ACE HARDWARE REPORTS FOURTH QUARTER AND FULL YEAR 2022 RESULTS

- *Record full year revenues of $9.2 billion, an increase of 6.7 percent on top of last year's increase of 10.7 percent*
- *Record fourth quarter revenues of $2.2 billion, an increase of 6.0 percent*
- *Record full year net income of $340.6 million, an increase of 3.2 percent*
- *Record patronage dividend to shareholders of $344.5 million, an increase of 9.6 percent*

OAK BROOK, Ill. , Feb. 15, 2023 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record fourth quarter 2022 revenues of $2.2 billion, an increase of $124.5 million, or 6.0 percent, from the fourth quarter of 2021. Net loss was $4.6 million for the fourth quarter of 2022, a decrease of $13.9 million from net income of $9.3 million for the fourth quarter of 2021.

Full year revenues were a record $9.2 billion, an increase of $575.6 million, or 6.7 percent, from 2021 revenue. Net income for fiscal 2022 was $340.6 million, an increase of $10.6 million, from fiscal 2021.

"Financial results for 2022, subject to all appropriate caveats implicit in an unusual year, exceeded our expectations. We are pleased to announce record revenue, record profit, record shareholder distributions, and record contributions to our charitable foundation," said John Venhuizen, President and CEO. "With shareholder dividends of $345 million and pre-tax return on equity of 39.2 percent, the Ace team is to be commended for the discipline, production, and stewardship with which they managed our resources and opportunities."

"I'm also delighted to report record contributions of $22.7 million to the Ace Foundation. The degree to which Ace serves their local communities never ceases to amaze me" said Venhuizen.

The approximately 3,600 Ace retailers who share daily sales data reported a 5.2 percent increase in U.S. retail same-store-sales during the fourth quarter of 2022. Estimated retail inflation of 9.0 percent drove a 6.4 percent increase in average ticket. Same-store transactions were down 1.2 percent during the quarter. For the full year, retail same-store-sales increased 3.2 percent. Estimated retail inflation of 10.7 percent drove an 8.4 percent increase in average ticket. Same-store transactions were down 4.7 percent for the full year.

Revenues

Fourth Quarter
Consolidated revenues for the quarter ended December 31, 2022 totaled $2.2 billion. Total wholesale revenues were $2.0 billion, an increase of $139.9 million, or 7.5 percent, as compared to the prior year fourth quarter. Increases were seen across a majority of departments with outdoor power equipment, paint and outdoor living showing the largest gains.

Wholesale merchandise revenues to new domestic Ace stores activated from January 2021 through December 2022 contributed $53.2 million of incremental revenues during the fourth quarter of 2022, while wholesale merchandise revenues decreased $10.3 million during the fourth quarter due to domestic Ace stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic Ace stores increased $48.7 million for the quarter as a result of estimated wholesale price inflation of 8.3 percent. The Company's Ace International Holdings, Ltd. ("AIH") subsidiary experienced an $11.4 million decrease in wholesale revenue versus the fourth quarter of 2021 due to a $12.1 million decline at AIH's largest customer, while Ace Wholesale Holdings LLC ("AWH") reported a $12.0 million increase in wholesale revenues from the fourth quarter of 2021 primarily as a result of new customers.

Total retail revenues for the quarter were $189.5 million, a decrease of $15.4 million, or 7.5 percent, as compared to the prior year fourth quarter. This decrease is due to the closure of The Grommet during the third quarter of 2022, resulting in the absence of any revenues from Ace Ecommerce Holdings LLC ("AEH") in the fourth quarter of 2022 compared with $19.0 million in the fourth quarter of 2021. Retail revenues from Ace Retail Holdings LLC ("ARH") were $189.5 million in the fourth quarter of 2022, an increase of $3.6 million, or 1.9 percent, from the fourth quarter of 2021. Inflation and the impact of new stores added by the Westlake Ace Hardware ("Westlake") and Great Lakes Ace Hardware ("GLA") chains since the fourth quarter of 2021 were mostly offset by lower transaction counts. Westlake and GLA together operated 222 stores at the end of the fourth quarter of 2022 compared to 210 stores at the end of the fourth quarter of 2021.

Fiscal Year

Consolidated revenues for fiscal 2022 totaled $9.2 billion, an increase of $575.5 million, or 6.7 percent, as compared to the prior year. Total wholesale revenues were $8.4 billion, an increase of $590.0 million, or 7.6 percent, as compared to the prior year. Increases were seen across a majority of departments with outdoor power equipment, plumbing and paint showing the largest gains.

