



PRESS RELEASE

ACE HARDWARE REPORTS RECORD THIRD QUARTER 2019 RESULTS

- *Record third quarter revenues of \$1.53 billion, an increase of 7.2 percent from last year*
- *U.S. same-store-sales up 3.4 percent; Acehardware.com up 81 percent*
- *Record third quarter net income of \$60.5 million, an increase of 66.7 percent from last year*
- *Ace ranked 5th in Franchise Times top 200*

Oak Brook, Ill. (November 20, 2019) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record third quarter 2019 revenues of \$1.53 billion, an increase of \$102.9 million, or 7.2 percent, from the third quarter of 2018. Net income was \$60.5 million for the third quarter of 2019, an increase of \$24.2 million from the third quarter of 2018 and also a record for the Company.

“My thanks to our local owners for their continued momentum and growth. A 3.4 percent same-store-sales increase, 48 new stores, and an 81 percent increase in revenue from acehardware.com drove our 7.2 percent increase in revenues,” said John Venhuizen, President and CEO. “In addition to record revenues and profits, we are also proud that our stores continued growth has moved Ace into fifth place on the Franchise Times top 200 behind companies like McDonald’s, KFC and Burger King. Ace is the only non-food brand in the top five.”

The 3.4 percent increase in retail same-store-sales during the third quarter of 2019 reported by the approximately 3,200 Ace retailers who share daily retail sales data was the result of a 2.4 percent increase in average ticket and a 1.0 percent increase in same-store transactions.

Revenues

Consolidated revenues for the quarter ended September 28, 2019 totaled \$1.53 billion. Total wholesale revenues were \$1.40 billion, an increase of \$62.5 million, or 4.7 percent, as compared to the prior year third quarter. Increases were noted across all departments except paint, with hand and power tools, grilling and outdoor power equipment showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2018 through September 2019 contributed \$35.3 million of incremental revenues during the third quarter of 2019, while wholesale merchandise revenues decreased \$7.9 million during the third quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$54.2 million for the quarter. This net increase was partially offset by the elimination of \$15.6 million of sales to ACO Inc. (“ACO”) which became a wholly-owned subsidiary and was fully consolidated beginning in the first quarter of 2019. This elimination was not required in 2018. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary had a \$4.7 million increase in wholesale revenue from the third quarter of 2018. This increase was primarily driven by higher sales to key retailers in Saudi Arabia and Kuwait. Ace

Wholesale Holdings LLC (“AWH”) had a \$3.4 million decrease of wholesale revenues from the third quarter of 2018 as a result of a decision to reduce the number of products available for sale to certain customers due to low profitability.

Total retail revenues for the quarter were \$126.3 million, an increase of \$40.4 million, or 47.0 percent, as compared to the prior year third quarter. Retail revenues from Ace Retail Holdings LLC (“ARH”) were \$121.0 million in the third quarter of 2019, an increase of \$42.0 million, or 53.2 percent, from the third quarter of 2018. A significant portion of this increase was due to the inclusion of ACO which contributed \$27.8 million of this increase. The remaining increase was the result of new retail stores added by the Westlake Ace Hardware (“Westlake”) retail chain since the third quarter of 2018 coupled with a 4.9 percent increase in Westlake same-store-sales. Westlake operated 132 stores at the end of the third quarter of 2019 compared to 122 stores at the end of the third quarter of 2018. Retail revenues from Ace Ecommerce Holdings LLC (“AEH”) were \$5.3 million in the third quarter of 2019. This was a decrease of \$1.6 million from the third quarter of 2018 and was the result of an intentional 36 percent decrease in customer acquisition marketing during the quarter while The Grommet launched its new ecommerce website.

Ace added 39 new domestic stores in the third quarter of 2019 and cancelled 18 stores. The Company’s total domestic store count was 4,528 at the end of the third quarter of 2019 which was an increase of 79 stores from the third quarter of 2018. On a worldwide basis, Ace added 48 stores in the third quarter of 2019 and cancelled 19, bringing the worldwide store count to 5,327 at the end of the third quarter of 2019.

Gross Profit

Wholesale gross profit for the three months ended September 28, 2019 was \$183.3 million, an increase of \$16.1 million from the third quarter of 2018. The wholesale gross margin percentage was 13.1 percent of wholesale revenues in the third quarter of 2019, up from 12.5 percent in the third quarter of 2018. The increase in the wholesale gross margin percentage was due to additional vendor funds earned and higher initial product gross profit rates as a result of passing through vendor price increases. These price increases were partially offset by the unfavorable LIFO expense that vendor price increases create.

Retail gross profit for the three months ended September 28, 2019 was \$57.0 million, an increase of \$19.3 million from the third quarter of 2018. This increase was largely the result of the inclusion of ACO results in the current quarter of \$11.6 million. The retail gross margin percentage was 45.1 percent of retail revenues in the third quarter of 2019, an increase from 43.9 percent in the third quarter of 2018. The increase in the gross margin percentage was a result of the inclusion of ACO results in the current quarter which carried a higher margin. For ARH, retail gross profit is based on the Company’s wholesale acquisition cost of product, not ARH’s acquisition cost which includes a markup from the Company.

