

Ace Hardware Reports Record Third Quarter 2020 Results

- Record third quarter revenues of \$2.0 billion, an increase of 30.7 percent from last year
- U.S. same-store-sales up 28.9 percent; Acehardware.com revenues up 221 percent
- Record third quarter net income of \$98.7 million, an increase of 63.1 percent from last year
- Accrued patronage dividend to shareholders of \$263.8 million, an increase of 66.9 percent from the first nine months of 2019
- Ace ranked 5th in Franchise Times top 200

OAK BROOK, Ill., Nov. 18, 2020 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record third quarter 2020 revenues of \$2.0 billion, an increase of \$470.4 million, or 30.7 percent, from the third quarter of 2019. Net income was \$98.7 million for the third quarter of 2020, an increase of \$38.2 million from the third quarter of 2019.

"A 221% increase in our digital business and same-store sales growth of 28.9% fueled record revenue and earnings in an environment that continues to be very difficult and demanding for both our customers and our associates," said John Venhuizen, President & CEO. "I want to genuinely thank the Ace team for their gutsy performance, their servant hearts and their exceptional fulfillment of their essential calling."

The 28.9 percent increase in U.S. retail same-store-sales during the third quarter of 2020 reported by the approximately 3,300 Ace retailers who share daily retail sales data was the result of a 12.3 percent increase in same-store transactions and a 14.8 percent increase in average ticket. The heightened importance of both convenience and safety, coupled with the shift in consumer discretionary spending from sectors such as travel and entertainment into home preservation, have distorted demand and driven much of the growth within Ace stores in the U.S.

Revenues

Consolidated revenues for the quarter ended September 26, 2020 totaled \$2.0 billion. Total wholesale revenues were \$1.81 billion, an increase of \$410.4 million, or 29.2 percent, as compared to the prior year third quarter. Wholesale merchandise revenues to new domestic stores activated from January 2019 through September 2020 contributed \$50.7 million of incremental revenues during the third quarter of 2020, while wholesale merchandise revenues decreased \$10.1 million during the third quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$365.1 million for the quarter. Increases were seen across nearly all departments with grilling, paint, and lawn and garden showing the largest gains. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary had a \$19.2 million decrease in wholesale revenue from the third quarter of 2019. This was primarily the result of \$17.5 million decline in sales to AIH's two largest customers, both of which experienced extensive store closures during the quarter. Ace Wholesale Holdings LLC ("AWH") had a \$6.0 million increase in wholesale revenues versus the third quarter of 2019.

Total retail revenues for the quarter were \$186.3 million, an increase of \$60.0 million, or 47.5 percent, as compared to the prior year third quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$179.8 million in the third quarter of 2020, an increase of \$58.8 million, or 48.6 percent, from the third quarter of 2019. The Westlake Ace Hardware ("Westlake") chain experienced a 28.3 percent increase in same-store-sales while the Great Lakes Ace Hardware, Inc. ("GLA") chain grew same-store-sales by 40.5 percent in the quarter. The eleven new California stores opened by Westlake in 2019 contributed \$19.7 million of the increase. Westlake and GLA together operated 194 stores at the end of the third quarter of 2020 compared to 183 stores at the end of the third quarter of 2019. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$6.5 million in the third quarter of 2020. This was an increase of \$1.2 million, or 22.6 percent, from the third quarter of 2019. New customer acquisitions drove the increase during the third quarter.

Ace added 43 new domestic stores in the third quarter of 2020 and cancelled 22 stores. The Company's total domestic store count was 4,585 at the end of the third quarter of 2020 which was an increase of 57 stores from the third quarter of 2019. On a worldwide basis, Ace added 46 stores in the third quarter of 2020 and cancelled 29, bringing the worldwide store count to 5,403 at the end of the third quarter of 2020.

Gross Profit

Wholesale gross profit for the three months ended September 26, 2020 was \$242.2 million, an increase of \$58.9 million from the third quarter of 2019. The wholesale gross margin percentage was 13.4 percent of wholesale revenues in the third quarter of 2020, up from 13.1 percent in the third quarter of 2019. The increase in the wholesale gross margin percentage was due to the increased volume, which lead to higher vendor funds earned.