Wholesale merchandise revenues from new domestic Ace stores were $230.3 million in fiscal 2022. This increase was partially offset by a decrease in wholesale merchandise revenues of $52.8 million due to domestic Ace store cancellations. Wholesale merchandise revenues to comparable domestic Ace stores increased $311.5 million in fiscal 2022 compared to fiscal 2021 as a result of estimated wholesale price inflation of 11.5 percent. AIH wholesale revenues decreased $48.6 million compared to the prior year due entirely to a $48.7 million decline in sales to AIH's largest customer. AWH wholesale revenues increased $52.4 million compared to the prior year, primarily due to inflation, new customers and higher sales to AWH's hardware and e-commerce customers.

Total retail revenues were $797.5 million, a decrease of $14.5 million, or 1.8 percent, as compared to the prior year. The closure of The Grommet in the third quarter of 2022 drove a $24.8 million decrease in retail sales. Retail revenues from ARH were $787.0 million during fiscal 2022, an increase of $10.3 million or 1.3 percent, from the prior year. This increase was the result of inflation and the new stores added by Westlake and GLA in 2021 and 2022, which was mostly offset by lower transaction counts.

Ace added 168 new domestic stores in fiscal 2022 and cancelled 52 stores. This brought the Company's total domestic store count to 4,867 at the end of fiscal 2022, an increase of 116 stores from the end of fiscal 2021. On a worldwide basis, Ace added 232 stores in fiscal 2022 and cancelled 69, bringing the worldwide store count to 5,746 at the end of fiscal 2022.

Gross Profit

Fourth Quarter
Wholesale gross profit for the three months ended December 31, 2022 was $181.7 million, a decrease of $6.0 million from the fourth quarter of 2021. The wholesale gross margin percentage was 9.1 percent of wholesale revenues in the fourth quarter of 2022, down from 10.1 percent in the fourth quarter of 2021. The decrease in the wholesale gross margin percentage was primarily the result of vendor price inflation.

Retail gross profit for the three months ended December 31, 2022 was $82.3 million, a decrease of $1.0 million from the fourth quarter of 2021. The closure of The Grommet in the third quarter of 2022 drove a $7.6 million decrease in retail gross profit. The retail gross margin percentage was 43.4 percent of retail revenues in the fourth quarter of 2022, up from 40.7 percent in the fourth quarter of 2021. The increase in retail gross margin percentage primarily resulted from the exclusion of The Grommet, which had a lower gross margin percentage, product mix and the absence of the liquidation of personal protective equipment that took place during the fourth quarter of 2021. 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 2022 was $1.0 billion, an increase of $70.9 million from fiscal 2021. The wholesale gross margin percentage was unchanged at 12.0 percent of wholesale revenues in both fiscal 2022 and fiscal 2021. An increase in LIFO expense driven by vendor price inflation was offset by increased vendor funds earned for the year.

Retail gross profit for fiscal 2022 was $357.9 million, a decrease of $3.9 million from fiscal 2021. The closure of The Grommet in the third quarter of 2022 drove a $10.0 million decrease in retail gross profit. The retail gross margin percentage was 44.9 percent of retail revenues in fiscal 2022, a slight increase from 44.6 percent in fiscal 2021. The increase in retail gross margin percentage primarily resulted from product mix and the absence of the liquidation of personal protective equipment that took place during 2021. 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 $3.6 million, or 1.9 percent, from the fourth quarter of 2021. The increase is due to higher lease expense driven by the expansion of our warehouse space to support increased demand. As a percentage of wholesale revenues, wholesale operating expenses decreased to 9.9 percent of wholesale revenues in the fourth quarter of 2022 from 10.4 percent of wholesale revenues in the fourth quarter of 2021.

Retail operating expenses decreased $5.2 million, or 7.0 percent, from the fourth quarter of 2021. This decrease was due primarily to the closure of The Grommet during the third quarter of 2022, partially offset by expenses related to the new stores opened since the fourth quarter of 2021. Retail operating expenses as a percentage of retail revenue increased slightly to 36.4 in the fourth quarter of 2022 from 36.2 percent in the fourth quarter of 2021.

Other income, net decreased $9.4 million, as a result of the $10.2 million gain on sale of the Company's retail support center ("RSC") located in Tampa, Florida during the fourth quarter of 2021.

