	**- 19,545.09**
Principal payments on capital lease obligatic	- 740.00	- 781.00	- 881.00	- 1,045.00	- 300.00	- 352.00	- 462.00		- 1,114.00					
Dividends paid	- 1,615.00	- 2,213.00	- 2,812.00	- 3,330.00	- 923.00	- 922.00	- 1,172.00	- 1,284.60	- 4,301.60	- 4,932.88	- 6,577.18	- 6,577.18	- 7,399.32	- 7,399.32
Increase in bank indebtedness	5,230.00	1,776.00	8,348.00	- 15,030.00	7,294.00	- 3,757.00	66,673.00	500.00	70,710.00	6,000.00	3,000.00	- 12,000.00	90,000.00	- 12,000.00
Issue of Common Shares	-	-	-	-	-	-	63,549.00		63,549.00		20,000.00		50,000.00	
Cash Provided By (Used In) Financing Activiti	**2,875.00**	**- 1,218.00**	**4,655.00**	**- 19,405.00**	**6,071.00**	**- 5,031.00**	**128,588.00**	**- 784.60**	**128,843.40**	**1,067.12**	**16,422.82**	**- 18,577.18**	**132,600.68**	**- 19,399.32**
Beginning Cash Balance	392.00	94.00	78.00	13.00	-	-	780.00	675.00	-	206.59	2,805.30	9,566.56	7,040.56	5,647.81
Net Change in Cash	**- 298.00**	**- 16.00**	**- 65.00**	**- 13.00**	**-**	**780.00**	**- 105.00**	**- 468.41**	**206.59**	**2,598.72**	**6,761.26**	**- 2,526.00**	**- 1,392.75**	**1,269.04**
Ending Cash Balance	94.00	78.00	13.00	-	-	780.00	675.00	206.59	206.59	2,805.30	9,566.56	7,040.56	5,647.81	6,916.85

