

Ace Hardware Reports Record Second Quarter 2020 Results

- Record second quarter revenues of \$2.28 billion, an increase of 35.1 percent from last year
- U.S. same-store-sales up 35.3 percent; Acehardware.com revenues up 493 percent
- Record second quarter net income of \$138.9 million, an increase of 158.2 percent from last year
- Accrued patronage dividend to shareholders of \$169.0 million, an increase of 88.8 percent from the first six months of 2019
- Ace once again ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, marking thirteen out of the last fourteen years

OAK BROOK, Ill., Aug. 19, 2020 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company"), the largest retailer-owned hardware cooperative in the world, today reported record second quarter 2020 revenues of \$2.28 billion, an increase of \$591.6 million, or 35.1 percent, from the second quarter of 2019. Net income was \$138.9 million for the second quarter of 2020, an increase of \$85.1 million from the second quarter of 2019.

"Same-store sales growth of 35.3 percent is impressive, a 493 percent increase in our digital business is incredible, but what I'm most pleased and impressed with is the degree to which the Ace team delivered on our highest priority of protecting our people and serving our neighbors," said John Venhuizen, President & CEO. "The second quarter of 2020 was arguably the most difficult, unusual and yet perhaps rewarding quarter in Ace's history."

"In order to meet this unprecedented demand, we've hired over 900 additional warehouse specialists compared to last year, and that pace of hiring has continued into the third quarter. We have also accelerated our plans to grow our distribution footprint in the U.S. and will add over one million square feet of warehouse space in the next twelve months."

"There is certainly both a blessing and a burden in being essential," said Venhuizen. "My earnest thanks to our drivers, warehouse specialists, red-vested heroes and the entire Ace team. Our efforts to support our stores and serve our neighbors have been imperfect during this pandemic, but the sincerity, efficacy and compassion with which it was delivered was exceptional and appreciated."

The 35.3 percent increase in U.S. retail same-store-sales during the second quarter of 2020 reported by the approximately 3,200 Ace retailers who share daily retail sales data was the result of a 14.4 percent increase in same-store transactions and an 18.2 percent increase in average ticket. Ace stores in the U.S. benefited from increased Do-It-Yourself ("DIY") activities by consumers sheltering in place, a shift in discretionary spending from travel and entertainment into home improvement, and consumers moving their purchases online and consolidating their store visits in order to limit potential COVID-19 exposure.

Revenues

Consolidated revenues for the quarter ended June 27, 2020 totaled \$2.28 billion. Total wholesale revenues were \$2.03 billion, an increase of \$501.1 million, or 32.8 percent, as compared to the prior year second quarter. Wholesale merchandise revenues to new domestic stores activated from January 2019 through June 2020 contributed \$56.5 million of incremental revenues during the second quarter of 2020, while wholesale merchandise revenues decreased \$9.4 million during the second quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$394.6 million for the quarter. Increases were seen across nearly all departments with grilling, power tools, and outdoor power equipment showing the largest gains. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary had a \$14.3 million decrease in wholesale revenue from the second quarter of 2019. While hardware and home improvement stores were considered "essential" and were allowed to remain open throughout the U.S., that was not the case across much of the world, as up to fifty percent of AIH customer stores were closed at some point during the quarter. Ace Wholesale Holdings LLC ("AWH"), whose customer base includes a large number of paint and decorating stores that were not considered "essential", had a \$0.4 million increase of wholesale revenues from the second quarter of 2019.

Total retail revenues for the quarter were \$249.2 million, an increase of \$90.5 million, or 57.0 percent, as compared to the prior year second quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$239.3 million in the second quarter of 2020, an increase of \$88.5 million, or 58.7 percent, from the second quarter of 2019. The Westlake Ace Hardware ("Westlake") chain experienced a 34.7 percent increase in same-store-sales while the Great Lakes Ace Hardware, Inc. ("GLA") chain grew same-store-sales by 45.5 percent. The eleven new California stores opened by Westlake in 2019 contributed \$33.6 million of the increase. Westlake and GLA together operated 192 stores at the end of the second quarter of 2020 compared to 177 stores at the end of the second quarter of 2019. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$9.9 million in the second quarter of 2020. This was an increase of \$2.0 million, or 24.0 percent, from the second quarter of 2019. New customer acquisitions drove the increase during the second quarter.

Ace added 25 new domestic stores in the second quarter of 2020 and cancelled 27 stores. The Company's total domestic store count was 4,564 at the end of the second quarter of 2020 which was an increase of 57 stores from the second quarter of 2019. On a worldwide basis, Ace added 32 stores in the second quarter of 2020 and cancelled 27, bringing the worldwide store count to 5,386 at the end of the second quarter of 2020.