Expenses and Other

Wholesale operating expenses increased \$3.3 million, or 2.6 percent, from the third quarter of 2018. The increase is due to higher distribution costs resulting from the increased volume from higher wholesale revenues and increased compensation costs. As a percentage of wholesale revenues, wholesale operating expenses decreased to 9.4 percent of wholesale revenues in the third quarter of 2019 from 9.6 percent of wholesale revenues in the third quarter of 2018.

Retail operating expenses increased \$10.8 million, or 26.9 percent, from the third quarter of 2018. This increase was primarily due to the inclusion of ACO operating expenses of \$10.1 million as a result of consolidating ACO results beginning in the first quarter of 2019. Retail operating expenses as a percentage of retail revenue decreased to 40.3 percent of retail revenues in the third quarter of 2019 from 46.7 percent in the third quarter of 2018. The third quarter of 2018 included a full year of amortization on the intangible assets identified from the purchase of The Grommet in September 2017 versus only one quarter of intangible amortization in 2019. Excluding the extra nine months of intangible amortization in the third quarter of 2018, retail operating expenses were 43.5 percent of retail revenue.

Retail pre-opening expenses of \$2.2 million were incurred in the third quarter of 2019 primarily related to one-time, start-up costs from eleven new stores in California opened by Westlake in the third quarter of 2019 or to be opened in the fourth quarter of 2019.

Other income, net for the third quarter of 2019 includes a \$4.9 million gain on the sale of the Company's former distribution center in Prince George, Virginia.

Balance Sheet and Cash Flow

Receivables increased \$21.6 million from the third quarter of 2018 due to higher sales volumes.

Inventories decreased \$8.6 million from the third quarter of 2018 due to the closure of the Portland, Maine and Pittston, Pennsylvania warehouses and an increase in the LIFO reserve due to tariffs and inflation, partially offset by the additional inventory from the ACO acquisition.

Debt decreased \$30.1 million versus the third quarter of 2018 primarily as a result of increased cash provided by operating activities, partially offset by acquisitions, purchases of property and equipment, and cash payments on patronage dividends.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with more than 5,300 locally owned and operated hardware stores in approximately 70 countries. In 2019, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, twelve out of the last thirteen years. Headquartered in Oak Brook, Ill., Ace and its subsidiaries operate an expansive network of distribution centers in the U.S. and have distribution capabilities in Ningbo, China; Colon, Panama; and Dubai, United Arab Emirates. Since 1924, Ace has become a part of local communities around the world and known as the place with the helpful hardware folks. For more information, visit acehardware.com or newsroom.acehardware.com.

*Ace Hardware tied for the highest score in the J.D. Power 2019 Home Improvement Study and received the highest score in the 2007-2017 Home Improvement Retailer Satisfaction Studies of customers' satisfaction with home improvement retailers. Visit jdpower.com/awards.

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ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in millions)

	Three Months Ended		Nine Months Ended	
	September 28, 2019 (13 Weeks)	September 29, 2018 (13 Weeks)	September 28, 2019 (39 Weeks)	September 29, 2018 (39 Weeks)
Revenues:				
Wholesale revenues	\$ 1,403.8	\$ 1,341.3	\$ 4,231.6	\$ 4,060.3
Retail revenues	126.3	85.9	364.5	266.7
Total revenues	1,530.1	1,427.2	4,596.1	4,327.0
Cost of revenues:				
Wholesale cost of revenues	1,220.5	1,174.1	3,716.4	3,573.8
Retail cost of revenues	69.3	48.2	201.4	150.5
Total cost of revenues	1,289.8	1,222.3	3,917.8	3,724.3
Gross profit:				
Wholesale gross profit	183.3	167.2	515.2	486.5
Retail gross profit	57.0	37.7	163.1	116.2
Total gross profit	240.3	204.9	678.3	602.7
Wholesale operating expenses:				
Distribution operations expenses	45.4	44.2	135.2	125.0
Selling, general and administrative expenses	50.3	46.0	146.0	142.4
Retailer success and development expenses	36.4	38.6	118.3	114.2
Retail operating expenses	50.9	40.1	140.0	112.1
Retail pre-opening expenses	2.2	0.3	6.2	1.0
Total operating expenses	185.2	169.2	545.7	494.7
Operating income	55.1	35.7	132.6	108.0
Interest expense	(5.4)	(5.5)	(17.7)	(15.0)
Interest income	1.1	3.0	5.7	5.0
Other income, net	6.4	1.8	9.4	4.7
Income tax benefit	3.3	1.3	6.9	0.3
Net income	60.5	36.3	136.9	103.0
Less: net income attributable to noncontrolling interests	0.2	-	0.4	0.4
Net income attributable to Ace Hardware Corporation	\$ 60.3	\$ 36.3	\$ 136.5	\$ 102.6
Patronage distributions accrued	\$ 68.6	\$ 45.7	\$ 158.1	\$ 121.6
Patronage distributions accrued for third party retailers	\$ 66.4	\$ 43.9	\$ 152.1	\$ 116.4

