

Ace Hardware Reports Third Quarter 2021 Results

- Record third quarter revenues of \$2.0 billion, an increase of 1.4 percent on top of last year's increase of 30.7 percent
- Record third quarter net income of \$99.3 million, an increase of 0.6 percent on top of last year's increase of 63.1 percent
- Accrued patronage dividend to shareholders of \$296.3 million, an increase of 12.3 percent from the first nine months of 2020
- Improved from 5th to 4th largest franchise system in Franchise Times Top 400

OAK BROOK, Ill., Nov. 17, 2021 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record third quarter 2021 revenues of \$2.0 billion, an increase of \$28.1 million, or 1.4 percent, from the third quarter of 2020. Net income was \$99.3 million for the third quarter of 2021, an increase of \$0.6 million from the third quarter of 2020.

"In light of last year's extraordinary growth, and despite significant headwinds from global supply chain disruption, I'm pleased to see increases in both the top and bottom line for the quarter," said John Venhuizen, President & CEO. "We added to 2020's unprecedented surge in business, and our two-year stacked growth for the third quarter is up 32 percent in revenue and 64 percent in net income from 2019. The Ace team continues to serve and support in a difficult environment."

U.S. retail same-store-sales reported by the approximately 3,400 Ace retailers who share daily retail sales data rose 0.3 percent during the third quarter of 2021 and was the result of a 7.5 percent increase in average ticket, offset by a 6.7 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended October 2, 2021 totaled \$2.0 billion. Total wholesale revenues were \$1.8 billion, an increase of \$25.3 million, or 1.4 percent, as compared to the prior year third quarter. Increases were seen across several departments with outdoor power equipment, basic electrical and power tools showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2020 through September 2021 contributed \$53.9 million of incremental revenues during the third quarter of 2021, while wholesale merchandise revenues decreased \$7.4 million during the third quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores decreased \$44.4 million for the quarter. This follows an increase in wholesale merchandise revenues to comparable domestic stores of \$365.1 million in the prior year third quarter. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary experienced a \$20.5 million increase in wholesale revenue versus the third quarter of 2020. This increase was primarily the result of a \$17.5 million decline in sales to AIH's two largest customers in the third quarter of 2020, both of which experienced extensive store closures in the prior year due to the pandemic. Ace Wholesale Holdings LLC ("AWH") reported a \$4.6 million decrease in wholesale revenues from the third quarter of 2020 which was primarily due to lower sales in the hardware and pro channels.

Total retail revenues for the quarter were \$189.1 million, an increase of \$2.8 million, or 1.5 percent, as compared to the prior year third quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$185.0 million in the third quarter of 2021, an increase of \$5.2 million, or 2.9 percent, from the third quarter of 2020. This increase was the result of new stores added by the Westlake Ace Hardware ("Westlake") and Great Lakes Ace Hardware, Inc. ("GLA") chains since the third quarter of 2020. Westlake and GLA together operated 209 stores at the end of the third quarter of 2021 compared to 194 stores at the end of the third quarter of 2020. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$4.1 million in the third quarter of 2021. This was a decrease of \$2.4 million, or 36.9 percent, from the third quarter of 2020, reversing the 22.6 percent pandemic related surge in the prior year.

Ace added 48 new domestic stores in the third quarter of 2021 and cancelled 18 stores. The Company's total domestic store count was 4,759 at the end of the third quarter of 2021 which was an increase of 174 stores from the third quarter of 2020. On a worldwide basis, Ace added 49 stores in the third quarter of 2021 and cancelled 18, bringing the worldwide store count to 5,581 at the end of the third quarter of 2021.

Gross Profit

Wholesale gross profit for the three months ended October 2, 2021 was \$238.1 million, a decrease of \$4.1 million from the third quarter of 2020. The wholesale gross margin percentage was 12.9 percent of wholesale revenues in the third quarter of 2021, down from 13.4 percent in the third quarter of 2020. The decrease in wholesale gross margin percentage was due to higher LIFO expense which was driven by increased vendor prices, and higher receiving costs in our Retail Support Centers.

