

Ace Hardware Reports Third Quarter 2022 Results

- *Record third quarter revenues of \$2.2 billion, an increase of 10.0 percent from last year*
- *Record third quarter net income of \$100.6 million, an increase of 1.3 percent from last year*
- *Accrued patronage dividend to shareholders of \$344.1 million, an increase of 16.1 percent from the third quarter of 2021*

OAK BROOK, Ill. , Nov. 16, 2022 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record third quarter 2022 revenues of \$2.2 billion, an increase of \$203.2 million, or 10.0 percent, from the third quarter of 2021. Net income was \$100.6 million for the third quarter of 2022, an increase of \$1.3 million from the third quarter of 2021.

"My sincere thanks to the entire Ace team for their determined and relentless pursuit of our three strategic imperatives – service, convenience, and quality – which delivered yet another quarter of record sales and profit," said John Venhuizen, President & CEO. "Revenue and income were up 10 percent and 1.3 percent, respectively for the quarter. They now stand 44 percent and 66 percent higher than just three years ago. Despite, and in some cases because of rampant inflation, the Ace team continues to deliver superior financial results and exceptional customer service to and for our neighbors."

The approximately 3,600 Ace retailers who share daily sales data reported a 5.8 percent increase in U.S. retail same-store-sales during the third quarter of 2022. Estimated retail inflation of 11.2 percent helped drive the 9.5 percent increase in average ticket. Same-store transactions were down 3.4 percent.

Revenues

Consolidated revenues for the quarter ended October 1, 2022 totaled \$2.2 billion. Total wholesale revenues were \$2.0 billion, an increase of \$198.9 million, or 10.8 percent, as compared to the prior year third quarter. Increases were seen across several departments with holiday, paint and outdoor power equipment showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2021 through September 2022 contributed \$51.0 million of incremental revenues during the third quarter of 2022, while wholesale merchandise revenues decreased \$11.6 million during the third quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$122.0 million for the quarter. All of this increase was the result of estimated wholesale price inflation of 12.7 percent. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary experienced a \$7.5 million decrease in wholesale revenue versus the third quarter of 2021, while Ace Wholesale Holdings LLC reported a \$17.9 million increase in wholesale revenues from the third quarter of 2021.

Total retail revenues for the quarter were \$193.4 million, an increase of \$4.3 million, or 2.3 percent, as compared to the prior year third quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$192.1 million in the third quarter of 2022, an increase of \$7.1 million, or 3.8 percent, from the third quarter of 2021. This increase was primarily the result of the inflation driven same-store-sales increase of 3.7 percent at Westlake Ace Hardware ("Westlake") and the new stores added by Westlake and Great Lakes Ace Hardware, Inc. ("GLA") since the third quarter of 2021. Westlake and GLA together operated 216 stores at the end of the third quarter of 2022 compared to 209 stores at the end of the third quarter of 2021.

Ace added 35 new domestic stores in the third quarter of 2022 and cancelled 10 stores. The Company's total domestic store count was 4,841 at the end of the third quarter of 2022 which was an increase of 82 stores from the third quarter of 2021. On a worldwide basis, Ace added 37 stores in the third quarter of 2022 and cancelled 15, bringing the worldwide store count to 5,682 at the end of the third quarter of 2022.

Gross Profit

Wholesale gross profit for the three months ended October 1, 2022 was \$272.5 million, an increase of \$34.4 million from the third quarter of 2021. The wholesale gross margin percentage was 13.4 percent of wholesale revenues in the third quarter of 2022, up from 12.9 percent in the third quarter of 2021. The increase in wholesale gross margin percentage was primarily due to increased delivery revenue and lower third-party delivery costs. These improvements were partially offset by an increase in LIFO expense which was driven by vendor price inflation.

Retail gross profit for the three months ended October 1, 2022 was \$88.1 million, a decrease of \$0.6 million from the third quarter of 2021. The retail gross margin percentage was 45.6 percent of retail revenues in the third quarter of 2022, down from 46.9 percent in the third quarter of 2021. The decrease in retail gross margin percentage was primarily due to vendor funds earned related to new store openings in the prior year which did not recur in 2022. 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 \$24.9 million, or 15.8 percent, from the third quarter of 2021. The increase is due to higher compensation and benefit expenses, greater lease expense driven by the expansion of our warehouse space and increased advertising expenses. Wholesale operating expenses as a percent of wholesale revenues increased to 9.0 percent in the third quarter of 2022 from 8.6 percent in the third quarter of 2021.

