

Ace Hardware Reports Fourth Quarter And Full Year 2020 Results

- Record fourth quarter revenues of \$2.1 billion, an increase of 39.2 percent from last year
- Record fourth quarter net income of \$43.1 million, an increase of \$39.6 million from last year
- U.S. same-store-sales up 28.7 percent during the quarter and 25.9 percent for the year
- Acehardware.com revenues up 214 percent during the quarter and 272 percent for the year
- Record full year revenues of \$7.8 billion, an increase of 27.9 percent from last year
- Record full year net income of \$316.9 million, an increase of 125.7 percent from last year
- Record patronage dividend to shareholders of \$292.9 million, an increase of 60.8 percent from 2019
- Ace ranked 4th in Chicago Tribune's Top Workplace 2020

OAK BROOK, Ill., Feb. 16, 2021 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record fourth quarter 2020 revenues of \$2.1 billion, an increase of \$577.6 million, or 39.2 percent, from the fourth quarter of 2019. Fiscal 2020 consisted of 53 weeks compared to 52 weeks in fiscal 2019. Excluding the 53rd week, revenues in the fourth quarter increased \$477.7 million, or 32.4 percent, from the fourth quarter of 2019. Net income was \$43.1 million for the fourth quarter of 2020, an increase of \$39.6 million from the fourth quarter of 2019.

Full year revenues were a record \$7.8 billion, an increase of \$1.7 billion, or 27.9 percent, from 2019 revenue (an increase of \$1.6 billion or 26.2 percent excluding the 53^d week). Net income for fiscal 2020 was \$316.9 million, an increase of \$176.5 million, from fiscal 2019.

"The fourth quarter was yet again one of the most extraordinary in Ace's history," said John Venhuizen, President and CEO. "We've always believed that we were blessed to be in the business of serving others. And now, after a year like 2020, we feel blessed to be an essential retailer with strong suppliers, an expansive supply chain and amazing people. Ace employees in our stores and our warehouses withstood the massive surge in demand as consumers channeled a disproportionate share of their discretionary spending into their homes and gardens."

"My deep appreciation and gratitude to the Ace Team for the protection of their people, the safety of our customers, and what I believe to be the most helpful service of any retailer on the planet," said Venhuizen.

The 28.7 percent increase in retail same-store-sales during the fourth quarter of 2020 reported by the approximately 3,300 Ace retailers who share daily retail sales data was the result of a 16.4 percent increase in average ticket and a 10.5 percent increase in same-store transactions. The 25.9 percent increase in retail same-store-sales for the full year was the result of a 14.7 percent increase in average ticket and a 9.8 percent increase in same-store transactions.

Revenues

Fourth Quarter

Consolidated revenues for the quarter ended January 2, 2021 totaled \$2.1 billion. Total wholesale revenues were \$1.8 billion, an increase of \$516.2 million, or 38.7 percent, as compared to the prior year fourth quarter. Wholesale merchandise revenues to new domestic Ace stores activated from January 2019 through December 2020 contributed \$47.9 million of incremental revenues during the fourth quarter of 2020, while wholesale merchandise revenues decreased \$9.8 million during the fourth quarter due to domestic Ace stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic Ace stores increased \$402.8 million for the quarter. Increases were noted across all departments, with grilling, paint, hand and power tools and outdoor power equipment showing the largest gains. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary experienced a \$7.0 million increase in wholesale revenue versus the fourth quarter of 2019, while Ace Wholesale Holdings LLC ("AWH") reported a \$25.7 million increase in wholesale revenues from the fourth quarter of 2019.

Total retail revenues for the quarter were \$203.6 million, an increase of \$61.4 million, or 43.2 percent, as compared to the prior year fourth quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$177.2 million in the fourth quarter of 2020, an increase of \$55.8 million, or 46.0 percent, from the fourth quarter of 2019. The Westlake Ace Hardware ("Westlake") chain experienced a 25.6 percent increase in same-store-sales during the quarter while the Great Lakes Ace Hardware ("GLA") chain grew same-store-sales by 31.6 percent in the quarter. The eleven new California stores opened by Westlake in 2019 contributed \$14.5 million of the increase. Westlake and GLA together operated 202 stores at the end of the fourth quarter of 2020 compared to 186 stores at the end of the fourth quarter of 2019. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$26.4 million in the fourth quarter of 2020. This was an increase of \$5.1 million from the fourth quarter of 2019, primarily driven by new customer acquisitions.