Retail gross profit for the three months ended September 26, 2020 was \$86.7 million, an increase of \$29.7 million from the third quarter of 2019. This increase was the result of the 48.6 percent increase in ARH revenues. The retail gross margin percentage was 46.5 percent of retail revenues in the third quarter of 2020, an increase from 45.1 percent in the third 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 \$26.1 million, or 19.8 percent, from the third 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 8.7 percent of wholesale revenues in the third quarter of 2020 from 9.4 percent of wholesale revenues in the third quarter of 2019.

Retail operating expenses increased \$10.9 million, or 21.4 percent, from the third 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 33.2 percent of retail revenues in the third quarter of 2020 from 40.3 percent in the third quarter of 2019.

Retail pre-opening expenses decreased \$1.8 million due to expenses related to the eleven new California stores which opened in 2019.

Balance Sheet and Cash Flow

Receivables increased \$87.0 million from the third quarter of 2019 due to higher sales volumes and an increase in vendor rebates receivable.

Inventories increased \$122.9 million from the third quarter of 2019 due to the intentional build-up of cleaning supplies and other COVID-19 products as well as power tools to support increased demand.

Long term debt, including current maturities, decreased \$294.8 million versus the third quarter of 2019. At the end of the third quarter, long term debt consisted of \$6.6 million outstanding on the Westlake credit facility and \$26.3 million owed to former retailers.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with more than 5,400 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.

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

Three Months Ended		Nine Months Ended	
September 26, 2020 (13 Weeks)	September 28, 2019 (13 Weeks)	September 26, 2020 (39 Weeks)	September 28, 2019 (39 Weeks)

Revenues:				
Wholesale revenues	\$ 1,814.2	\$ 1,403.8	\$ 5,162.1	\$ 4,231.6
Retail revenues	186.3	126.3	547.9	364.5
Total revenues	<u>2,000.5</u>	<u>1,530.1</u>	<u>5,710.0</u>	<u>4,596.1</u>
Cost of revenues:				
Wholesale cost of revenues	1,572.0	1,220.5	4,486.5	3,716.4
Retail cost of revenues	99.6	69.3	301.4	201.4
Total cost of revenues	<u>1,671.6</u>	<u>1,289.8</u>	<u>4,787.9</u>	<u>3,917.8</u>
Gross profit:				
Wholesale gross profit	242.2	183.3	675.6	515.2
Retail gross profit	86.7	57.0	246.5	163.1
Total gross profit	<u>328.9</u>	<u>240.3</u>	<u>922.1</u>	<u>678.3</u>
Wholesale operating expenses:				
Distribution operations expenses	58.3	45.4	162.5	135.2
Selling, general and administrative expenses	54.7	50.3	156.4	146.0
Retailer success and development expenses	45.2	36.4	136.9	118.3
Retail operating expenses	61.8	50.9	180.3	140.0
Retail pre-opening expenses	0.4	2.2	0.8	6.2
Total operating expenses	<u>220.4</u>	<u>185.2</u>	<u>636.9</u>	<u>545.7</u>
Operating income	<u>108.5</u>	<u>55.1</u>	<u>285.2</u>	<u>132.6</u>
Interest expense	(3.9)	(5.4)	(15.1)	(17.7)
Interest income	0.3	1.1	2.5	5.7
Other income, net	0.2	6.4	4.2	9.4
Income tax (expense) benefit	(6.4)	3.3	(3.0)	6.9
Net income	<u>98.7</u>	<u>60.5</u>	<u>273.8</u>	<u>136.9</u>
Less: net (loss) income attributable to noncontrolling interests	<u>(0.2)</u>	<u>0.2</u>	<u>(0.5)</u>	<u>0.4</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 98.9</u>	<u>\$ 60.3</u>	<u>\$ 274.3</u>	<u>\$ 136.5</u>
Patronage distributions accrued	<u>\$ 94.8</u>	<u>\$ 68.6</u>	<u>\$ 263.8</u>	<u>\$ 158.1</u>
Patronage distributions accrued for third party retailers	<u>\$ 90.9</u>	<u>\$ 66.4</u>	<u>\$ 255.0</u>	<u>\$ 152.1</u>