Appendix 3: Pro Forma Balance Sheet

Balance Sheet

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
ASSETS														
Cash and Cash Equivalents	94.00	78.00	13.00	-	-	780.00	675.00	206.59	206.59	2,805.30	9,566.56	7,040.56	5,647.81	6,916.85
Accounts receivable	34,760.00	42,382.00	46,127.00	56,156.00	62,968.00	64,672.00	102,666.00	93,923.08	93,923.08	92,400.74	100,716.81	109,171.09	117,358.92	125,574.04
Inventory	51,116.00	62,288.00	85,401.00	103,476.00	101,365.00	102,712.00	153,078.00	156,840.36	156,840.36	166,806.44	169,279.78	169,897.50	170,463.83	171,973.65
Prepaid expenses and other current assets	1,023.00	1,205.00	1,951.00	2,193.00	1,813.00	3,396.00	3,987.00	3,052.50	3,052.50	3,161.84	3,446.40	3,735.70	4,015.88	4,296.99
Total Current Assets	**86,993.00**	**105,953.00**	**133,492.00**	**161,825.00**	**166,146.00**	**171,560.00**	**260,406.00**	**254,022.52**	**254,022.52**	**265,174.32**	**283,009.55**	**289,844.85**	**297,486.43**	**308,761.52**
Long term investments	1,208.00	1,363.00	1,253.00	969.00	827.00	811.00	1,934.00	1,934.00	1,934.00	1,934.00	1,934.00	1,934.00	1,934.00	1,934.00
Property and equipment	6,492.00	7,492.00	13,764.00	16,200.00	15,246.00	16,377.00	20,301.00	29,633.17	29,633.17	50,728.82	90,217.55	97,216.79	268,536.77	266,598.91
Intangible assets	17.00	13.00	27.00	36.00	-	-	74,038.00	74,038.00	74,038.00	74,038.00	74,038.00	74,038.00	74,038.00	74,038.00
Long term deferred tax assets	14,625.00	13,443.00	12,277.00	10,974.00	9,868.00	9,117.00	9,106.00	9,106.00	9,106.00	9,106.00	9,106.00	9,106.00	9,106.00	9,106.00
Total Non-Current Assets	**22,342.00**	**22,311.00**	**27,321.00**	**28,179.00**	**25,941.00**	**26,305.00**	**105,379.00**	**114,711.17**	**114,711.17**	**135,806.82**	**175,295.55**	**182,294.79**	**353,614.77**	**351,676.91**
Total Assets	**109,335.00**	**128,264.00**	**160,813.00**	**190,004.00**	**192,087.00**	**197,865.00**	**365,785.00**	**368,733.69**	**368,733.69**	**400,981.14**	**458,305.10**	**472,139.64**	**651,101.20**	**660,438.44**
LIABILITIES														
Accounts payable	6,673.00	7,426.00	9,682.00	12,438.00	13,853.00	19,034.00	45,415.00	42,690.27	42,690.27	48,508.08	62,696.21	67,959.00	85,231.91	91,198.15
Bank Indebtedness	24,683.00	27,881.00	38,742.00	28,894.00	34,605.00	31,089.00	98,917.00	99,417.00	99,417.00	105,417.00	108,417.00	96,417.00	186,417.00	174,417.00
Income taxes payable	211.00	-	1,383.00	2,987.00	1,116.00	650.00	1,865.00	1,865.00	1,865.00	1,865.00	1,865.00	1,865.00	1,865.00	1,865.00
Dividend payable	492.00	574.00	744.00	922.00	923.00	922.00	1,332.00	1,332.00	1,332.00	1,332.00	1,332.00	1,332.00	1,332.00	1,332.00
Current portion of capital lease obligations	697.00	872.00	1,024.00	1,119.00	1,008.00	1,363.00	873.00	873.00	873.00	873.00	873.00	873.00	873.00	873.00
Total Current Liabilities	**32,756.00**	**36,753.00**	**51,575.00**	**46,360.00**	**51,505.00**	**53,058.00**	**148,402.00**	**146,177.27**	**146,177.27**	**157,995.08**	**175,183.21**	**168,446.00**	**275,718.91**	**269,685.15**
Long term capital lease obligation	567.00	828.00	749.00	696.00	663.00	660.00	1,003.00	1,003.00	1,003.00	1,003.00	1,003.00	1,003.00	1,003.00	1,003.00
Total Non-Current Liabilities	**567.00**	**828.00**	**749.00**	**696.00**	**663.00**	**660.00**	**1,003.00**	**1,003.00**	**1,003.00**	**1,003.00**	**1,003.00**	**1,003.00**	**1,003.00**	**1,003.00**
Total Liabilities	**33,323.00**	**37,581.00**	**52,324.00**	**47,056.00**	**52,168.00**	**53,718.00**	**149,405.00**	**147,180.27**	**147,180.27**	**158,998.08**	**176,186.21**	**169,449.00**	**276,721.91**	**270,688.15**
SHAREHOLDER'S EQUITY														
Common equity	44,762.00	45,298.00	45,830.00	46,859.00	47,073.00	47,073.00	111,429.00	111,429.00	111,429.00	111,429.00	131,429.00	131,429.00	181,429.00	181,429.00
Additional paid-in capital	104,903.00	104,911.00	105,154.00	105,547.00	105,620.00	105,988.00	106,313.00	106,613.00	106,613.00	107,863.00	109,113.00	110,363.00	111,613.00	112,863.00
Accumulated other comprehensive loss	- 71,803.00	- 61,031.00	7,504.00	23,903.00	16,888.00	16,303.00	18,141.00	18,141.00	18,141.00	18,141.00	18,141.00	18,141.00	18,141.00	18,141.00
Accumulated deficit	- 1,850.00	1,505.00	- 49,999.00	- 33,361.00	- 29,662.00	- 25,217.00	- 19,503.00	- 14,629.59	- 14,629.59	4,550.06	23,435.89	42,757.64	63,196.28	77,317.29
Total Shareholder's Equity	**76,012.00**	**90,683.00**	**108,489.00**	**142,948.00**	**139,919.00**	**144,147.00**	**216,380.00**	**221,553.41**	**221,553.41**	**241,983.06**	**282,118.89**	**302,690.64**	**374,379.28**	**389,750.29**

Appendix 5: B.A.S.E Analysis (Beginning, Additions, Subtractions, Ending PP&E)

WestPeak Research

B.A.S.E.