Gross Profit

Wholesale gross profit for the three months ended June 27, 2020 was \$263.6 million, an increase of \$85.5 million from the second quarter of 2019. The wholesale gross margin percentage was 13.0 percent of wholesale revenues in the second quarter of 2020, up from 11.6 percent in the second quarter of 2019. The increase in the wholesale gross margin percentage was due to the increased volume, which led to higher vendor funds earned.

Retail gross profit for the three months ended June 27, 2020 was \$107.0 million, an increase of \$37.7 million from the second quarter of 2019. This increase was primarily the result of the eleven new California stores opened by ARH in 2019. The retail gross margin percentage was 42.9 percent of retail revenues in the second quarter of 2020, a decrease from 43.7 percent in the second quarter of 2019. 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 \$31.0 million, or 22.4 percent, from the second quarter of 2019. The increase is due to higher distribution costs resulting from higher wholesale revenues and an increase in advertising expenses. As a percentage of wholesale revenues, wholesale operating expenses decreased to 8.3 percent of wholesale revenues in the second quarter of 2020 from 9.0 percent of wholesale revenues in the second quarter of 2019.

Retail operating expenses increased \$11.5 million, or 22.3 percent, from the second quarter of 2019. This increase was primarily due to expenses related to the eleven new California stores and expenses incurred related to the pandemic. Retail operating expenses as a percentage of retail revenue decreased to 25.3 percent of retail revenues in the second quarter of 2020 from 32.5 percent in the second quarter of 2019.

Retail pre-opening expenses decreased \$3.6 million due to expenses related to the eleven new California stores which opened in 2019.

Balance Sheet and Cash Flow

Receivables increased \$161.3 million from the second quarter of 2019 due to higher sales volumes and datings for seasonal programs.

Inventories increased \$11.0 million from the second quarter of 2019 due to higher seasonal goods and the increased number of retail stores operated by ARH. This was partially offset by an increase in the LIFO reserve.

Long term debt, including current maturities, decreased \$343.7 million versus the second quarter of 2019. During the second quarter, the Company fully repaid all amounts outstanding under all three of its revolving credit facilities. As of June 27, 2020, the only long-term debt outstanding was \$25.7 million owed to former retailers.

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.

In 2020, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, thirteen out of the last fourteen years.

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
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	June 27, 2020 (13 Weeks)	June 29, 2019 (13 Weeks)	June 27, 2020 (26 Weeks)	June 29, 2019 (26 Weeks)
Revenues:				
Wholesale revenues	\$ 2,029.9	\$ 1,528.8	\$ 3,347.9	\$ 2,827.8
Retail revenues	249.2	158.7	361.6	238.2
Total revenues	2,279.1	1,687.5	3,709.5	3,066.0
Cost of revenues:				
Wholesale cost of revenues	1,766.3	1,350.7	2,914.5	2,495.9
Retail cost of revenues	142.2	89.4	201.8	132.1
Total cost of revenues	1,908.5	1,440.1	3,116.3	2,628.0
Gross profit:				
Wholesale gross profit	263.6	178.1	433.4	331.9
Retail gross profit	107.0	69.3	159.8	106.1
Total gross profit	370.6	247.4	593.2	438.0
Wholesale operating expenses:				
Distribution operations expenses	59.2	47.2	104.2	89.8
Selling, general and administrative expenses	50.4	44.9	101.7	95.7
Retailer success and development expenses	59.5	46.0	91.7	81.9
Retail operating expenses	63.0	51.5	118.5	89.1
Retail pre-opening expenses	0.1	3.7	0.4	4.0
Total operating expenses	232.2	193.3	416.5	360.5
Operating income	138.4	54.1	176.7	77.5
Interest expense	(5.4)	(6.0)	(11.2)	(12.3)
Interest income	0.8	1.5	2.2	4.6
Other income, net	2.5	1.4	4.0	3.0
Income tax benefit	2.6	2.8	3.4	3.6
Net income	138.9	53.8	175.1	76.4
Less: net (loss) income attributable to noncontrolling interests	(0.2)	0.1	(0.3)	0.2
Net income attributable to Ace Hardware Corporation	\$ 139.1	\$ 53.7	\$ 175.4	\$ 76.2
Patronage distributions accrued	\$ 115.6	\$ 55.0	\$ 169.0	\$ 89.5
Patronage distributions accrued for third party retailers	\$ 113.0	\$ 52.8	\$ 164.1	\$ 85.7

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

	June 27, 2020 (Unaudited)	December 28, 2019 (Audited)	June 29, 2019 (Unaudited)
Assets			
Cash and cash equivalents	\$ 40.3	\$ 18.2	\$ 50.2
Marketable securities	60.8	59.5	38.1
Receivables, net of allowance for doubtful accounts of \$6.2, \$5.4 and \$5.6, respectively	709.3	486.5	548.0
Inventories	972.6	930.8	961.6
Prepaid expenses and other current assets	61.8	45.5	53.2