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

	September 26, 2020	December 28, 2019	September 28, 2019
Assets	(Unaudited)	(Audited)	(Unaudited)
Cash and cash equivalents	\$ 53.3	\$ 18.2	\$ 24.7
Marketable securities	62.4	59.5	58.4
Receivables, net of allowance for doubtful accounts of \$4.3, \$5.4 and \$5.5, respectively	587.9	486.5	500.9
Inventories	1,098.4	930.8	975.5
Prepaid expenses and other current assets	54.1	45.5	56.5
Total current assets	<u>1,856.1</u>	<u>1,540.5</u>	<u>1,616.0</u>
Property and equipment, net	408.9	381.7	373.7
Operating lease right-of-use assets, net	459.9	-	-
Finance lease right-of-use assets, net	23.6	-	-
Notes receivable, net of allowance for doubtful accounts of \$0.4, \$1.5 and \$1.5, respectively	3.0	9.9	18.6
Goodwill and other intangible assets, net	94.8	90.5	99.7
Other assets	81.6	105.4	106.9

Total assets	\$ 2,927.9	\$ 2,128.0	\$ 2,214.9
Liabilities and Equity			
Current maturities of long-term debt	\$ 17.6	\$ 67.0	\$ 59.6
Accounts payable	1,208.0	791.8	843.4
Patronage distributions payable in cash	104.7	70.4	62.6
Patronage refund certificates payable	17.4	17.4	10.1
Current operating lease liabilities	70.4	-	-
Current finance lease liabilities	3.8	-	-
Accrued expenses	196.4	205.9	179.3
Total current liabilities	1,618.3	1,152.5	1,155.0
Long-term debt	15.3	209.9	268.1
Patronage refund certificates payable	153.2	107.3	126.8
Long-term operating lease liabilities	409.8	-	-
Long-term finance lease liabilities	19.8	-	-
Other long-term liabilities	71.3	92.5	87.5
Total liabilities	2,287.7	1,562.2	1,637.4
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,688, 2,691 and 2,695 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 5,119,074, 4,827,851 and 4,883,025 issued and outstanding, respectively	511.9	482.7	488.3
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 818,540, 546,146 and 440,759 shares issuable, respectively	81.8	54.6	44.1
Contributed capital	18.8	18.8	18.7
Retained earnings (accumulated deficit)	9.3	(8.7)	7.8
Accumulated other comprehensive income	3.1	0.9	0.9
Equity attributable to Ace member retailers	627.6	551.0	562.5
Equity attributable to noncontrolling interests	12.6	14.8	15.0
Total equity	640.2	565.8	577.5
Total liabilities and equity	\$ 2,927.9	\$ 2,128.0	\$ 2,214.9

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

	Nine Months Ended	
	September 26, 2020 (39 Weeks)	September 28, 2019 (39 Weeks)
Operating Activities		
Net income	\$ 273.8	\$ 136.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48.2	44.2
Amortization of deferred financing costs	0.3	0.3
Loss (gain) on the disposal of assets, net	0.9	(5.7)
Credit for doubtful accounts	(1.8)	(1.0)
Other, net	1.5	0.6
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(124.1)	(80.2)
Inventories	(163.6)	(16.6)
Other current assets	(8.5)	(3.6)
Other long-term assets	65.7	(29.2)
Current liabilities	355.1	91.4
Other long-term liabilities	1.1	8.3

Deferred taxes	9.8	(4.1)
Net cash provided by operating activities	<u>458.4</u>	<u>141.3</u>
Investing Activities		
Purchases of marketable securities	(18.3)	(41.0)
Proceeds from sale of marketable securities	17.9	37.3
Purchases of property and equipment	(71.1)	(54.5)
Cash paid for acquired businesses, net of cash received	(11.8)	(22.5)
Increase in notes receivable, net	(3.5)	(7.0)
Proceeds from sale of assets	0.1	22.0
Other, net	0.1	(0.7)
Net cash used in investing activities	<u>(86.6)</u>	<u>(66.4)</u>
Financing Activities		
Net payments under revolving lines of credit	(246.3)	(8.7)
Principal payments on long-term debt	(7.5)	(7.4)
Payments of debt issuance costs	-	(1.3)
Payments of cash portion of patronage distribution	(66.2)	(51.3)
Payments of patronage refund certificates	(9.6)	(5.3)
Repurchase of stock	(2.8)	(2.5)
Purchase of noncontrolling interests	(3.0)	(0.2)
Other, net	(1.3)	0.9
Net cash used in financing activities	<u>(336.7)</u>	<u>(75.8)</u>
Increase (decrease) in cash and cash equivalents	35.1	(0.9)
Cash and cash equivalents at beginning of period	18.2	25.6
Cash and cash equivalents at end of period	<u>\$ 53.3</u>	<u>\$ 24.7</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 14.4	\$ 16.4
Income taxes paid	<u>\$ 3.6</u>	<u>\$ 1.0</u>

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