

Ace Hardware Reports Record First Quarter 2020 Results

- **Record first quarter revenues of \$1.43 billion, an increase of 3.8 percent from last year**
- **U.S. same-store-sales up 4.2 percent; Acehardware.com revenues up 63 percent**
- **Record first quarter net income of \$36.2 million, an increase of 60.2 percent from last year**
- **Ranked No. 6 strongest franchise in Entrepreneur's 2020 Annual Franchise 500®**

OAK BROOK, Ill., May 20, 2020 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company"), the largest retailer-owned hardware cooperative in the world, today reported record first quarter 2020 revenues of \$1.43 billion, an increase of \$51.9 million, or 3.8 percent, from the first quarter of 2019. Net income was \$36.2 million for the first quarter of 2020, an increase of \$13.6 million from the first quarter of 2019.

"While our first quarter generated record sales and profit, we humbly acknowledge that this global pandemic has ripped open much of the world like a nasty earthquake in the six weeks since our quarter ended. Business has changed dramatically in this period, as has life for a meaningful portion of the world," said John Venhuizen, President & CEO. "In the month of April, U.S. retail same-store sales increased 26 percent and our online business surged 580 percent; primarily through curbside pickup, in-store pickup and delivery from our locally owned stores."

"We feel both the blessing and the burden of being declared an essential retailer," said Venhuizen. "The protection of our people and our neighbors remains our highest priority. I want to convey my deep and sincere appreciation to the Ace team and in particular our steady-handed drivers, our hard-working warehouse specialists and our in-store, red-vested heroes for their grit, guts and servant hearts."

The 4.2 percent increase in U.S. retail same-store-sales during the first quarter of 2020 reported by the approximately 3,200 Ace retailers who share daily retail sales data was the result of a 5.1 percent increase in average ticket partially offset by a 0.9 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended March 28, 2020 totaled \$1.43 billion. Total wholesale revenues were \$1.32 billion, an increase of \$19.0 million, or 1.5 percent, as compared to the prior year first quarter. Increases were noted across several departments, with power tools, cleaning supplies and grilling showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2019 through March 2020 contributed \$48.9 million of incremental revenues during the first quarter of 2020, while wholesale merchandise revenues decreased \$6.9 million during the first quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$11.4 million for the quarter. This net increase was partially offset by an \$8.2 million increase in the elimination of sales to Great Lakes Ace Hardware, Inc. ("GLA") which became a wholly-owned subsidiary and was fully consolidated beginning in March of 2019. The Company's Ace Hardware International Holdings, Ltd. ("AIH") subsidiary had a \$9.5 million decrease in wholesale revenue from the first quarter of 2019. This decrease was the result of lower merchandise shipments due to the global COVID-19 pandemic causing temporary international store closures. Ace Wholesale Holdings LLC ("AWH") had a \$16.4 million decrease of wholesale revenues from the first quarter of 2019 as a result of several key customer cancellations 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 \$112.4 million, an increase of \$32.9 million, or 41.4 percent, as compared to the prior year first quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$108.1 million in the first quarter of 2020, an increase of \$34.8 million, or 47.5 percent, from the first quarter of 2019. This increase was primarily the result of eleven new California stores added by the Westlake Ace Hardware ("Westlake") retail chain since the first quarter of 2019 coupled with a 2.3 percent increase in Westlake same-store-sales. Westlake operated 138 stores at the end of the first quarter of 2020 compared to 124 stores at the end of the first quarter of 2019. Additionally, the inclusion of GLA which became wholly-owned and was fully consolidated in March 2019 contributed \$13.0 million of the ARH increase. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$4.3 million in the first quarter of 2020. This was a decrease of \$1.9 million from the first quarter of 2019 which was primarily due to a reduction in new customer acquisitions through a planned shift of marketing expenses out of the first quarter.

Ace added 22 new domestic stores in the first quarter of 2020 and cancelled 12 stores. The Company's total domestic store count was 4,566 at the end of the first quarter of 2020 which was an increase of 69 stores from the first quarter of 2019. On a worldwide basis, Ace added 31 stores in the first quarter of 2020 and cancelled 16, bringing the worldwide store count to 5,381

at the end of the first quarter of 2020.

