

Ace Hardware Reports Fourth Quarter And Full Year 2019 Results

- Record fourth quarter revenues of \$1.5 billion, an increase of 6.1 percent from last year
- U.S. same-store-sales up 2.1 percent during the quarter and 2.8 percent for the year
- Acehardware.com revenues up 52 percent during the quarter and 59 percent for the year
- Record full year revenues of \$6.1 billion, an increase of 6.2 percent from last year
- Full year net income of \$140.4 million, an increase of 9.5 percent from last year
- Record patronage dividend to shareholders of \$182.2 million, an increase of 28 percent from 2018

OAK BROOK, Ill., Feb. 13, 2020 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company"), the largest retailer-owned hardware cooperative in the world, today reported record fourth quarter 2019 revenues of \$1.5 billion, an increase of \$85.1 million, or 6.1 percent, from the fourth quarter of 2018. Net income was \$3.5 million for the fourth quarter of 2019, a decrease of \$21.7 million from the fourth quarter of 2018. Included in the results for the fourth quarter are pre-tax charges of \$8.5 million for a non-cash goodwill impairment charge related to The Grommet, \$5.0 million for the write-down of inventory related to the transition to the Benjamin Moore paint program, \$2.5 million for retail pre-opening costs related to new Westlake stores in California, and \$1.2 million for severance related costs.

Full year revenues were a record \$6.1 billion, an increase of \$354.2 million, or 6.2 percent, from 2018 revenue. Net income for fiscal 2019 was \$140.4 million, an increase of \$12.2 million, from fiscal 2018. The increase was primarily due to higher revenues and additional vendor funds earned, partially offset by the paint inventory write-down, retail pre-opening costs associated with the eleven new Westlake stores in California and the non-cash goodwill impairment charge.

"I'm delighted to report record revenue that exceeded \$6 billion for the first time in Ace's history," said John Venhuizen, President and CEO. "Our best-ever sales and dividend payments to shareholders were largely driven by 208 new store openings across the globe, a 59 percent increase in our acehardware.com business and solid same store sales growth of 2.8 percent from our very talented local Ace owners across the U.S."

"Our Ace Wholesale Holdings and Ace Ecommerce Holdings (The Grommet) businesses however, struggled to achieve their revenue targets. Both businesses posted large losses in 2019. While our plans call for significant improvements in these businesses going forward, the facts are that they were a meaningful drag on an otherwise stellar year for the Company."

"We expect the Ace Wholesale Holdings business to recover substantially in 2020 and to achieve operating profitability in 2021. The recovery of The Grommet business, however, is likely to take longer. As such, we were required to take a non-cash goodwill impairment charge of \$8.5 million in the fourth quarter of 2019 to write-down the value of our investment in The Grommet."

The 2.1 percent increase in retail same-store-sales during the fourth quarter of 2019 reported by the approximately 3,200 Ace retailers who share daily retail sales data was the result of a 3.2 percent increase in average ticket, partially offset by a 1.1 percent decrease in same-store transactions. The 2.8 percent increase in retail same-store-sales for the full year was the result of a 2.6 percent increase in average ticket and a 0.2 percent increase in same-store transactions.

Revenues

Fourth Quarter

Consolidated revenues for the quarter ended December 28, 2019 totaled \$1.5 billion. Total wholesale revenues were \$1.3 billion, an increase of \$51.6 million, or 4.0 percent, as compared to the prior year fourth quarter. Increases were noted across all departments, with grilling, outdoor power equipment and hand and power tools showing the largest gains. Wholesale merchandise revenues to new domestic Ace stores activated from January 2018 through December 2019 contributed \$51.4 million of incremental revenues during the fourth quarter of 2019, while wholesale merchandise revenues decreased \$8.1 million during the fourth quarter due to domestic Ace stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic Ace stores increased \$34.1 million for the quarter. This net increase was partially offset by the elimination of \$14.4 million of sales to Great Lakes Ace Hardware, Inc. ("GLA") 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 \$2.7 million decrease in wholesale revenue from the fourth quarter of 2018. This decrease was primarily driven by lower sales to retailers in Indonesia, Kuwait and Northern Mariana Islands, partially offset by higher sales to retailers in Saudi Arabia, the Philippines and Nicaragua. Ace Wholesale Holdings LLC ("AWH") had a \$13.5 million decrease of wholesale revenues from the fourth quarter of 2018. This decline was the result of the