Fiscal Year

Wholesale operating expenses increased $47.3 million, or 6.9 percent, in fiscal 2022 as compared to fiscal 2021. The increase is due to higher distribution costs resulting from higher wholesale revenues 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 8.7 percent in fiscal 2022 from 8.8 percent in fiscal 2021.

Retail operating expenses increased $17.6 million, or 6.5 percent, in fiscal 2022 as compared to fiscal 2021. Included in this increase is a non-recurring charge of $9.9 million related to the closure of The Grommet during the third quarter, 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 fourth quarter of 2021. Retail operating expenses as a percentage of retail revenue increased to 36.1 percent in fiscal 2022 from 33.2 percent in fiscal 2021. Without the non-recurring charge, retail operating expenses as a percent of retail revenue is 34.8 percent.

Other income, net increased $10.9 million in fiscal 2022 compared to fiscal 2021. The increase is due to the $21.7 million gain on sale of the Company's RSC located in Gainesville, Georgia during 2022, compared to the $10.2 million gain on sale of the Company's RSC located in Tampa, Florida during 2021.

Balance Sheet and Cash Flow

Receivables increased $117.2 million from the prior year due to higher sales volumes and datings for seasonal programs.

Inventories increased $79.4 million from the prior year end primarily due to vendor price inflation.

Long-term debt, including current maturities, increased $2.4 million versus 2021. At the end of 2022, the Company had no outstanding borrowings under its revolving credit facilities and long-term debt consisted of $38.1 million owed to former retailers.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with over 5,700 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.

Contacts:

Shareholders'/Investors' Inquiries:
William Guzik, Executive Vice President, Chief Financial Officer & Chief Risk Officer
630-990-3325, guzik@acehardware.com

Media Inquiries:
Jeff Gooding, Vice President, Consumer Marketing
630-990-3600, media@acehardware.com

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In millions)

	Three Months Ended		Twelve Months Ended	
	December 31, 2022 (13 Weeks)	January 1, 2022 (13 Weeks)	December 31, 2022 (52 Weeks)	January 1, 2022 (52 Weeks)
Revenues:				
Wholesale revenues	$ 2,001.9	$ 1,862.0	$ 8,372.3	$ 7,782.2
Retail revenues	189.5	204.9	797.5	812.0
Total revenues	2,191.4	2,066.9	9,169.8	8,594.2
Cost of revenues:				
Wholesale cost of revenues	1,820.2	1,674.3	7,368.8	6,849.6

Retail cost of revenues	107.2	121.6	439.6	450.2
Total cost of revenues	1,927.4	1,795.9	7,808.4	7,299.8
Gross profit:				
Wholesale gross profit	181.7	187.7	1,003.5	932.6
Retail gross profit	82.3	83.3	357.9	361.8
Total gross profit	264.0	271.0	1,361.4	1,294.4
Wholesale operating expenses:				
Distribution operations expenses	73.0	67.0	262.3	247.3
Selling, general and administrative expenses	60.8	61.3	244.6	222.5
Retailer success and development expenses	64.1	66.0	223.2	213.0
Retail operating expenses	69.0	74.2	287.5	269.9
Retail pre-opening expenses	0.5	0.4	1.9	2.9
Total operating expenses	267.4	268.9	1,019.5	955.6
Operating (loss) income	(3.4)	2.1	341.9	338.8
Interest expense	(5.7)	(3.6)	(19.2)	(14.4)
Interest income	1.1	0.4	3.2	2.0
Other income, net	0.1	12.4	23.7	18.6
Income tax benefit (expense)	3.3	(2.0)	(9.0)	(15.0)
Net (loss) income	(4.6)	9.3	340.6	330.0
Less Net loss attributable to noncontrolling interests	(0.6)	(0.6)	(1.1)	(0.7)
Net (loss) income attributable to Ace Hardware Corporation	$ (4.0)	$ 9.9	$ 341.7	$ 330.7
Patronage distributions accrued	$ 0.4	$ 18.1	$ 344.5	$ 314.4
Patronage distributions (reversed) accrued for third party Retailers	$ (5.6)	$ 6.8	$ 323.6	$ 294.1