Gross Profit

Wholesale gross profit for the three months ended March 28, 2020 was \$169.8 million, an increase of \$16.0 million from the first quarter of 2019. The wholesale gross margin percentage was 12.9 percent of wholesale revenues in the first quarter of 2020, up from 11.8 percent in the first quarter of 2019. The increase in the wholesale gross margin percentage was due to additional vendor funds earned.

Retail gross profit for the three months ended March 28, 2020 was \$52.8 million, an increase of \$16.0 million from the first quarter of 2019. This increase was primarily the result of the eleven new California stores opened by ARH in 2019 and the inclusion of GLA results for the entire first quarter of 2020 compared to one month in 2019. The retail gross margin percentage was 47.0 percent of retail revenues in the first quarter of 2020, an increase from 46.3 percent in the first quarter of 2019. The increase in the gross margin percentage was a result of the inclusion of the higher margin GLA results. 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 decreased \$0.8 million, or 0.6 percent, from the first quarter of 2019. As a percentage of wholesale revenues, wholesale operating expenses decreased to 9.7 percent of wholesale revenues in the first quarter of 2020 from 10.0 percent of wholesale revenues in the first quarter of 2019. The decline was primarily the result of closing two AWH warehouses in 2019.

Retail operating expenses increased \$17.9 million, or 47.6 percent, from the first quarter of 2019. This increase was primarily due to expenses related to the eleven new California stores. Additionally, \$7.4 million of the increase was due to consolidating GLA results beginning in March 2019. Retail operating expenses as a percentage of retail revenue increased to 49.4 percent of retail revenues in the first quarter of 2020 from 47.3 percent in the first quarter of 2019.

Balance Sheet and Cash Flow

Receivables increased \$69.0 million from the first quarter of 2019 due to higher sales volumes and datings for spring seasonal programs.

Inventories increased \$49.7 million from the first quarter of 2019 due to higher seasonal goods in anticipation of higher spring and summer sales volumes and the increased number of retail stores operated by ARH.

Long term debt increased \$311.6 million versus the first quarter of 2019. In late March 2020, the Company increased its borrowings to \$675.0 million under its \$700.0 million line-of-credit in order to ensure the Company's ongoing liquidity during the COVID-19 pandemic. As of March 28, 2020, excess borrowings of approximately \$333.0 million were included in Cash and cash equivalents on the balance sheet. The company intends to repay this excess borrowing once a path to normal business operations becomes clear.

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. 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.

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

	Three Months Ended	
	March 28, 2020	March 30, 2019
	(13 Weeks)	(13 Weeks)
Revenues:		
	\$	\$
Wholesale revenues	1,318.0	1,299.0
Retail revenues	112.4	79.5
Total revenues	1,430.4	1,378.5
Cost of revenues:		
Wholesale cost of revenues	1,148.2	1,145.2
Retail cost of revenues	59.6	42.7
Total cost of revenues	1,207.8	1,187.9
Gross profit:		
Wholesale gross profit	169.8	153.8
Retail gross profit	52.8	36.8
Total gross profit	222.6	190.6
Wholesale operating expenses:		
Distribution operations expenses	45.0	42.6
Selling, general and administrative expenses	51.3	50.8
Retailer success and development expenses	32.2	35.9
Retail operating expenses	55.5	37.6
Retail pre-opening expenses	0.3	0.3
Total operating expenses	184.3	167.2
Operating income	38.3	23.4
Interest expense	(5.8)	(6.3)
Interest income	1.4	3.1
Other income, net	1.5	1.6
Income tax benefit	0.8	0.8
Net income	36.2	22.6
Less: net (loss) income attributable to noncontrolling interests	(0.1)	0.1
	\$	\$
Net income attributable to Ace Hardware Corporation	36.3	22.5
	\$	\$
Patronage distributions accrued	53.4	34.5
	\$	\$
Patronage distributions accrued for third party retailers	51.1	32.9

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

	March 28, 2020	December 28, 2019	March 30, 2019
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 315.6	\$ 18.2	\$ 31.0
Marketable securities	56.8	59.5	52.9
Receivables, net of allowance for doubtful accounts of \$6.7, \$5.4 and \$7.4, respectively	651.3	486.5	582.3
Inventories	1,071.6	930.8	1,021.9
Prepaid expenses and other current assets	45.4	45.5	52.3
Total current assets	2,140.7	1,540.5	1,740.4
Property and equipment, net	384.9	381.7	374.2
Operating lease right-of-use assets	459.1	-	-
Notes receivable, net of allowance for doubtful accounts of \$1.0, \$1.5 and \$2.4, respectively	14.5	9.9	17.5
Goodwill and other intangible assets, net	91.6	90.5	98.2

