

ACE HARDWARE REPORTS FOURTH QUARTER AND FULL YEAR 2021 RESULTS

- Record full year revenues of \$8.6 billion, an increase of 10.7 percent on top of last year's increase of 27.9 percent
- Record fourth quarter revenues of \$2.1 billion, an increase of 0.7 percent on top of last year's increase of 39.2 percent
- U.S. same-store-sales up 6.9 percent during the quarter and 7.5 percent for the year
- Record full year net income of \$330.0 million, an increase of 4.1 percent on top of last year's increase of 125.7 percent
- Record patronage dividend to shareholders of \$314.4 million, an increase of 7.3 percent on top of last year's increase of 60.8 percent

OAK BROOK, Ill., Feb. 16, 2022 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record fourth quarter 2021 revenues of \$2.1 billion, an increase of \$14.2 million, or 0.7 percent, from the fourth quarter of 2020.

Fiscal 2021 consisted of 52 weeks compared to 53 weeks in fiscal 2020. Excluding the 53rd week in fiscal 2020, revenues in the fourth quarter increased \$114.1 million, or 5.8 percent, from the fourth quarter of 2020. Net income was \$9.3 million for the fourth quarter of 2021, a decrease of \$33.8 million from the fourth quarter of 2020.

Full year revenues were a record \$8.6 billion, an increase of \$831.5 million, or 10.7 percent, from 2020 revenue (an increase of \$931.4 million or 12.2 percent excluding the 53rd week in fiscal 2020). Net income for fiscal 2021 was \$330.0 million, an increase of \$13.1 million, from fiscal 2020.

"In comparison to 2019, total revenue increased 38.6% and net income is up 129.8%," said John Venhuizen, President and CEO. "This transformational surge in business is driven by two-year stacked comp growth of 34.4%, digital growth of 279%, and the opening of 407 new stores globally over two years."

"My sincere thanks and gratitude to our helpful heroes to whom all the credit goes for serving so well in a very difficult environment," said Venhuizen."

The 6.9 percent increase in retail same-store-sales during the fourth quarter of 2021 reported by the approximately 3,400 Ace retailers from whom we secure daily retail sales data was the result of a 10.5 percent increase in average ticket, partially offset by a 3.3 percent decrease in same-store transactions. The 7.5 percent increase in retail same-store-sales for the full year was the result of a 9.4 percent increase in average ticket, partially offset by a 1.7 percent decrease in same-store transactions.

Revenues

Fourth Quarter

Consolidated revenues for the quarter ended January 1, 2022 totaled \$2.1 billion. Total wholesale revenues were \$1.9 billion, an increase of \$12.9 million, or 0.7 percent, as compared to the prior year fourth quarter. Increases were seen across several departments with outdoor power equipment, holiday and plumbing showing the largest gains. Wholesale merchandise revenues to new domestic Ace stores activated from January 2020 through December 2021 contributed \$54.9 million of incremental revenues during the fourth quarter of 2021, while wholesale merchandise revenues decreased \$9.2 million during the fourth quarter due to domestic Ace stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic Ace stores decreased \$9.4 million for the quarter. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary experienced a \$1.6 million decrease in wholesale revenue versus the fourth quarter of 2020 and Ace Wholesale Holdings LLC ("AWH") reported a \$9.9 million decrease in wholesale revenues from the fourth quarter of 2020.

Total retail revenues for the quarter were \$204.9 million, an increase of \$1.3 million, or 0.6 percent, as compared to the prior year fourth quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$185.9 million in the fourth quarter of 2021, an increase of \$8.7 million, or 4.9 percent, from the fourth quarter of 2020. This increase was largely driven by new stores added by the Westlake Ace Hardware ("Westlake") and Great Lakes Ace Hardware, Inc. ("GLA") chains since the fourth quarter of 2020. Westlake and GLA together operated 210 stores at the end of the fourth quarter of 2021 compared to 202 stores at the end of the fourth quarter of 2020. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$19.0 million in the fourth quarter of 2021. This was a decrease of \$7.4 million, or 28.0 percent, from the fourth quarter of 2020, driven by a decrease in new customer acquisitions and a reversal of the 23.9 percent pandemic related increase in the prior year.

Fiscal Year

Consolidated revenues for fiscal 2021 totaled \$8.6 billion, an increase of \$831.5 million, or 10.7 percent, as compared to the

prior year. Total wholesale revenues were \$7.8 billion, an increase of \$771.0 million, or 11.0 percent, as compared to the prior year. Increases were seen across almost all departments with outdoor power equipment, electrical, grilling and plumbing showing the largest gains.

