

ACE HARDWARE REPORTS RECORD SECOND QUARTER 2022 RESULTS

- Record second quarter revenues of \$2.5 billion, an increase of 2.7 percent on top of last year's increase of 8.2 percent
- Second quarter net income of \$124.8 million, an increase of 7.6 percent from last year
- Accrued patronage dividend to shareholders of \$247.3 million, an increase of 20.8 percent from the first six months of 2021
- Ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, marking fifteen out of the last sixteen years

OAK BROOK, Ill. , Aug. 24, 2022 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record second quarter 2022 revenues of \$2.5 billion, an increase of \$66.1 million, or 2.7 percent, from the second quarter of 2021. Net income was \$124.8 million for the second quarter of 2022, an increase of \$8.8 million from the second quarter of 2021. Included in the results for the second quarter are \$10.8 million in non-recurring charges related to the closure of The Grommet.

"Nominal growth continues to be solid," said John Venhuizen, President & CEO. "The primary fuel has come from last year's 182 new domestic stores, this year's 88, and the aberrant and stubborn impact of inflation."

The approximately 3,600 Ace retailers who share daily retail sales data reported a 0.6 percent increase in U.S. retail same-store-sales during the second quarter of 2022. Estimated retail price inflation of 11.4 percent helped drive a 8.0 percent increase in average ticket. Same-store transactions were down 6.9 percent.

Revenues

Consolidated revenues for the quarter ended July 2, 2022 totaled \$2.5 billion. Total wholesale revenues were \$2.3 billion, an increase of \$63.4 million, or 2.9 percent, as compared to the prior year second quarter. Increases were seen across a majority of departments with outdoor power equipment, plumbing, paint and outdoor living showing the largest gains. New stores are defined as stores that were activated from January 2021 through June 2022. The Company had an increase in wholesale merchandise revenues from new domestic stores of \$68.6 million during the second quarter of 2022. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$14.2 million.

Wholesale merchandise revenues to comparable domestic stores increased \$0.3 million for the quarter. All of this increase was the result of estimated wholesale price inflation of 12.0 percent. The Company's Ace International Holdings, Ltd. subsidiary experienced a \$19.4 million decrease in wholesale revenue versus the second quarter of 2021, while Ace Wholesale Holdings LLC reported a \$8.7 million increase in wholesale revenues from the second quarter of 2021.

Total retail revenues for the quarter were \$258.0 million, an increase of \$2.7 million, or 1.1 percent, as compared to the prior year second quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$252.4 million in the second quarter of 2022, an increase of \$3.7 million, or 1.5 percent, from the second quarter of 2021. This increase was driven by new stores added by the Westlake Ace Hardware ("Westlake") and the Great Lakes Ace Hardware ("GLA") chains since the second quarter of 2021. Westlake and GLA together operated 215 stores at the end of the second quarter of 2022 compared to 211 stores at the end of the second quarter of 2021. Inflation drove same-store-sales increases of 0.2 percent at Westlake and 0.4 percent at GLA during the quarter. Retail revenues from Ace Ecommerce Holdings LLC were \$5.6 million in the second quarter of 2022, a decrease of \$1.0 million, or 15.2 percent, from the second quarter of 2021, which was due to the announcement of the closure of the Grommet.

Ace added 38 new domestic stores in the second quarter of 2022 and cancelled 12 stores. The Company's total domestic store count was 4,816 at the end of the second quarter of 2022 which was an increase of 87 stores from the second quarter of 2021.

On a worldwide basis, Ace added 46 stores in the second quarter of 2022 and cancelled 12, bringing the worldwide store count to 5,660 at the end of the second quarter of 2022.

Gross Profit

Wholesale gross profit for the three months ended July 2, 2022 was \$287.3 million, an increase of \$24.1 million from the second quarter of 2021. The wholesale gross margin percentage was 12.6 percent of wholesale revenues in the second quarter of 2022, up from 11.9 percent in the second quarter of 2021. The increase in wholesale gross margin percentage was primarily due to an increase in vendor funds earned, and the absence of personal protective equipment inventory write-downs recorded in the second quarter of 2021. These improvements were partially offset by an increase in LIFO expense which was driven by

increased vendor prices due to inflation.