Other assets	101.3	105.4	90.4
Total assets	<u>\$ 3,192.1</u>	<u>\$ 2,128.0</u>	<u>\$ 2,320.7</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 96.5	\$ 67.0	\$ 79.9
Accounts payable	940.6	791.8	908.2
Patronage distributions payable in cash	91.3	70.4	68.1
Patronage refund certificates payable	17.4	17.4	10.1
Current operating lease liabilities	74.4	-	-
Accrued expenses	138.5	205.9	135.9
Total current liabilities	<u>1,358.7</u>	<u>1,152.5</u>	<u>1,202.2</u>
Long-term debt	688.4	209.9	376.8
Patronage refund certificates payable	115.9	107.3	101.2
Long-term operating lease liabilities	403.6	-	-
Other long-term liabilities	68.2	92.5	81.3
Total liabilities	<u>2,634.8</u>	<u>1,562.2</u>	<u>1,761.5</u>
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,694, 2,691 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, 4,739,809, 4,827,851 and 4,558,530 issued and outstanding, respectively	474.0	482.7	455.8
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 707,170, 546,146 and 540,809 shares issuable, respectively	70.7	54.6	54.2
Contributed capital	18.7	18.8	18.4
(Accumulated deficit) retained earnings	(23.5)	(8.7)	12.9
Accumulated other comprehensive (loss) income	(0.3)	0.9	0.5
Equity attributable to Ace member retailers	<u>542.3</u>	<u>551.0</u>	<u>544.5</u>
Equity attributable to noncontrolling interests	15.0	14.8	14.7
Total equity	<u>557.3</u>	<u>565.8</u>	<u>559.2</u>
Total liabilities and equity	<u>\$ 3,192.1</u>	<u>\$ 2,128.0</u>	<u>\$ 2,320.7</u>

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

	Three Months Ended	
	March 28, 2020	March 30, 2019
	(13 Weeks)	(13 Weeks)
Operating Activities		
Net income	\$ 36.2	\$ 22.6
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	15.7	14.6
Amortization of deferred financing costs	0.1	0.1
Gain on the disposal of assets, net	-	(0.1)
Provision for doubtful accounts	1.2	0.6
Other, net	(0.7)	(1.0)
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(181.5)	(155.4)
Inventories	(138.5)	(60.0)
Other current assets	1.3	(1.3)
Other long-term assets	3.3	(2.5)
Current liabilities	79.6	109.3
Other long-term liabilities	11.4	1.6
Deferred taxes	(1.9)	(1.7)
Net cash used in operating activities	<u>(173.8)</u>	<u>(73.2)</u>
Investing Activities		

Purchases of marketable securities	(5.5)	(3.6)
Proceeds from sale of marketable securities	7.0	3.7
Purchases of property and equipment	(18.4)	(12.1)
Cash paid for acquired businesses, net of cash received	(5.0)	(16.2)
Increase in notes receivable, net	(2.1)	(3.9)
Other, net	0.3	0.7
Net cash used in investing activities	<u>(23.7)</u>	<u>(31.4)</u>
Financing Activities		
Net borrowings under revolving lines of credit	507.8	120.2
Principal payments on long-term debt	(3.4)	(3.4)
Payments of debt issuance costs	-	(1.3)
Payments of patronage refund certificates	(9.5)	(5.3)
Repurchase of stock	(0.2)	(0.4)
Purchase of noncontrolling interests	-	(0.1)
Other, net	0.2	0.3
Net cash provided by financing activities	<u>494.9</u>	<u>110.0</u>
Increase in cash and cash equivalents	<u>297.4</u>	<u>5.4</u>
Cash and cash equivalents at beginning of period	<u>18.2</u>	<u>25.6</u>
	<u>\$</u>	<u>\$</u>
Cash and cash equivalents at end of period	<u>315.6</u>	<u>31.0</u>
Supplemental disclosure of cash flow information:		
	<u>\$</u>	<u>\$</u>
Interest paid	<u>7.9</u>	<u>8.0</u>
	<u>\$</u>	<u>\$</u>
Income taxes paid	<u>0.3</u>	<u>0.4</u>

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