Fiscal Year

Consolidated revenues for fiscal 2020 totaled \$7.8 billion, an increase of \$1.7 billion, or 27.9 percent, as compared to the prior year. Total wholesale revenues were \$7.0 billion, an increase of \$1.5 billion, or 26.0 percent, as compared to the prior year.

Wholesale merchandise revenues from new domestic Ace stores were \$204.1 million in fiscal 2020. This increase was partially offset by a decrease in wholesale merchandise revenues of \$38.9 million due to domestic Ace store cancellations. Wholesale merchandise revenues to comparable domestic Ace stores increased \$1.2 billion in fiscal 2020 compared to fiscal 2019. Increases were noted across all departments with grilling, paint, power tools and outdoor power equipment showing the largest gains. AIH wholesale revenues decreased \$36.0 million compared to the prior year, as the global pandemic caused temporary store closures at AIH's largest customers. AWH wholesale revenues increased \$25.8 million compared to the prior year, which was primarily due to higher sales to e-commerce customers and traditional hardware stores.

Total retail revenues were \$751.5 million, an increase of \$244.8 million, or 48.3 percent, as compared to the prior year. Retail revenues from ARH were \$704.4 million during fiscal 2020, an increase of \$237.9 million or 51.0 percent. Westlake experienced a 24.7 percent increase in same-store-sales while GLA grew same-store-sales by 32.7 percent during fiscal 2020. The eleven new California stores opened by Westlake in 2019 contributed \$87.2 million of the increase. Retail revenues from AEH were \$47.1 million during fiscal 2020. This was an increase of \$6.4 million from fiscal 2019, driven primarily by new customer acquisitions.

Ace added 167 new domestic stores in fiscal 2020 and cancelled 76 stores. This brought the Company's total domestic store count to 4,647 at the end of fiscal 2020, an increase of 91 stores from the end of fiscal 2019. On a worldwide basis, Ace added 201 stores in fiscal 2020 and cancelled 104, bringing the worldwide store count to 5,463 at the end of fiscal 2020.

Gross Profit

Fourth Quarter

Wholesale gross profit for the three months ended January 2, 2021 was \$203.5 million, an increase of \$52.8 million from the fourth quarter of 2019. The wholesale gross margin percentage was 11.0 percent of wholesale revenues in the fourth quarter of 2020, down from 11.3 percent in the fourth quarter of 2019. The decrease in the wholesale gross margin percentage was primarily due to inventory write-downs related to an overstock of pandemic-related personal protective equipment.

Retail gross profit for the three months ended January 2, 2021 was \$87.9 million, an increase of \$24.3 million from the fourth quarter of 2019. This increase was the result of the 46.0 percent increase in ARH revenues. The retail gross margin percentage was 43.2 percent of retail revenues in the fourth quarter of 2020, a decrease from 44.7 percent in the fourth quarter of 2019. The decline primarily resulted from product mix. 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 2020 was \$879.1 million, an increase of \$213.2 million from fiscal 2019. The wholesale gross margin percentage was 12.5 percent of wholesale revenues in fiscal 2020, an increase from the fiscal 2019 gross margin percentage of 12.0 percent. The increase in wholesale gross margin percentage was due to the increased volume, which led to higher vendor funds earned.

Retail gross profit for fiscal 2020 was \$334.4 million, an increase of \$107.7 million from fiscal 2019. The retail gross margin percentage was 44.5 percent of retail revenues in fiscal 2020, down slightly from 44.7 percent in fiscal 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

Fourth Quarter

Wholesale operating expenses increased \$29.6 million, or 21.1 percent, from the fourth 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 9.2 percent of wholesale revenues in the fourth quarter of 2020 from 10.5 percent of wholesale revenues in the fourth quarter of 2019.

Retail operating expenses increased \$11.3 million, or 18.4 percent, from the fourth quarter of 2019. This increase was primarily driven by compensation and operating costs to support the increase in retail revenues along with expenses related to the eleven new California stores. Retail operating expenses as a percentage of retail revenue decreased to 35.8 in the fourth quarter of 2020 from 43.2 percent in the fourth quarter of 2019.

Retail pre-opening expenses decreased \$2.0 million in the fourth quarter of 2020 due to expenses related to the eleven new California stores which opened in 2019.