Total current assets	1,844.8	1,540.5	1,651.1
Property and equipment, net	395.8	381.7	383.1
Operating lease right-of-use assets, net	471.1	-	-
Finance lease right-of-use assets, net	22.7	-	-
Notes receivable, net of allowance for doubtful accounts of \$0.9, \$1.5 and \$2.1, respectively	12.5	9.9	17.4
Goodwill and other intangible assets, net	91.9	90.5	97.3
Other assets	83.0	105.4	88.9
Total assets	<u>\$ 2,921.8</u>	<u>\$ 2,128.0</u>	<u>\$ 2,237.8</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 10.9	\$ 67.0	\$ 49.8
Accounts payable	1,304.7	791.8	907.5
Patronage distributions payable in cash	67.5	70.4	35.1
Patronage refund certificates payable	17.4	17.4	10.1
Current operating lease liabilities	72.6	-	-
Current finance lease liabilities	3.4	-	-
Accrued expenses	175.0	205.9	149.9
Total current liabilities	<u>1,651.5</u>	<u>1,152.5</u>	<u>1,152.4</u>
Long-term debt	14.8	209.9	319.6
Patronage refund certificates payable	142.3	107.3	111.7
Long-term operating lease liabilities	418.8	-	-
Long-term finance lease liabilities	19.3	-	-
Other long-term liabilities	69.0	92.5	84.5
Total liabilities	<u>2,315.7</u>	<u>1,562.2</u>	<u>1,668.2</u>
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,682, 2,691 and 2,700 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 5,189,905, 4,827,851 and 4,932,459 issued and outstanding, respectively	519.0	482.7	493.2
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 462,804, 546,146 and 259,486 shares issuable, respectively	46.2	54.6	26.0
Contributed capital	18.9	18.8	18.6
Retained earnings (accumulated deficit)	2.3	(8.7)	13.7
Accumulated other comprehensive income	2.7	0.9	0.6
Equity attributable to Ace member retailers	<u>591.8</u>	<u>551.0</u>	<u>554.8</u>
Equity attributable to noncontrolling interests	14.3	14.8	14.8
Total equity	<u>606.1</u>	<u>565.8</u>	<u>569.6</u>
Total liabilities and equity	<u>\$ 2,921.8</u>	<u>\$ 2,128.0</u>	<u>\$ 2,237.8</u>

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

	Six Months Ended	
	June 27, 2020 (26 Weeks)	June 29, 2019 (26 Weeks)
Operating Activities		
Net income	\$ 175.1	\$ 76.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31.7	29.1
Amortization of deferred financing costs	0.2	0.2
Loss (gain) on the disposal of assets, net	0.9	(0.7)
Provision for doubtful accounts	0.5	0.4
Other, net	0.9	(0.1)

Changes in operating assets and liabilities, exclusive of effects of acquisitions:

Receivables	(250.3)	(121.6)
Inventories	(39.0)	(2.7)
Other current assets	(16.2)	0.2
Other long-term assets	45.4	(9.6)
Current liabilities	451.9	125.2
Other long-term liabilities	(0.8)	4.8
Deferred taxes	9.8	(3.6)
Net cash provided by operating activities	<u>410.1</u>	<u>98.0</u>
Investing Activities		
Purchases of marketable securities	(9.9)	(16.1)
Proceeds from sale of marketable securities	10.7	32.1
Purchases of property and equipment	(43.7)	(32.9)
Cash paid for acquired businesses, net of cash received	(6.6)	(19.0)
Increase in notes receivable, net	(3.0)	(5.7)
Proceeds from sale of assets	-	1.0
Other, net	0.3	(0.3)
Net cash used in investing activities	<u>(52.2)</u>	<u>(40.9)</u>
Financing Activities		
Net (payments) borrowings under revolving lines of credit	(253.0)	33.0
Principal payments on long-term debt	(5.3)	(5.9)
Payments of debt issuance costs	-	(1.3)
Payments of cash portion of patronage distribution	(66.2)	(51.3)
Payments of patronage refund certificates	(9.5)	(5.3)
Repurchase of stock	(1.2)	(2.1)
Purchase of noncontrolling interests	(0.2)	(0.2)
Other, net	(0.4)	0.6
Net cash used in financing activities	<u>(335.8)</u>	<u>(32.5)</u>
Increase in cash and cash equivalents	22.1	24.6
Cash and cash equivalents at beginning of period	18.2	25.6
Cash and cash equivalents at end of period	<u>\$ 40.3</u>	<u>\$ 50.2</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 12.6	\$ 12.4
Income taxes paid	<u>\$ 0.7</u>	<u>\$ 0.7</u>

View original content to download multimedia <http://www.prnewswire.com/news-releases/ace-hardware-reports-record-second-quarter-2020-results-301114484.html>

SOURCE Ace Hardware Corporation

Additional assets available online: [Documents \(1\)](#)

<https://newsroom.acehardware.com/2020-08-19-Ace-Hardware-Reports-Record-Second-Quarter-2020-Results>