Retail gross profit for the three months ended October 2, 2021 was \$88.7 million, an increase of \$2.0 million from the third quarter of 2020. This increase was the result of the new stores opened in 2020 and 2021. The retail gross margin percentage was 46.9 percent of retail revenues in the third quarter of 2021, an increase from 46.5 percent in the third quarter of 2020. The increase in retail gross margin percentage was primarily due to vendor funds earned related to new store openings. 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 \$0.2 million, or 0.1 percent, from the third quarter of 2020, as higher distribution operations expenses were offset by lower selling, general and administrative and retailer success and development expenses. Wholesale operating expenses as a percent of wholesale revenues decreased slightly to 8.6 percent in the third quarter of 2021 from 8.7 percent in the third quarter of 2020.

Retail operating expenses increased \$3.2 million, or 5.2 percent, from the third quarter of 2020. This increase was primarily driven by expenses related to the new stores opened in 2020 and 2021. Retail operating expenses as a percent of retail revenue increased to 34.4 percent in the third quarter of 2021 from 33.2 percent in the third quarter of 2020.

Balance Sheet and Cash Flow

Inventories increased \$165.0 million from the third quarter of 2020 due to the intentional build-up of inventory to support increased demand and to act as a hedge against supplier shortages.

The Company generated \$180.6 million of cash flow from operating activities during the first nine months of 2021. This cash was used to pay record cash patronage of \$113.8 million and to invest \$75.4 million into the Company's infrastructure including new warehouse space, equipment and computer systems.

Long-term debt, including current maturities, increased \$105.1 million versus the third quarter of 2020. At the end of the third quarter of 2021, long term debt consisted of \$101.8 million outstanding on the revolving credit facility, \$5.8 million outstanding on the Westlake credit facility, and \$30.4 million owed to former retailers.

Franchise Times Ranking

Annually, the Franchise Times publishes a listing of the largest U.S.-based franchise systems based on systemwide worldwide revenues. Because of the significant revenue growth in 2020, Ace moved from the number 5 position to the number 4 position, slightly beating Burger King. Only McDonald's, 7-Eleven and KFC are larger than Ace.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with over 5,500 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 2021, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, fourteen out of the last fifteen years.

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

Three Months Ended		Nine Months Ended	
October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020

	(13 Weeks)	(13 Weeks)	(39 Weeks)	(39 Weeks)
Revenues:				
Wholesale revenues	\$ 1,839.5	\$ 1,814.2	\$ 5,920.2	\$ 5,162.1
Retail revenues	189.1	186.3	607.1	547.9
Total revenues	2,028.6	2,000.5	6,527.3	5,710.0
Cost of revenues:				
Wholesale cost of revenues	1,601.4	1,572.0	5,175.3	4,486.5
Retail cost of revenues	100.4	99.6	328.6	301.4
Total cost of revenues	1,701.8	1,671.6	5,503.9	4,787.9
Gross profit:				
Wholesale gross profit	238.1	242.2	744.9	675.6
Retail gross profit	88.7	86.7	278.5	246.5
Total gross profit	326.8	328.9	1,023.4	922.1
Wholesale operating expenses:				
Distribution operations expenses	60.4	58.3	180.3	162.5
Selling, general and administrative expenses	53.2	54.7	161.2	156.4
Retailer success and development expenses	44.4	45.2	147.0	136.9
Retail operating expenses	65.0	61.8	195.7	180.3
Retail pre-opening expenses	0.8	0.4	2.5	0.8
Total operating expenses	223.8	220.4	686.7	636.9
Operating income	103.0	108.5	336.7	285.2
Interest expense	(3.4)	(3.9)	(10.8)	(15.1)
Interest income	2.4	0.3	5.1	2.5
Other income, net	1.1	0.2	2.7	4.2
Income tax expense	(3.8)	(6.4)	(13.0)	(3.0)
Net income	99.3	98.7	320.7	273.8
Less: net loss attributable to noncontrolling interests	-	(0.2)	(0.1)	(0.5)
Net income attributable to Ace Hardware Corporation	\$ 99.3	\$ 98.9	\$ 320.8	\$ 274.3
Patronage distributions accrued	\$ 91.6	\$ 94.8	\$ 296.3	\$ 263.8
Patronage distributions accrued for third party retailers	\$ 88.6	\$ 90.9	\$ 287.3	\$ 255.0