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 \$85.9 million, or 15.9 percent, in fiscal 2020 as compared to fiscal 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 8.9 percent in fiscal 2020 from 9.7 percent in fiscal 2019.

Retail operating expenses increased \$51.6 million, or 25.6 percent, in fiscal 2020 as compared to fiscal 2019. This increase was primarily driven by compensation and operating costs to support the increase in retail revenues along with expenses related to the

eleven new California stores. Retail operating expenses as a percentage of retail revenue decreased to 33.7 percent in fiscal 2020 from 39.8 percent in fiscal 2019.

Retail pre-opening expenses decreased \$7.4 million in fiscal 2020 due to expenses related to the eleven new California stores which opened in 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 \$41.2 million from the prior year end due to higher sales volume and an increase in vendor rebates.

Inventories increased \$202.2 million from the prior year end due to the intentional build-up of cleaning supplies, paint, power tools and outdoor power equipment to support increased demand.

During 2020, the Company's operating activities generated \$461.2 million in net cash. Approximately \$99.0 million of this net cash was used to invest in the Company's systems and infrastructure. In addition, approximately \$21.5 million was used for ARH store acquisitions and \$66.2 million to pay the cash portion of 2019 patronage to Retailers. The balance was primarily used to reduce lines of credit by \$224.9 million and to make payments of \$10.7 million on long-term debt. At the end of fiscal 2020, long term debt consisted of \$20.1 million outstanding on the Westlake credit facility, \$7.9 million outstanding on the revolving credit facility and \$28.5 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 65 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 (in millions)

	Three Months Ended		Twelve Months Ended	
	January 2, 2021 (14 Weeks)	December 28, 2019 (13 Weeks)	January 2, 2021 (53 Weeks)	December 28, 2019 (52 Weeks)
Revenues:				
Wholesale revenues	\$ 1,849.1	\$ 1,332.9	\$ 7,011.2	\$ 5,564.5
Retail revenues	203.6	142.2	751.5	506.7
Total revenues	<u>2,052.7</u>	<u>1,475.1</u>	<u>7,762.7</u>	<u>6,071.2</u>
Cost of revenues:				
Wholesale cost of revenues	1,645.6	1,182.2	6,132.1	4,898.6
Retail cost of revenues	115.7	78.6	417.1	280.0
Total cost of revenues	<u>1,761.3</u>	<u>1,260.8</u>	<u>6,549.2</u>	<u>5,178.6</u>
Gross profit:				
Wholesale gross profit	203.5	150.7	879.1	665.9
Retail gross profit	87.9	63.6	334.4	226.7
Total gross profit	<u>291.4</u>	<u>214.3</u>	<u>1,213.5</u>	<u>892.6</u>

Wholesale operating expenses:				
Distribution operations expenses	58.4	43.0	220.9	178.2
Selling, general and administrative expenses	54.4	49.1	210.8	195.1
Retailer success and development expenses	57.4	48.5	194.3	166.8
Retail operating expenses	72.8	61.5	253.1	201.5
Retail pre-opening expenses	0.5	2.5	1.3	8.7
Goodwill impairment charge	-	8.5	-	8.5
Total operating expenses	<u>243.5</u>	<u>213.1</u>	<u>880.4</u>	<u>758.8</u>
Operating income	<u>47.9</u>	<u>1.2</u>	<u>333.1</u>	<u>133.8</u>
Interest expense	(4.0)	(5.0)	(19.1)	(22.7)
Interest income	1.1	1.2	3.6	6.9
Other income, net	0.1	1.4	4.3	10.8
Income tax (expense) benefit	(2.0)	4.7	(5.0)	11.6
Net income	<u>43.1</u>	<u>3.5</u>	<u>316.9</u>	<u>140.4</u>
Less Net loss attributable to noncontrolling interests	(0.2)	(0.4)	(0.7)	-
Net income attributable to Ace Hardware Corporation	<u>\$ 43.3</u>	<u>\$ 3.9</u>	<u>\$ 317.6</u>	<u>\$ 140.4</u>
Patronage distributions accrued	<u>\$ 29.1</u>	<u>\$ 24.1</u>	<u>\$ 292.9</u>	<u>\$ 182.2</u>
Patronage distributions accrued for third party retailers	<u>\$ 20.4</u>	<u>\$ 20.4</u>	<u>\$ 275.4</u>	<u>\$ 172.5</u>