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Beginning PP&E					**16,200.00**	**15,246.00**	**16,377.00**	**20,301.00**	**16,200.00**	**29,633.17**	**50,728.82**	**90,217.55**	**97,216.79**	**268,536.77**
Add: Capital Expenditures					442.00	1,545.00	730.00	600.00	3,317.00	3,712.31	4,046.42	4,386.08	4,715.04	5,045.09
Add: Acquisitions					-	-	137,065.00	10,000.00	147,065.00	20,000.00	40,000.00	10,000.00	175,000.00	15,000.00
Less: Divestitures					-	- 374.00	- 155.00	- 140.00	- 669.00	- 500.00	- 800.00	- 500.00	- 800.00	- 500.00
Less: Depreciation Expense					- 750.00	- 746.00	- 1,185.00	- 1,127.83	- 3,808.83	- 2,116.65	- 3,757.69	- 6,886.84	- 7,595.06	- 21,482.94
Adjust					- 646.00	706.00	- 132,531.00		- 132,471.00					
Ending Net PP&E				16,200.00	**15,246.00**	**16,377.00**	**20,301.00**	**29,633.17**	**29,633.17**	**50,728.82**	**90,217.55**	**97,216.79**	**268,536.77**	**266,598.91**
Estimated useful life					21.6 yrs	20.4 yrs	13.8 yrs	18.0 yrs	17.0 yrs	14.0 yrs	13.5 yrs	13.1 yrs	12.8 yrs	12.5 yrs

Appendix 4: Revenue Analysis

WESTPEAK RESEARCH

Revenue Analysis

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Sheet Goods Revenue Growth		21.3%	22.8%	25.4%				
Hardwood Revenue Growth		21.3%	22.8%	25.4%				
Other Specialty goods revenue growth		21.3%	22.8%	25.4%				
Revenue Growth, YoY		**21.3%**	**22.8%**	**25.4%**				
Total Revenue	**306,087.00**	**371,215.00**	**455,694.00**	**571,598.00**	**157,413.00**	**157,031.00**	**235,428.00**	**203,500.00**
Sheet Goods Revenue	159,165.24	193,031.80	236,960.88	297,230.96	81,854.76	81,656.12	122,422.56	100,000.00
Hardwood Revenue	116,313.06	141,061.70	173,163.72	217,207.24	59,816.94	59,671.78	89,462.64	80,000.00
Other Specialty goods revenue	30,608.70	37,121.50	45,569.40	57,159.80	15,741.30	15,703.10	23,542.80	23,500.00
Total revenue	**306,087.00**	**371,215.00**	**455,694.00**	**571,598.00**	**157,413.00**	**157,031.00**	**235,428.00**	203,500.00

	2016	2017	2018	2019	2020	2021
Sheet Goods Revenue Growth	29.8%	10.0%	9.0%	8.0%	7.5%	7.0%
Hardwood Revenue Growth	33.0%	15.0%	9.0%	9.0%	7.5%	7.0%
Other Specialty goods revenue growth	37.3%	10.0%	9.0%	8.0%	7.5%	7.0%
Revenue Growth, YoY	**31.8%**	**11.9%**	**9.0%**	**8.4%**	**7.5%**	**7.0%**
Total Revenue	**753,372.00**	**843,156.77**	**919,040.88**	**996,186.15**	**1,070,900.11**	**1,145,863.12**
Sheet Goods Revenue	385,933.44	424,526.78	462,734.19	499,752.93	537,234.40	574,840.81
Hardwood Revenue	288,951.36	332,294.06	362,200.53	394,798.58	424,408.47	454,117.06
Other Specialty goods revenue	78,487.20	86,335.92	94,106.15	101,634.65	109,257.24	116,905.25
Total revenue	**753,372.00**	**843,156.77**	**919,040.88**	**996,186.15**	**1,070,900.11**	**1,145,863.12**

Appendix 5: Discounted Cash Flow Analysis

WESTPEAK RESEARCH

DCF Analysis

WACC Calculation	
Book Value of Debt	100,923.00
Market Value of Equity	354,756.47
Total Capitalization	455,679.47
Debt	
Pre-Tax Cost of Debt	6%
Effective Tax Rate	40.0%
After-Tax Cost of Debt	**3.6%**
Capital Asset Pricing Model	
Risk-Free Rate	2%
Equity Market Risk Premium	5%
Beta	1.55
Cost of Equity	**9.8%**
Debt Weight	22.1%
Equitty Weight	77.9%
WACC	**8.39%**
Growth Rate	**2.0%**