loss of several key customers along with 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 \$142.2 million, an increase of \$33.5 million, or 30.8 percent, as compared to the prior year fourth quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$121.4 million in the fourth quarter of 2019, an increase of \$37.5 million, or 44.7 percent, from the fourth quarter of 2018. A significant portion of this increase was due to the inclusion of GLA which contributed \$25.7 million of this increase. The remaining increase was the result of new retail stores added by the Westlake Ace Hardware ("Westlake") retail chain since January 2018, partially offset by a 6.6 percent decrease in Westlake same-store-sales. In 2018, Westlake's fourth quarter contained fourteen weeks compared to only thirteen weeks in the fourth quarter of 2019. On a calendar-adjusted, comparable thirteen-week basis, Westlake's same-store-sales increased 0.2 percent. Westlake operated 135 stores at the end of the fourth quarter of 2019 compared to 123 stores at the end of the fourth quarter of 2018. GLA operated 51 stores at the end of 2019. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$21.3 million in the fourth quarter of 2019. This was a decrease of \$3.5 million from the fourth quarter of 2018 which was primarily due to a reduction in new customer acquisitions during the fourth quarter of 2019.

Fiscal Year

Consolidated revenues for fiscal 2019 totaled \$6.1 billion, an increase of \$354.2 million, or 6.2 percent, as compared to the prior year. Total wholesale revenues were \$5.6 billion, an increase of \$222.9 million, or 4.2 percent, as compared to the prior year. Increases were noted across all departments with grilling, hand and power tools and outdoor power equipment showing the largest gains.

Wholesale merchandise revenues from new domestic Ace stores were \$186.0 million in fiscal 2019. This increase was partially offset by a decrease in wholesale merchandise revenues of \$42.7 million due to domestic Ace store cancellations. Wholesale merchandise revenues to comparable domestic Ace stores increased \$155.1 million in fiscal 2019 compared to fiscal 2018. This net increase was partially offset by the elimination of \$56.2 million of sales to GLA which became a wholly-owned subsidiary and was fully consolidated beginning in the first quarter of 2019. This elimination was not required in 2018. Wholesale merchandise revenues from AIH and AWH decreased \$6.4 million and \$11.5 million, respectively, compared to fiscal 2018. AIH's decreased revenues were driven by lower sales to customers in St. Maarten, UAE, Indonesia, Puerto Rico, Ecuador and Israel, partially offset by increased sales to customers in Saudi Arabia and the Philippines. AWH's decreased revenues primarily resulted from a decision to reduce the number of products available for sale to certain customers due to low profitability.

Total retail revenues were \$506.7 million, an increase of \$131.3 million, or 35.0 percent, as compared to the prior year. Retail revenues from ARH were \$466.5 million during fiscal 2019, an increase of \$136.8 million or 41.5 percent. A significant portion of this increase was due to the inclusion of GLA which contributed \$94.8 million of this increase. The remaining increase was the result of twelve new retail stores added by the Westlake retail chain since January 2018, including eleven in California. Retail revenues from AEH were \$40.7 million in fiscal 2019. This was a decrease of \$5.0 million from fiscal 2018 which was the result of a reduction in new customer acquisitions.

Ace added 168 new domestic stores in fiscal 2019 and cancelled 88 stores. This brought the Company's total domestic store count to 4,556 at the end of fiscal 2019, an increase of 80 stores from the end of fiscal 2018. On a worldwide basis, Ace added 208 stores in fiscal 2019 and cancelled 95, bringing the worldwide store count to 5,366 at the end of fiscal 2019.

Gross Profit

Fourth Quarter

Wholesale gross profit for the three months ended December 28, 2019 was \$150.7 million, an increase of \$3.0 million from the fourth quarter of 2018. The wholesale gross margin percentage was 11.3 percent of wholesale revenues in the fourth quarter of 2019, down slightly from 11.5 percent in the fourth quarter of 2018. The decrease in the wholesale gross margin percentage was primarily due to the \$5.0 million paint inventory write-down related to the Ben Moore transition.

Retail gross profit for the three months ended December 28, 2019 was \$63.6 million, an increase of \$18.9 million from the fourth quarter of 2018. This increase was the result of the inclusion of GLA results in the current quarter of \$10.4 million as well as twelve new stores added by Westlake in 2019. The retail gross margin percentage was 44.7 percent of retail revenues in the fourth quarter of 2019, an increase from 41.1 percent in the fourth quarter of 2018. The increase in the gross margin percentage was primarily a result of an increase in vendor income earned and the inclusion of GLA 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.

Fiscal Year

Wholesale gross profit for fiscal 2019 was \$665.9 million, an increase of \$31.7 million from fiscal 2018. The wholesale gross margin percentage was 12.0 percent of wholesale revenues in fiscal 2019, a slight increase from the fiscal 2018 gross margin percentage of 11.9 percent.