Wholesale merchandise revenues from new domestic Ace stores were \$213.9 million in fiscal 2021. This increase was partially offset by a decrease in wholesale merchandise revenues of \$37.7 million due to domestic Ace store cancellations. Wholesale merchandise revenues to comparable domestic Ace stores increased \$529.8 million in fiscal 2021 compared to fiscal 2020. AIH wholesale revenues increased \$55.1 million compared to the prior year. This increase was primarily the result of a resurgence in sales to AIH's two largest customers after pandemic induced declines in 2020. AWH wholesale revenues increased \$19.3 million compared to the prior year, primarily due to higher sales to e-commerce customers and traditional hardware stores.

Total retail revenues were \$812.0 million, an increase of \$60.5 million, or 8.1 percent, as compared to the prior year. Retail revenues from ARH were \$776.7 million during fiscal 2021, an increase of \$72.3 million or 10.3 percent. This increase was the result of new stores added by the Westlake and GLA retail chains in 2020 and 2021, coupled with a 3.3 percent increase in Westlake same-store-sales and a 4.8 percent increase in GLA same-store-sales. Retail revenues from AEH were \$35.3 million during fiscal 2021. This was a decrease of \$11.8 million, or 25.1 percent, from fiscal 2020, driven by a decrease in new customer acquisitions and a reversal of the 15.7 percent pandemic related increase in the prior year.

Ace added 182 new domestic stores in fiscal 2021 and cancelled 78 stores. This brought the Company's total domestic store count to 4,751 at the end of fiscal 2021, an increase of 104 stores from the end of fiscal 2020. On a worldwide basis, Ace added 206 stores in fiscal 2021 and cancelled 86, bringing the worldwide store count to 5,583 at the end of fiscal 2021.

Gross Profit

Fourth Quarter

Wholesale gross profit for the three months ended January 1, 2022 was \$187.7 million, a decrease of \$15.8 million from the fourth quarter of 2020. The wholesale gross margin percentage was 10.1 percent of wholesale revenues in the fourth quarter of 2021, down from 11.0 percent in the fourth quarter of 2020. The decrease in the wholesale gross margin percentage was primarily due to a decrease in vendor funds earned and an increase in LIFO expense which was driven by increased vendor prices.

Retail gross profit for the three months ended January 1, 2022 was \$83.3 million, a decrease of \$4.6 million from the fourth quarter of 2020. The retail gross margin percentage was 40.7 percent of retail revenues in the fourth quarter of 2021, a decrease from 43.2 percent in the fourth quarter of 2020. The decline in retail gross margin percentage primarily resulted from product mix and the liquidation of personal protective equipment. 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 2021 was \$932.6 million, an increase of \$53.5 million from fiscal 2020. The wholesale gross margin percentage was 12.0 percent of wholesale revenues in fiscal 2021, a decrease from the fiscal 2020 gross margin percentage of 12.5 percent. The decrease in wholesale gross margin percentage was primarily due to higher LIFO expense driven by increased vendor prices and higher receiving costs in our retail support centers.

Retail gross profit for fiscal 2021 was \$361.8 million, an increase of \$27.4 million from fiscal 2020. The retail gross margin percentage was 44.6 percent of retail revenues in fiscal 2021, a slight increase from 44.5 percent in fiscal 2020. 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 \$24.1 million, or 14.2 percent, from the fourth quarter of 2020. The increase is due to increased healthcare costs and an increase in advertising expenses. As a percentage of wholesale revenues, wholesale operating expenses increased to 10.4 percent of wholesale revenues in the fourth quarter of 2021 from 9.2 percent of wholesale revenues in the fourth quarter of 2020.

Retail operating expenses increased \$1.4 million, or 1.9 percent, from the fourth quarter of 2020. This increase was driven by expenses related to the new stores opened since the fourth quarter of 2020. Retail operating expenses as a percentage of retail revenue increased to 36.2 in the fourth quarter of 2021 from 35.8 percent in the fourth quarter of 2020.

During the fourth quarter, the Company sold its retail support center located in Tampa, Florida and recorded a gain of \$10.2 million which is classified as Other income, net.