Retail gross profit for the three months ended July 2, 2022 was \$114.5 million, an increase of \$0.8 million from the second quarter of 2021. The retail gross margin percentage was 44.4 percent of retail revenues in the second quarter of 2022, down slightly from 44.5 percent in the second quarter of 2021. Retail gross margin includes a \$0.9 million charge for inventory write-downs at The Grommet. Excluding this charge, the retail gross margin percentage is 44.7 percent. 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 \$3.0 million, or 1.6 percent, from the second quarter of 2021. The increase is due to greater lease expense driven by the expansion of our warehouse space and increased advertising expenses. Wholesale operating expenses as a percent of wholesale revenues decreased slightly to 8.3 percent in the second quarter of 2022 from 8.4 percent in the second quarter of 2021.

Retail operating expenses increased \$12.1 million, or 17.5 percent, from the second quarter of 2021. Included in this increase is a non-recurring charge of \$9.9 million related to the closure of The Grommet, for the impairment of assets and severance related costs. The remaining increase was driven by an increase in store payroll along with expenses incurred related to the new stores opened since the second quarter of 2021. Retail operating expenses as a percent of retail revenue increased to 31.4 percent in the second quarter of 2022 from 27.0 percent in the second quarter of 2021. Without the non-recurring charge, retail operating expenses as a percent of retail revenue were 27.6 percent.

Balance Sheet and Cash Flow

Receivables increased \$81.5 million from the second quarter of 2021 due to higher sales volumes and datings for seasonal programs.

Inventories increased \$329.7 million from the second quarter of 2021 due to the intentional build-up of inventory as a hedge against supplier shortages and to increase fill rates to our Ace owners. In addition, the late arrival of spring weather in 2022 has resulted in an overstock of patio and lawn and garden inventory that will be carried over into the 2023 spring selling season.

Long-term debt, including current maturities, increased \$142.7 million versus the second quarter of 2021. At the end of the second quarter of 2022, long term debt consisted of \$191.8 million outstanding on the revolving credit facility, and \$36.7 million owed to former retailers.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with over 5,600 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; and Santa Catarina, Mexico. 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 2022, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, fifteen out of the last sixteen years.

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

Three Months Ended		Six Months Ended	
July 2,	July 3,	July 2,	July 3,

	2022 (13 Weeks)	2021 (13 Weeks)	2022 (26 Weeks)	2021 (26 Weeks)
Revenues:				
Wholesale revenues	\$ 2,275.0	\$ 2,211.6	\$ 4,332.0	\$ 4,080.7
Retail revenues	258.0	255.3	414.6	418.0
Total revenues	2,533.0	2,466.9	4,746.6	4,498.7
Cost of revenues:				
Wholesale cost of revenues	1,987.7	1,948.4	3,782.7	3,573.9
Retail cost of revenues	143.5	141.6	227.1	228.2
Total cost of revenues	2,131.2	2,090.0	4,009.8	3,802.1
Gross profit:				
Wholesale gross profit	287.3	263.2	549.3	506.8
Retail gross profit	114.5	113.7	187.5	189.8
Total gross profit	401.8	376.9	736.8	696.6
Wholesale operating expenses:				
Distribution operations expenses	64.6	65.5	126.1	119.9
Selling, general and administrative expenses	56.6	55.4	113.8	108.0
Retailer success and development expenses	66.7	64.0	109.4	102.6
Retail operating expenses	81.1	69.0	148.9	130.7
Retail pre-opening expenses	0.5	1.1	0.7	1.7
Total operating expenses	269.5	255.0	498.9	462.9
Operating income	132.3	121.9	237.9	233.7
Interest expense	(4.4)	(3.4)	(8.4)	(7.4)
Interest income	0.1	1.5	1.7	2.7
Other income, net	0.3	1.1	22.0	1.6
Income tax expense	(3.5)	(5.1)	(8.6)	(9.2)
Net income	124.8	116.0	244.6	221.4
Less: net loss attributable to noncontrolling interests	(0.1)	-	(0.4)	(0.1)
Net income attributable to Ace Hardware Corporation	\$ 124.9	\$ 116.0	\$ 245.0	\$ 221.5
Patronage distributions accrued	\$ 111.7	\$ 95.7	\$ 247.3	\$ 204.7
Patronage distributions accrued for third party retailers	\$ 106.4	\$ 92.6	\$ 237.3	\$ 198.7