Retail gross profit for fiscal 2019 was \$226.7 million, an increase of \$65.8 million from fiscal 2018. The retail gross margin

percentage was 44.7 percent of retail revenues in fiscal 2019, up from 42.9 percent in fiscal 2018. The increase in the gross margin percentage was primarily a result of an increase in vendor income earned and the inclusion of GLA results in the current year 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

Fourth Quarter

Wholesale operating expenses increased \$11.7 million, or 9.1 percent, from the fourth quarter of 2018. The increase is due to higher distribution costs associated with the increased volume and higher compensation rates. As a percentage of wholesale revenues, wholesale operating expenses increased to 10.5 percent of wholesale revenues in the fourth quarter of 2019 from 10.1 percent of wholesale revenues in the fourth quarter of 2018.

Retail operating expenses increased \$19.2 million, or 45.4 percent, from the fourth quarter of 2018. Approximately \$9.9 million of this increase was due to the inclusion of GLA operating expenses as a result of consolidating GLA results beginning in the first quarter of 2019. The remaining increase was primarily due to eleven new California stores added by ARH in 2019. The expenses during the sales ramp-up period of these eleven new California stores caused retail operating expenses as a percentage of retail revenue to increase to 43.2 percent of retail revenues in the fourth quarter of 2019 from 38.9 percent in the fourth quarter of 2018.

Retail pre-opening expenses of \$2.5 million were incurred in the fourth quarter of 2019 primarily related to one-time, start-up costs for the eleven new stores operating in California.

During the fourth quarter of 2019, the Company recorded a non-cash impairment charge of \$8.5 million to fully eliminate the carrying amount of goodwill in the AEH subsidiary.

Fiscal Year

Wholesale operating expenses increased \$29.6 million, or 5.8 percent, in fiscal 2019 as compared to fiscal 2018. The increase is primarily due to higher distribution costs associated with the increased volume. As a percentage of wholesale revenues, wholesale operating expenses increased slightly to 9.7 percent in fiscal 2019 from 9.6 percent in fiscal 2018.

Retail operating expenses increased \$47.1 million, or 30.5 percent, in fiscal 2019 as compared to fiscal 2018. ARH's retail operating expenses increased \$49.8 million, or 41.9 percent, in fiscal 2019 as compared to fiscal 2018. Approximately \$33.4 million of the increase was due to the inclusion of GLA operating expenses as a result of consolidating GLA results beginning in the first quarter of 2019. The remainder of the ARH increase was driven by expenses from twelve new retail stores added by Westlake in 2019. Retail operating expenses as a percentage of retail revenue decreased to 39.8 percent in fiscal 2019 from 41.1 percent in fiscal 2018.

Retail pre-opening expenses of \$8.7 million were incurred in fiscal 2019 primarily related to one-time, start-up costs from eleven new stores in California opened by Westlake during fiscal 2019.

During fiscal 2019, the Company recorded a non-cash impairment charge of \$8.5 million to fully eliminate the carrying amount of goodwill in the AEH subsidiary.

Balance Sheet and Cash Flow

Receivables increased \$52.1 million from the prior year end due to higher warehouse and drop-ship revenues and extended dating for seasonal programs.

Debt decreased \$50.8 million versus the prior year end primarily as a result of increased cash provided by operating activities partially offset by acquisitions and capital expenditures.

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.

Contacts:

Shareholders'/Investors' Inquiries:

William Guzik, Executive Vice President, Chief Financial Officer & Chief Risk Officer
630-990-3325, guzik@acehardware.com

Media Inquiries:

Jessica Rau, Director, PR, Social and Corporate Media Relations
630-990-3600, media@acehardware.com

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in millions)

	Three Months Ended		Twelve Months Ended	
	December 28, 2019 (13 Weeks)	December 29, 2018 (13 Weeks)	December 28, 2019 (52 Weeks)	December 29, 2018 (52 Weeks)
Revenues:				
Wholesale revenues	\$ 1,332.9	\$ 1,281.3	\$ 5,564.5	\$ 5,341.6
Retail revenues	142.2	108.7	506.7	375.4
Total revenues	1,475.1	1,390.0	6,071.2	5,717.0
Cost of revenues:				
Wholesale cost of revenues	1,182.2	1,133.6	4,898.6	4,707.4
Retail cost of revenues	78.6	64.0	280.0	214.5
Total cost of revenues	1,260.8	1,197.6	5,178.6	4,921.9
Gross profit:				
Wholesale gross profit	150.7	147.7	665.9	634.2
Retail gross profit	63.6	44.7	226.7	160.9
Total gross profit	214.3	192.4	892.6	795.1
Wholesale operating expenses:				
Distribution operations expenses	43.0	38.7	178.2	163.7
Selling, general and administrative expenses	49.1	45.3	195.1	187.7
Retailer success and development expenses	48.5	44.9	166.8	159.1
Retail operating expenses	61.5	42.3	201.5	154.4
Retail pre-opening expenses	2.5	0.7	8.7	1.7
Goodwill impairment charge	8.5	-	8.5	-
Total operating expenses	213.1	171.9	758.8	666.6
Operating income	1.2	20.5	133.8	128.5
Interest expense	(5.0)	(5.4)	(22.7)	(20.4)
Interest income	1.2	4.6	6.9	9.6
Other income, net	1.4	3.3	10.8	8.0
Income tax benefit	4.7	2.2	11.6	2.5
Net income	3.5	25.2	140.4	128.2
Less: net (loss) income attributable to noncontrolling interests	(0.4)	0.1	-	0.5
Net income attributable to Ace Hardware Corporation	\$ 3.9	\$ 25.1	\$ 140.4	\$ 127.7
Patronage distributions accrued	\$ 24.1	\$ 20.2	\$ 182.2	\$ 141.8
Patronage distributions accrued for third party retailers	\$ 20.4	\$ 19.0	\$ 172.5	\$ 135.4