Fiscal Year

Wholesale operating expenses increased \$56.8 million, or 9.1 percent, in fiscal 2021 as compared to fiscal 2020. The increase is due to higher distribution costs resulting from higher wholesale revenues, an increase in advertising expenses, increased

healthcare costs, and an increase in lease expense driven by additional warehouse space to support increased demand. As a percentage of wholesale revenues, wholesale operating expenses decreased slightly to 8.8 percent in fiscal 2021 from 8.9 percent in fiscal 2020.

Retail operating expenses increased \$16.8 million, or 6.6 percent, in fiscal 2021 as compared to fiscal 2020. This increase was primarily driven by expenses related to the new stores opened in 2020 and 2021. Retail operating expenses as a percentage of retail revenue decreased to 33.2 percent in fiscal 2021 from 33.7 percent in fiscal 2020.

Retail pre-opening expenses increased \$1.6 million in fiscal 2021 due to expenses related to the new stores Westlake opened in 2021.

Income tax expense increased primarily as a result of changes to the tax law in 2020 that allowed the Company to carryback net operating losses which resulted in a \$6.3 million tax benefit recorded in 2020.

Balance Sheet and Cash Flow

Inventories increased \$91.3 million from the prior year end due to the intentional build-up of grilling, electrical accessories and outdoor power equipment to support increased demand.

Long-term debt, including current maturities, decreased \$20.8 million versus the fourth quarter of 2020. At the end of the fourth quarter of 2021, long term debt consisted of \$4.9 million outstanding on the Westlake credit facility and \$30.8 million owed to former retailers.

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; Santa Catarina, Mexico; 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 (In millions)

	Three Months Ended		Twelve Months Ended	
	January 1, 2022 (13 Weeks)	January 2, 2021 (14 Weeks)	January 1, 2022 (52 Weeks)	January 2, 2021 (53 Weeks)
Revenues:				
Wholesale revenues	\$ 1,862.0	\$ 1,849.1	\$ 7,782.2	\$ 7,011.2
Retail revenues	204.9	203.6	812.0	751.5
Total revenues	2,066.9	2,052.7	8,594.2	7,762.7
Cost of revenues:				
Wholesale cost of revenues	1,674.3	1,645.6	6,849.6	6,132.1
Retail cost of revenues	121.6	115.7	450.2	417.1
Total cost of revenues	1,795.9	1,761.3	7,299.8	6,549.2
Gross profit:				
Wholesale gross profit	187.7	203.5	932.6	879.1

Retail gross profit	83.3	87.9	361.8	334.4
Total gross profit	<u>271.0</u>	<u>291.4</u>	<u>1,294.4</u>	<u>1,213.5</u>
Wholesale operating expenses:				
Distribution operations expenses	67.0	58.4	247.3	220.9
Selling, general and administrative expenses	61.3	54.4	222.5	210.8
Retailer success and development expenses	66.0	57.4	213.0	194.3
Retail operating expenses	74.2	72.8	269.9	253.1
Retail pre-opening expenses	0.4	0.5	2.9	1.3
Total operating expenses	<u>268.9</u>	<u>243.5</u>	<u>955.6</u>	<u>880.4</u>
Operating income	<u>2.1</u>	<u>47.9</u>	<u>338.8</u>	<u>333.1</u>
Interest expense	(3.6)	(4.0)	(14.4)	(19.1)
Interest income	1.7	1.1	6.8	3.6
Other income, net	11.1	0.1	13.8	4.3
Income tax expense	<u>(2.0)</u>	<u>(2.0)</u>	<u>(15.0)</u>	<u>(5.0)</u>
Net income	9.3	43.1	330.0	316.9
Less Net loss attributable to noncontrolling interests	<u>(0.6)</u>	<u>(0.2)</u>	<u>(0.7)</u>	<u>(0.7)</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 9.9</u>	<u>\$ 43.3</u>	<u>\$ 330.7</u>	<u>\$ 317.6</u>
Patronage distributions accrued	<u>\$ 18.1</u>	<u>\$ 29.1</u>	<u>\$ 314.4</u>	<u>\$ 292.9</u>
Patronage distributions accrued for third party Retailers	<u>\$ 6.8</u>	<u>\$ 20.4</u>	<u>\$ 294.1</u>	<u>\$ 275.4</u>