Retail operating expenses increased \$4.6 million, or 7.1 percent, from the third quarter of 2021. This increase was primarily driven by an increase in store payroll along with expenses incurred related to the new stores opened since the third quarter of 2021. Retail operating expenses as a percent of retail revenue increased to 36.0 percent in the third quarter of 2022 from 34.4 percent in the third quarter of 2021.

Balance Sheet and Cash Flow

Receivables increased \$100.3 million from the third quarter of 2021 due to higher sales volumes and datings for seasonal programs.

Inventories increased \$228.4 million from the third quarter of 2021. Approximately half of this increase is due to vendor cost inflation while the remainder is due to the intentional build-up of inventory as a hedge against supplier shortages and to increase fill rates to our Ace Owners. The late arrival of spring weather in 2022 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 \$110.9 million versus the third quarter of 2021. At the end of the third quarter of 2022, long term debt consisted of \$196.1 million outstanding on the revolving credit facility, \$13.7 million outstanding on the Westlake credit facility and \$39.1 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		Nine Months Ended	
	October 1, 2022	October 2, 2021 (13 Weeks)	October 1, 2022	October 2, 2021 (39 Weeks)
Revenues:				
Wholesale revenues	\$ 2,038.4	\$ 1,839.5	\$ 6,370.4	\$ 5,920.2
Retail revenues	193.4	189.1	608.0	607.1
Total revenues	2,231.8	2,028.6	6,978.4	6,527.3

Cost of revenues:

Wholesale cost of revenues	1,765.9	1,601.4	5,548.6	5,175.3
Retail cost of revenues	105.3	100.4	332.4	328.6
Total cost of revenues	<u>1,871.2</u>	<u>1,701.8</u>	<u>5,881.0</u>	<u>5,503.9</u>
Gross profit:				
Wholesale gross profit	272.5	238.1	821.8	744.9
Retail gross profit	88.1	88.7	275.6	278.5
Total gross profit	<u>360.6</u>	<u>326.8</u>	<u>1,097.4</u>	<u>1,023.4</u>

Wholesale operating expenses:

Distribution operations expenses	63.2	60.4	189.3	180.3
Selling, general and administrative expenses	70.0	53.2	183.8	161.2
Retailer success and development expenses	49.7	44.4	159.1	147.0
Retail operating expenses	69.6	65.0	218.5	195.7
Retail pre-opening expenses	0.7	0.8	1.4	2.5
Total operating expenses	<u>253.2</u>	<u>223.8</u>	<u>752.1</u>	<u>686.7</u>
Operating income	<u>107.4</u>	<u>103.0</u>	<u>345.3</u>	<u>336.7</u>

Interest expense	(5.1)	(3.4)	(13.5)	(10.8)
Interest income	1.0	2.4	2.7	5.1
Other income, net	1.0	1.1	23.0	2.7
Income tax expense	(3.7)	(3.8)	(12.3)	(13.0)
Net income	<u>100.6</u>	<u>99.3</u>	<u>345.2</u>	<u>320.7</u>

Less: net loss attributable to noncontrolling interests	(0.1)	-	(0.5)	(0.1)
Net income attributable to Ace Hardware Corporation	<u>\$ 100.7</u>	<u>\$ 99.3</u>	<u>\$ 345.7</u>	<u>\$ 320.8</u>
Patronage distributions accrued	<u>\$ 96.8</u>	<u>\$ 91.6</u>	<u>\$ 344.1</u>	<u>\$ 296.3</u>
Patronage distributions accrued for third party Retailers	<u>\$ 91.9</u>	<u>\$ 88.6</u>	<u>\$ 329.2</u>	<u>\$ 287.3</u>