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

December 28, December 29,

	2019	2018
Assets		
Cash and cash equivalents	\$ 18.2	\$ 25.6
	59.5	50.4
Marketable securities		
Receivables, net of allowance for doubtful accounts of \$5.4 and \$6.7, respectively	486.5	434.4
Inventories	930.8	931.8
Prepaid expenses and other current assets	45.5	50.4
Total current assets	1,540.5	1,492.6
Property and equipment, net	381.7	368.6
Notes receivable, net of allowance for doubtful accounts of \$1.5 and \$2.8, respectively	9.9	11.8
Goodwill and other intangible assets	90.5	94.2
Other assets	105.4	91.3
Total assets	\$ 2,128.0	\$ 2,058.5
Liabilities and Equity		
Current maturities of long-term debt	\$ 67.0	\$ 60.6
Accounts payable	791.8	748.9
Patronage distributions payable in cash	70.4	55.0
Patronage refund certificates payable	17.4	10.2
Accrued expenses	205.9	173.6
Total current liabilities	1,152.5	1,048.3
Long-term debt	209.9	267.1
Patronage refund certificates payable	107.3	95.6
Other long-term liabilities	92.5	79.7
Total liabilities	1,562.2	1,490.7
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,691 and 2,719 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,827,851 and 4,648,554 issued and outstanding, respectively	482.7	464.8
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 546,146 and 439,591 shares issuable, respectively	54.6	44.0
Contributed capital	18.8	18.5
(Accumulated deficit) retained earnings	(8.7)	24.8
Accumulated other comprehensive income (loss)	0.9	(1.2)
Equity attributable to Ace member retailers	551.0	553.6
Equity attributable to noncontrolling interests	14.8	14.2
Total equity	565.8	567.8
Total liabilities and equity	\$ 2,128.0	\$ 2,058.5

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

	Twelve Months Ended	
	December 28, 2019 (52 Weeks)	December 29, 2018 (52 Weeks)
Operating Activities		
Net income	\$ 140.4	\$ 128.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60.1	55.7
Goodwill impairment charge	8.5	-
Amortization of deferred financing costs	0.4	0.5
Gain on disposal of assets, net	(5.5)	(4.9)
Credit for doubtful accounts	(0.9)	(0.3)
Other, net	0.8	1.1
Changes in operating assets and liabilities, exclusive of effect of acquisitions:		
Receivables	(69.7)	(45.2)
Inventories	30.0	(144.6)

Other current assets	4.2	(8.9)
Other long-term assets	(9.8)	6.7
Accounts payable and accrued expenses	56.2	66.6
Other long-term liabilities	12.9	10.9
Deferred taxes	(13.6)	(2.1)
Net cash provided by operating activities	<u>214.0</u>	<u>63.7</u>
Investing Activities		
Purchases of marketable securities	(46.5)	(27.8)
Proceeds from sale of marketable securities	41.4	25.4
Purchases of property and equipment	(76.5)	(61.1)
Cash paid for acquired businesses, net of cash acquired	(22.5)	(18.5)
Increase in notes receivable, net	(9.0)	(5.8)
Proceeds from sale of assets	22.0	0.1
Other, net	(0.8)	(1.2)
Net cash used in investing activities	<u>(91.9)</u>	<u>(88.9)</u>
Financing Activities		
Net (payments) borrowings under revolving lines of credit	(58.0)	104.8
Principal payments on long-term debt	(10.9)	(11.0)
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	(3.8)	(2.5)
Purchase of noncontrolling interests	(0.2)	(0.2)
Other, net	1.3	1.1
Net cash (used in) provided by financing activities	<u>(129.5)</u>	<u>27.8</u>
(Decrease) Increase in cash and cash equivalents	(7.4)	2.6
Cash and cash equivalents at beginning of period	25.6	23.0
Cash and cash equivalents at end of period	<u>\$ 18.2</u>	<u>\$ 25.6</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 20.2	\$ 17.7
Income taxes paid	<u>\$ 1.4</u>	<u>\$ 2.1</u>

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