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

	January 1, 2022	January 2, 2021
Assets		
Cash and cash equivalents	\$ 37.6	\$ 28.9
Marketable securities	58.0	63.2
Receivables, net of allowance for doubtful accounts of \$4.3 and \$4.8, respectively	533.6	527.7
Inventories	1,224.3	1,133.0
Prepaid expenses and other current assets	63.9	55.1
Total current assets	<u>1,917.4</u>	<u>1,807.9</u>
Property and equipment, net	453.4	423.3
Operating lease right-of-use assets, net	497.3	455.5
Finance lease right-of-use assets, net	68.1	25.0
Goodwill and other intangible assets	99.5	100.3
Other assets	105.7	90.9
		\$
Total assets	<u>\$ 3,141.4</u>	<u>2,902.9</u>
Liabilities and Equity		
		\$
Current maturities of long-term debt	\$ 17.1	31.7
Accounts payable	1,095.2	1,109.4
Patronage distributions payable in cash	120.6	112.9
Patronage refund certificates payable	27.2	26.6
Current operating lease liabilities	64.3	64.5
Current finance lease liabilities	10.9	3.7
Accrued expenses	282.9	237.5
Total current liabilities	<u>1,618.2</u>	<u>1,586.3</u>
Long-term debt	18.6	24.8

Patronage refund certificates payable	92.8	95.3
Long-term operating lease liabilities	456.3	412.2
Long-term finance lease liabilities	56.4	20.8
Other long-term liabilities	91.0	73.6
Total liabilities	<u>2,333.3</u>	<u>2,213.0</u>
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,681 and 2,689 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized 5,838,265 and 5,015,306 issued and outstanding, respectively	583.8	501.5
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 1,209,075 and 1,191,050 shares issuable, respectively	120.9	119.1
	19.1	19.0
Contributed capital		
Retained earnings	68.9	32.3
Accumulated other comprehensive income	1.0	3.0
Equity attributable to Ace member retailers	<u>796.4</u>	<u>677.6</u>
Equity attributable to noncontrolling interests	11.7	12.3
Total equity	<u>808.1</u>	<u>689.9</u>
		\$
Total liabilities and equity	<u>\$ 3,141.4</u>	<u>2,902.9</u>

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Twelve Months Ended	
	January 1, 2022 (52 Weeks)	January 2, 2021 (53 Weeks)
Operating Activities		
Net income	\$ 330.0	\$ 316.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71.3	64.9
Amortization of deferred financing costs	0.5	0.4
(Gain) loss on disposal of assets, net	(10.3)	0.9
Credit for doubtful accounts	(0.4)	(0.2)
Other, net	8.8	2.5
Changes in operating assets and liabilities, exclusive of effect of acquisitions:		
Receivables	(31.6)	(73.2)
Inventories	(89.7)	(194.6)
Other current assets	(8.7)	(9.6)
Other long-term assets	7.3	9.5
	28.1	337.3
Accounts payable and accrued expenses		
Other long-term liabilities	17.4	3.9
Deferred taxes	(4.8)	2.5
Net cash provided by operating activities	<u>317.9</u>	<u>461.2</u>
Investing Activities		
Purchases of marketable securities	(40.4)	(22.2)
Proceeds from sale of marketable securities	27.1	20.8
Purchases of property and equipment	(107.7)	(99.0)
Cash paid for acquired businesses, net of cash acquired	(2.8)	(21.5)
Proceeds from sale of assets	12.8	0.2
Other, net	(16.2)	(7.1)
Net cash used in investing activities	<u>(127.2)</u>	<u>(128.8)</u>
Financing Activities		
Net payments under revolving lines of credit	(23.1)	(224.9)
Principal payments on long-term debt	(13.4)	(10.7)
Payments of debt issuance costs	(0.3)	-
Payments of cash portion of patronage distribution	(113.8)	(66.2)

Payments of patronage refund certificates	(17.1)	(9.7)
Repurchase of stock	(5.8)	(4.8)
Purchase of noncontrolling interests	(0.4)	(3.0)
Other, net	(8.1)	(2.4)
Net cash used in financing activities	<u>(182.0)</u>	<u>(321.7)</u>
Increase in cash and cash equivalents	8.7	10.7
Cash and cash equivalents at beginning of period	28.9	18.2
	\$	
Cash and cash equivalents at end of period	<u>37.6</u>	<u>\$ 28.9</u>
Supplemental disclosure of cash flow information:		
	\$	
Interest paid	<u>11.5</u>	<u>\$ 16.6</u>
	\$	
Income taxes paid	<u>30.4</u>	<u>\$ 12.4</u>

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