Free Cash Flow Analysis

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
EBIT	11,081.00	19,926.00	23,340.00	32,211.00	8,683.00	9,485.00	12,001.00	8,747.17	38,916.17	38,791.18	40,944.35	41,672.47	44,699.94	34,560.21
Tax Rate	40.2%	33.8%	39.0%	37.7%	43.0%	41.8%	39.4%	30.0%	38.6%	38.0%	38.0%	38.0%	38.0%	38.0%
D&A	1,266.00	1,442.00	2,138.00	2,593.00	750.00	746.00	1,185.00	1,127.83	3,808.83	2,116.65	3,757.69	6,886.84	7,595.06	21,482.94
Change in NWC	-14,622.00	-11,254.00	-7,232.00	-6,044.00	-10,677.00	194.00	-1,492.00	3,190.34	-8,784.66	-2,735.28	3,114.16	-4,098.51	8,238.58	-4,039.82
Capital Expenditures	-848.00	-944.00	-1,507.00	-1,850.00	-442.00	-1,545.00	-730.00	-600.00	-3,317.00	-3,712.31	-4,046.42	-4,386.08	-4,715.04	-5,045.09
Free Cash Flow	**21,669.50**	**24,936.78**	**22,110.58**	**26,843.96**	**15,930.51**	**4,527.06**	**9,222.39**	**3,460.51**	**33,140.47**	**25,190.16**	**21,982.61**	**32,436.20**	**22,355.41**	**41,905.01**
Discount Period								*0.25*	*0.25*	*1.25*	*2.25*	*3.25*	*4.25*	*5.25*
Discounted Free Cash Flow								**3,391.52**	**32,479.81**	**22,777.44**	**18,338.86**	**24,965.61**	**15,875.01**	**27,454.69**

Share Price Calculation		
Free Cash Flow Sum		112,803.13
Terminal Value		429,791.43
Enterprise Value		**542,594.56**
Less: Debt		100,923.00
Add: Cash		780.00
Equity		**442,451.56**
Shares Outstanding		20,553.68
Implied Share Value	**$**	**21.53**

		WACC				
		7.4%	**7.9%**	**8.4%**	**8.9%**	**9.4%**
	1.6%	$ 24.89	$ 22.36	$ 20.21	$ 18.35	$ 16.73
	1.8%	$ 25.75	$ 23.07	$ 20.80	$ 18.85	$ 17.16
GROWTH	**2.0%**	$ 26.67	$ 23.83	$ 21.43	$ 19.38	$ 17.61
	2.2%	$ 27.67	$ 24.64	$ 22.10	$ 19.94	$ 18.09
	2.4%	$ 28.74	$ 25.51	$ 22.81	$ 20.54	$ 18.59

Appendix 6: Comparable Company Analysis

WESTPEAK RESEARCH

Comparables Analysis

	Cash	Debt	Market Capitalization	EV	TTM EBITDA	Share Price	TTM EPS	EV/EBITDA	P/E
Goodfellow Inc	1.3	108.3	77.3	184.3	7.8	$9.09	$0.13	23.6 x	69.9 x
CanWel Building Products	0.0	161.5	369.4	530.9	47.3	$6.04	$1.08	11.2 x	5.6 x
Taiga Building Products	0.0	203.7	32.7	236.4	40.4	$1.01	$0.26	5.9 x	3.9 x
Huttig Building Products	1.4	90.3	215.5	304.4	34.1	$8.46	$0.88	8.9 x	9.6 x
Hardwoods Distribution	0.7	100.7	356.8	456.8	42.9	$17.26	$1.23	10.6 x	14.0 x

	HIGH	AVERAGE	LOW	IMPLIED TARGET EV		IMPLIED TARGET SHARE PRICE
EV/EBITDA	23.6 x	12.4 x	5.9 x	532.29		$ 21.03
				1,013.65	HIGH	$ 44.45
				251.03	LOW	$ 7.35
	HIGH	**AVERAGE**	**LOW**	**IMPLIED P/E**		**IMPLIED TARGET SHARE PRICE**
P/E	69.9 x	22.3 x	3.9 x	22.3 x		$ 27.37
				69.9 x	HIGH	$ 86.01
				3.9 x	LOW	$ 4.78

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