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

	October 1, 2022 (Unaudited)	January 1, 2022 (Audited)	October 2, 2021 (Unaudited)
Assets			
Cash and cash equivalents	\$ 44.0	\$ 37.6	\$ 36.3
Marketable securities	51.6	58.0	58.2
Receivables, net of allowance for doubtful accounts of \$5.0, \$4.3 and \$4.0, respectively	698.4	533.6	598.1
Inventories	1,491.8	1,224.3	1,263.4
Prepaid expenses and other current assets	51.9	63.9	64.6
Total current assets	<u>2,337.7</u>	<u>1,917.4</u>	<u>2,020.6</u>
Property and equipment, net	450.0	453.4	447.0
Operating lease right-of-use assets, net	622.9	497.3	506.1
Finance lease right-of-use assets, net	83.4	68.1	60.1
Goodwill and other intangible assets, net	105.5	99.5	99.9
Other assets	122.7	105.7	109.3
Total assets	<u>\$ 3,722.2</u>	<u>\$ 3,141.4</u>	<u>\$ 3,243.0</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 28.3	\$ 17.1	\$ 18.0
Accounts payable	1,217.6	1,095.2	1,155.4
Patronage distributions payable in cash	135.4	120.6	118.5
Patronage refund certificates payable	27.2	27.2	26.5

Current operating lease liabilities	73.2	64.3	64.4
Current finance lease liabilities	15.0	10.9	9.5
Accrued expenses	225.0	282.9	201.9
Total current liabilities	1,721.7	1,618.2	1,594.2
Long-term debt	220.6	18.6	120.0
Patronage refund certificates payable	119.2	92.8	110.3
Long-term operating lease liabilities	575.2	456.3	466.5
Long-term finance lease liabilities	67.5	56.4	49.9
Other long-term liabilities	99.0	91.0	84.9
Total liabilities	2,803.2	2,333.3	2,425.8
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,679, 2,681 and 2,695 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 6,696,541, 5,838,265 and 5,935,288 issued and outstanding, respectively	669.6	583.8	593.5
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 1,357,811, 1,209,075 and 1,226,716 shares issuable, respectively	135.8	120.9	122.7
Contributed capital	19.1	19.1	19.0
Retained earnings	85.7	68.9	65.7
Accumulated other comprehensive (loss) income	(5.2)	1.0	1.3
Equity attributable to Ace member Retailers	907.7	796.4	804.9
Equity attributable to noncontrolling interests	11.3	11.7	12.3
Total equity	919.0	808.1	817.2
Total liabilities and equity	\$ 3,722.2	\$ 3,141.4	\$ 3,243.0

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

	Nine Months Ended	
	October 1, 2022 (39 Weeks)	October 2, 2021 (39 Weeks)
Operating Activities		
Net income	\$ 345.2	\$ 320.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66.3	52.6
Non cash lease expense	12.2	5.6
Amortization of deferred financing costs	0.3	0.4
Gain on the disposal of assets, net	(21.2)	(0.2)
Provision (credit) for doubtful accounts	1.8	(1.0)
Other, net	5.4	2.5
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(201.7)	(101.4)
Inventories	(265.4)	(128.8)
Other current assets	11.9	(9.5)
Other long-term assets	(7.3)	7.9
Accounts payable and accrued expenses	88.9	27.5
Other long-term liabilities	8.1	11.2
Deferred taxes	1.0	(6.9)
Net cash provided by operating activities	45.5	180.6
Investing Activities		
Purchases of investment securities	(32.4)	(36.6)
Proceeds from sale of investment securities	21.0	23.8
Purchases of property and equipment	(62.8)	(75.4)
Cash paid for acquired businesses, net of cash received	(12.8)	(2.6)
Increase in notes receivable, net	(12.9)	(10.4)
Proceeds from sale of assets	28.4	-
Other, net	(0.6)	(1.5)
Net cash used in investing activities	(72.1)	(102.7)

Financing Activities

Net borrowings under revolving lines of credit	204.9	79.6
Principal payments on long-term debt	(7.1)	(9.3)
Principal portion of finance lease payment	(13.1)	(6.1)
Payments of cash portion of patronage distribution	(121.0)	(113.8)
Payments of patronage refund certificates	(25.9)	(17.1)
Repurchase of stock	(5.7)	(4.5)
Purchase of noncontrolling interests	(0.4)	(0.4)
Other, net	1.3	1.1
Net cash provided by (used in) financing activities	33.0	(70.5)
Increase in cash and cash equivalents	6.4	7.4
Cash and cash equivalents at beginning of period	37.6	28.9
	\$	
Cash and cash equivalents at end of period	44.0	\$ 36.3
Supplemental disclosure of cash flow information:		
	\$	
Interest paid	10.6	\$ 9.9
	\$	
Income taxes paid	5.3	\$ 15.5

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