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

	December 31, 2022	January 1, 2022
Assets		
Cash and cash equivalents	$ 28.5	$ 37.6
Marketable securities	53.3	58.0
Receivables, net of allowance for doubtful accounts of $7.0 and $4.3, respectively	650.8	533.6
Inventories	1,303.7	1,224.3
Prepaid expenses and other current assets	59.7	63.9
Total current assets	2,096.0	1,917.4
Property and equipment, net	463.6	453.4
Operating lease right-of-use assets, net	613.8	497.3
Finance lease right-of-use assets, net	84.2	68.1
Goodwill and other intangible assets	105.7	99.5
Other assets	127.7	105.7
Total assets	$ 3,491.0	$ 3,141.4
Liabilities and Equity		
Current maturities of long-term debt	$ 15.1	$ 17.1
Accounts payable	1,165.5	1,095.2
Patronage distributions payable in cash	133.1	120.6
Patronage refund certificates payable	23.1	27.2
Current operating lease liabilities	77.0	64.3
Current finance lease liabilities	17.2	10.9
Accrued expenses	299.5	282.9
Total current liabilities	1,730.5	1,618.2
Long-term debt	23.0	18.6
Patronage refund certificates payable	111.3	92.8

Long-term operating lease liabilities	562.4	456.3
Long-term finance lease liabilities	67.6	56.4
Other long-term liabilities	104.4	91.0
Total liabilities	2,599.2	2,333.3
Member Retailers' Equity:		
Class A voting common stock, $1,000 par value, 10,000 shares authorized, 2,662 and 2,681 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, $100 par value, 10,000,000 shares authorized 6,561,209 and 5,838,265 issued and outstanding, respectively	656.1	583.8
Class C nonvoting common stock, $100 par value, issuable to Retailers for patronage distributions, 1,181,824 and 1,209,075 shares issuable, respectively	118.1	120.9
Contributed capital	19.2	19.1
Retained earnings	87.2	68.9
Accumulated other comprehensive (loss) income	(2.3)	1.0
Equity attributable to Ace member Retailers	881.0	796.4
Equity attributable to noncontrolling interests	10.8	11.7
Total equity	891.8	808.1
Total liabilities and equity	$ 3,491.0	$ 3,141.4

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

	Twelve Months Ended	
	December 31, 2022 (52 Weeks)	January 1, 2022 (52 Weeks)
Operating Activities		
Net income	$ 340.6	$ 330.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86.6	71.3
Non cash lease expense	17.1	8.8
Amortization of deferred financing costs	0.4	0.5
Gain on disposal of assets, net	(19.8)	(10.3)
Provision (credit) for doubtful accounts	3.0	(0.4)
Other, net	5.8	-
Changes in operating assets and liabilities, exclusive of effect of acquisitions:		
Receivables	(159.6)	(31.6)
Inventories	(77.3)	(89.7)
Other current assets	4.1	(8.7)
Other long-term assets	(9.1)	7.3
Accounts payable and accrued expenses	80.4	23.8
Other long-term liabilities	13.4	17.4
Deferred taxes	(3.1)	(4.8)
Net cash provided by operating activities	282.5	313.6
Investing Activities		
Purchases of investment securities	(60.3)	(40.4)
Proceeds from sale of investment securities	47.7	27.1
Purchases of property and equipment	(92.8)	(103.4)
Cash paid for acquired businesses, net of cash acquired	(12.8)	(2.8)
Increase in notes receivable, net	(19.7)	(14.3)
Proceeds from sale of assets	29.4	12.8
Other, net	(0.6)	(1.9)
Net cash used in investing activities	(109.1)	(122.9)
Financing Activities		
Net payments under revolving lines of credit	(4.9)	(23.1)
Principal payments on long-term debt	(7.1)	(13.4)
Principal portion of finance lease payment	(16.7)	(9.6)
Payments of debt issuance costs	-	(0.3)
Payments of cash portion of patronage distribution	(121.0)	(113.8)
Payments of patronage refund certificates	(26.1)	(17.1)

Repurchase of stock	(8.0)	(5.8)
Purchase of noncontrolling interests	(0.4)	(0.4)
Other, net	1.7	1.5
Net cash used in financing activities	(182.5)	(182.0)
(Decrease) increase in cash and cash equivalents	(9.1)	8.7
Cash and cash equivalents at beginning of period	37.6	28.9
Cash and cash equivalents at end of period	$ 28.5	$ 37.6
Supplemental disclosure of cash flow information:		
Interest paid	$ 14.5	$ 11.5
Income taxes paid	$ 11.5	$ 30.4

View original content to download multimedia:https://www.prnewswire.com/news-releases/ace-hardware-reports-fourth-quarter-and-full-year-2022-results-301747183.html

SOURCE Ace Hardware Corporation

Additional assets available online: Photos (1)

https://newsroom.acehardware.com/2023-02-15-ACE-HARDWARE-REPORTS-FOURTH-QUARTER-AND-FULL-YEAR-2022-RESULTS