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

	October 2, 2021	January 2, 2021	September 26, 2020
Assets	(Unaudited)	(Audited)	(Unaudited)
Cash and cash equivalents	\$ 36.3	\$ 28.9	\$ 53.3
Marketable securities	58.2	63.2	62.4
Receivables, net of allowance for doubtful accounts of \$4.0, \$4.8 and \$4.3, respectively	598.1	527.7	587.9
Inventories	1,263.4	1,133.0	1,098.4
Prepaid expenses and other current assets	64.6	55.1	54.1
Total current assets	2,020.6	1,807.9	1,856.1
Property and equipment, net	447.0	423.3	408.9
Operating lease right-of-use assets, net	506.1	455.5	459.9
Finance lease right-of-use assets, net	60.1	25.0	23.6
Goodwill and other intangible assets, net	99.9	100.3	94.8
Other assets	109.3	90.9	84.6
Total assets	\$ 3,243.0	\$ 2,902.9	\$ 2,927.9
Liabilities and Equity			
Current maturities of long-term debt	\$ 18.0	\$ 31.7	\$ 17.6
Accounts payable	1,155.4	1,109.4	1,208.0

Patronage distributions payable in cash	118.5	112.9	104.7
Patronage refund certificates payable	26.5	26.6	17.4
Current operating lease liabilities	64.4	64.5	70.4
Current finance lease liabilities	9.5	3.7	3.8
Accrued expenses	201.9	237.5	196.4
Total current liabilities	1,594.2	1,586.3	1,618.3
Long-term debt	120.0	24.8	15.3
Patronage refund certificates payable	110.3	95.3	153.2
Long-term operating lease liabilities	466.5	412.2	409.8
Long-term finance lease liabilities	49.9	20.8	19.8
Other long-term liabilities	84.9	73.6	71.3
Total liabilities	2,425.8	2,213.0	2,287.7
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,695, 2,689 and 2,688 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 5,935,288, 5,015,306 and 5,119,074 issued and outstanding, respectively	593.5	501.5	511.9
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 1,226,716, 1,191,050 and 818,540 shares issuable, respectively	122.7	119.1	81.8
Contributed capital	19.0	19.0	18.8
Retained earnings	65.7	32.3	9.3
Accumulated other comprehensive income	1.3	3.0	3.1
Equity attributable to Ace member retailers	804.9	677.6	627.6
Equity attributable to noncontrolling interests	12.3	12.3	12.6
Total equity	817.2	689.9	640.2
Total liabilities and equity	\$ 3,243.0	\$ 2,902.9	\$ 2,927.9

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

	Nine Months Ended	
	October 2, 2021 (39 Weeks)	September 26, 2020 (39 Weeks)
Operating Activities		
Net income	\$ 320.7	\$ 273.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52.6	48.2
Amortization of deferred financing costs	0.4	0.3
(Gain) loss on the disposal of assets, net	(0.2)	0.9
Credit for doubtful accounts	(1.0)	(1.8)
Other, net	8.1	(0.5)
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(101.4)	(124.1)
Inventories	(128.8)	(163.6)
Other current assets	(9.5)	(8.5)
Other long-term assets	7.9	8.6
Accounts payable and accrued expenses	27.5	414.2
Other long-term liabilities	11.2	1.1
Deferred taxes	(6.9)	9.8
Net cash provided by operating activities	180.6	458.4
Investing Activities		
Purchases of investment securities	(36.6)	(18.3)
Proceeds from sale of investment securities	23.8	17.9
Purchases of property and equipment	(75.4)	(71.1)

Cash paid for acquired businesses, net of cash received	(2.6)	(11.8)
Increase in notes receivable, net	(10.4)	(3.5)
Other, net	(1.5)	0.2
Net cash used in investing activities	<u>(102.7)</u>	<u>(86.6)</u>
Financing Activities		
Net borrowings (payments) under revolving lines of credit	79.6	(246.3)
Principal payments on long-term debt	(9.3)	(7.5)
Payments of cash portion of patronage distribution	(113.8)	(66.2)
Payments of patronage refund certificates	(17.1)	(9.6)
Repurchase of stock	(4.5)	(2.8)
Purchase of noncontrolling interests	(0.4)	(3.0)
Other, net	(5.0)	(1.3)
Net cash used in financing activities	<u>(70.5)</u>	<u>(336.7)</u>
Increase in cash and cash equivalents	7.4	35.1
Cash and cash equivalents at beginning of period	28.9	18.2
Cash and cash equivalents at end of period	<u>\$ 36.3</u>	<u>53.3</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 9.9	\$ 14.4
Income taxes paid	<u>\$ 15.5</u>	<u>\$ 3.6</u>

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