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

	July 2, 2022 (Unaudited)	January 1, 2022 (Audited)	July 3, 2021 (Unaudited)
Assets			
Cash and cash equivalents	\$ 48.8	\$ 37.6	\$ 51.7
Marketable securities	52.8	58.0	61.8
Receivables, net of allowance for doubtful accounts of \$5.8, \$4.3 and \$6.4, respectively	827.6	533.6	746.1
Inventories	1,533.3	1,224.3	1,203.6
Prepaid expenses and other current assets	59.8	63.9	61.3
Total current assets	2,522.3	1,917.4	2,124.5
Property and equipment, net	451.6	453.4	437.6
Operating lease right-of-use assets, net	616.9	497.3	532.4
Finance lease right-of-use assets, net	80.4	68.1	44.8
Goodwill and other intangible assets, net	93.8	99.5	100.3
Other assets	115.2	105.7	109.9
Total assets	\$ 3,880.2	\$ 3,141.4	\$ 3,349.5
Liabilities and Equity			
Current maturities of long-term debt	\$ 13.6	\$ 17.1	\$ 11.9
Accounts payable	1,503.8	1,095.2	1,413.3
Patronage distributions payable in cash	97.6	120.6	82.0
Patronage refund certificates payable	27.2	27.2	26.5
Current operating lease liabilities	70.4	64.3	66.6

Current finance lease liabilities	14.0	10.9	6.9
Accrued expenses	213.6	282.9	182.9
Total current liabilities	1,940.2	1,618.2	1,790.1
Long-term debt	214.9	18.6	73.9
Patronage refund certificates payable	111.6	92.8	105.6
Long-term operating lease liabilities	571.7	456.3	488.1
Long-term finance lease liabilities	65.4	56.4	37.2
Other long-term liabilities	96.8	91.0	78.1
Total liabilities	3,000.6	2,333.3	2,573.0
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,675, 2,681 and 2,697 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 6,753,381, 5,838,265 and 6,007,367 issued and outstanding, respectively	675.3	583.8	600.8
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 981,230, 1,209,075 and 848,949 shares issuable, respectively	98.2	120.9	84.9
Contributed capital	19.0	19.1	19.0
Retained earnings	76.7	68.9	55.0
Accumulated other comprehensive (loss) income	(3.7)	1.0	1.7
Equity attributable to Ace member Retailers	868.2	796.4	764.1
Equity attributable to noncontrolling interests	11.4	11.7	12.4
Total equity	879.6	808.1	776.5
Total liabilities and equity	\$ 3,880.2	\$ 3,141.4	\$ 3,349.5

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

	Six Months Ended	
	July 2, 2022 (26 Weeks)	July 3, 2021 (26 Weeks)
Operating Activities		
Net income	\$ 244.6	\$ 221.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46.6	34.8
Amortization of deferred financing costs	0.2	0.2
Gain on the disposal of assets, net	(21.7)	(0.2)
Provision for doubtful accounts	2.1	1.4
Other, net	11.7	4.7
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(328.2)	(246.2)
Inventories	(308.4)	(69.0)
Other current assets	4.0	(6.1)
Other long-term assets	(3.4)	6.0
Accounts payable and accrued expenses	365.7	269.5
Other long-term liabilities	5.8	4.5
Deferred taxes	0.5	(3.7)
Net cash provided by operating activities	19.5	217.3
Investing Activities		
Purchases of investment securities	(7.8)	(32.3)
Proceeds from sale of investment securities	6.8	16.2
Purchases of property and equipment	(45.5)	(51.7)
Cash paid for acquired businesses, net of cash received	(1.0)	(2.6)
Increase in notes receivable, net	(9.3)	(8.1)
Proceeds from sale of assets	28.3	-
Other, net	(1.1)	(0.2)
Net cash used in investing activities	(29.6)	(78.7)
Financing Activities		
Net borrowings under revolving lines of credit	186.9	28.2
Principal payments on long-term debt	(6.1)	(6.6)
Principal portion of finance lease payment	(8.3)	(3.6)

Payments of cash portion of patronage distribution	(121.0)	(113.8)
Payments of patronage refund certificates	(25.9)	(16.9)
Repurchase of stock	(4.8)	(3.7)
Purchase of noncontrolling interests	(0.4)	(0.2)
Other, net	0.9	0.8
Net cash provided by (used in) financing activities	21.3	(115.8)
Increase in cash and cash equivalents	11.2	22.8
Cash and cash equivalents at beginning of period	37.6	28.9
Cash and cash equivalents at end of period	<u>\$ 48.8</u>	<u>\$ 51.7</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 8.0</u>	<u>\$ 8.6</u>
Income taxes paid	<u>\$ 1.0</u>	<u>\$ 10.2</u>

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