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

	January 2, 2021	December 28, 2019
Assets		
Cash and cash equivalents	\$ 28.9	\$ 18.2
Marketable securities	63.2	59.5
Receivables, net of allowance for doubtful accounts of \$4.8 and \$5.4, respectively	527.7	486.5
Inventories	1,133.0	930.8
Prepaid expenses and other current assets	55.1	45.5
Total current assets	<u>1,807.9</u>	<u>1,540.5</u>
Property and equipment, net	423.3	381.7
Operating lease right-of-use assets, net	455.5	-
Finance lease right-of-use assets, net	25.0	-
Goodwill and other intangible assets	100.3	90.5
Other assets	90.9	115.3
Total assets	<u>\$ 2,902.9</u>	<u>\$ 2,128.0</u>
Liabilities and Equity		
Current maturities of long-term debt	\$ 31.7	\$ 67.0
Accounts payable	1,109.4	791.8
Patronage distributions payable in cash	112.9	70.4
Patronage refund certificates payable	26.6	17.4
Current operating lease liabilities	64.5	-
Current finance lease liabilities	3.7	-
Accrued expenses	237.5	205.9
Total current liabilities	<u>1,586.3</u>	<u>1,152.5</u>
Long-term debt	24.8	209.9
Patronage refund certificates payable	95.3	107.3
Long-term operating lease liabilities	412.2	-
Long-term finance lease liabilities	20.8	-
Other long-term liabilities	73.6	92.5
Total liabilities	<u>2,213.0</u>	<u>1,562.2</u>
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,689 and 2,691 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized 5,015,306 and 4,827,851 issued and outstanding, respectively	501.5	482.7
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 1,191,050 and 546,146 shares issuable, respectively	119.1	54.6
Contributed capital	19.0	18.8

Retained earnings (accumulated deficit)	32.3	(8.7)
Accumulated other comprehensive income	3.0	0.9
Equity attributable to Ace member retailers	677.6	551.0
Equity attributable to noncontrolling interests	12.3	14.8
Total equity	689.9	565.8
Total liabilities and equity	\$ 2,902.9	\$ 2,128.0

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

	Twelve Months Ended	
	January 2, 2021 (53 Weeks)	December 28, 2019 (52 Weeks)
Operating Activities		
Net income	\$ 316.9	\$ 140.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64.9	60.1
Goodwill impairment charge	-	8.5
Amortization of deferred financing costs	0.4	0.4
Loss (gain) on disposal of assets, net	0.9	(5.5)
Credit for doubtful accounts	(0.2)	(0.9)
Other, net	2.5	0.8
Changes in operating assets and liabilities, exclusive of effect of acquisitions:		
Receivables	(73.2)	(69.7)
Inventories	(194.6)	30.0
Other current assets	(9.6)	4.2
Other long-term assets	9.5	(9.8)
Accounts payable and accrued expenses	337.3	56.2
Other long-term liabilities	3.9	12.9
Deferred taxes	2.5	(13.6)
Net cash provided by operating activities	461.2	214.0
Investing Activities		
Purchases of marketable securities	(22.2)	(46.5)
Proceeds from sale of marketable securities	20.8	41.4
Purchases of property and equipment	(99.0)	(76.5)
Cash paid for acquired businesses, net of cash acquired	(21.5)	(22.5)
Proceeds from sale of assets	0.2	22.0
Other, net	(7.1)	(9.8)
Net cash used in investing activities	(128.8)	(91.9)
Financing Activities		
Net payments under revolving lines of credit	(224.9)	(58.0)
Principal payments on long-term debt	(10.7)	(10.9)
Payments of debt issuance costs	-	(1.3)
Payments of cash portion of patronage distribution	(66.2)	(51.3)
Payments of patronage refund certificates	(9.7)	(5.3)
Repurchase of stock	(4.8)	(3.8)
Purchase of noncontrolling interests	(3.0)	(0.2)
Other, net	(2.4)	1.3
Net cash used in financing activities	(321.7)	(129.5)
Increase (decrease) in cash and cash equivalents	10.7	(7.4)
Cash and cash equivalents at beginning of period	18.2	25.6
Cash and cash equivalents at end of period	\$ 28.9	\$ 18.2
Supplemental disclosure of cash flow information:		
Interest paid	\$ 16.6	\$ 20.2
Income taxes paid	\$ 12.4	\$ 1.4

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