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	September 28, 2019	December 29, 2018	September 29, 2018
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 24.7	\$ 25.6	\$ 22.6
Marketable securities	58.4	50.4	46.7
Receivables, net of allowance for doubtful accounts of \$5.5, \$6.7 and \$6.3, respectively	500.9	434.4	479.3
Inventories	975.5	931.8	984.1
Prepaid expenses and other current assets	56.5	50.4	47.3
Total current assets	1,616.0	1,492.6	1,580.0
Property and equipment, net	373.7	368.6	368.6
Notes receivable, net of allowance for doubtful accounts of \$1.5, \$2.8 and \$2.8, respectively	18.6	11.8	13.2
Goodwill and other intangible assets	99.7	94.2	95.3
Other assets	106.9	91.3	89.8
Total assets	<u>\$ 2,214.9</u>	<u>\$ 2,058.5</u>	<u>\$ 2,146.9</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 59.6	\$ 60.6	\$ 55.3
Accounts payable	843.4	748.9	820.4
Patronage distributions payable in cash	62.6	55.0	47.9
Patronage refund certificates payable	10.1	10.2	5.7
Accrued expenses	179.3	173.6	167.3
Total current liabilities	1,155.0	1,048.3	1,096.6
Long-term debt	268.1	267.1	302.5
Patronage refund certificates payable	126.8	95.6	106.3
Other long-term liabilities	87.5	79.7	80.1
Total liabilities	1,637.4	1,490.7	1,585.5
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,695, 2,719 and 2,718 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,883,025, 4,648,554 and 4,690,749 issued and outstanding, respectively	488.3	464.8	469.1
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 440,759, 439,591 and 349,192 shares issuable, respectively	44.1	44.0	34.9
Contributed capital	18.7	18.5	18.5
Retained earnings	7.8	24.8	18.6
Accumulated other comprehensive income (loss)	0.9	(1.2)	3.7
Equity attributable to Ace member retailers	562.5	553.6	547.5
Equity attributable to noncontrolling interests	15.0	14.2	13.9
Total equity	577.5	567.8	561.4
Total liabilities and equity	<u>\$ 2,214.9</u>	<u>\$ 2,058.5</u>	<u>\$ 2,146.9</u>

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Nine Months Ended	
	September 28, 2019 (39 Weeks)	September 29, 2018 (39 Weeks)
Operating Activities		
Net income	\$ 136.9	\$ 103.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44.2	38.1
Amortization of deferred financing costs	0.3	0.4
Gain on the disposal of assets, net	(5.7)	(2.0)
Credit for doubtful accounts	(1.0)	(1.6)
Other, net	0.6	0.8
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(80.2)	(86.5)
Inventories	(16.6)	(197.0)
Other current assets	(3.6)	(5.7)
Other long-term assets	(29.2)	9.5
Accounts payable and accrued expenses	91.4	137.6
Other long-term liabilities	8.3	11.3
Deferred taxes	(4.1)	(0.1)
Net cash provided by operating activities	<u>141.3</u>	<u>7.8</u>
Investing Activities		
Purchases of marketable securities	(41.0)	(6.4)
Proceeds from sale of marketable securities	37.3	10.0
Purchases of property and equipment	(54.5)	(48.8)
Cash paid for acquired businesses, net of cash received	(22.5)	(18.5)
Increase in notes receivable, net	(7.0)	(3.6)
Proceeds from sale of assets	22.0	-
Other, net	(0.7)	(1.2)
Net cash used in investing activities	<u>(66.4)</u>	<u>(68.5)</u>
Financing Activities		
Net borrowings under revolving lines of credit	(8.7)	133.3
Principal payments on long-term debt	(7.4)	(7.3)
Payments of debt issuance costs	(1.3)	-
Payments of cash portion of patronage distribution	(51.3)	(58.0)
Payments of patronage refund certificates	(5.3)	(6.4)
Repurchase of stock	(2.5)	(2.1)
Purchase of noncontrolling interests	(0.2)	(0.1)
Other, net	0.9	0.9
Net cash (used in) provided by financing activities	<u>(75.8)</u>	<u>60.3</u>
Decrease in cash and cash equivalents	(0.9)	(0.4)
Cash and cash equivalents at beginning of period	25.6	23.0
Cash and cash equivalents at end of period	<u>\$ 24.7</u>	<u>\$ 22.6</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 16.4</u>	<u>\$ 13.4</u>
Income taxes paid	<u>\$ 1.0</u>	<u>\$ 1.7</u>