

ACE HARDWARE REPORTS FIRST QUARTER 2023 RESULTS

- *First quarter revenues of \$2.1 billion, a decrease of 5.8 percent from last year*
- *First quarter net income of \$66.2 million, a decrease of 44.7 percent from last year*
- *Accrued patronage dividend to shareholders of \$88.4 million, a decrease of 34.8 percent from the first quarter of 2022*
- *Ranked the #7 best franchise in the world according to Entrepreneur Magazine*

OAK BROOK, Ill. , May 17, 2023 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported first quarter 2023 revenues of \$2.1 billion, a decrease of \$127.4 million, or 5.8 percent, from the first quarter of 2022. Net income was \$66.2 million for the first quarter of 2023, a decrease of \$53.6 million from the first quarter of 2022. Excluding the \$21.4 million, gain on sale of the former Gainesville, Georgia retail support center ("RSC") from the first quarter of 2022, net income decreased \$32.2 million. The revenue decline was primarily the result of the mild winter across most of the U.S., combined with the late arrival of spring-like weather, which led to declines in the sale of winter and spring goods. Net income was also negatively affected by incremental expenses related to the expansion of warehouse space, higher payroll wage rates and higher health insurance costs.

"We believe an unusually cold, wet winter in California, a particularly warm, mild winter in the Midwest and Northeast, and the significant reduction in direct stimulus payments to individuals by the government were the primary drivers of our first sales and profit decline in nearly six and a half years," said John Venhuizen, President & CEO. "Despite those headwinds, we continue to invest for future growth as evidenced by our two newest Retail Support Centers in Georgia and California."

The approximately 3,600 Ace retailers who share daily retail sales data reported a 4.4 percent decrease in U.S. retail same-store-sales during the first quarter of 2023, which was the result of a 3.0 percent decrease in same-store transactions and a 1.4 percent decrease in average ticket.

Revenues

Consolidated revenues for the quarter ended April 1, 2023 totaled \$2.1 billion. Total wholesale revenues were \$1.9 billion, a decrease of \$119.0 million, or 5.8 percent, as compared to the prior year first quarter. Decreases were seen across many departments with outdoor power equipment, outdoor living and lawn and garden showing the largest losses. Wholesale merchandise revenues to new domestic stores activated from January 2022 through March 2023 contributed \$54.7 million of incremental revenues during the first quarter of 2023, while wholesale merchandise revenues decreased \$10.0 million during the first quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores decreased \$182.4 million for the quarter. The Company's Ace International Holdings, Ltd. subsidiary experienced a \$1.4 million decrease in wholesale revenue versus the first quarter of 2022, while Ace Wholesale Holdings LLC reported a \$13.4 million decrease in wholesale revenues from the first quarter of 2022.

Total retail revenues for the quarter were \$148.2 million, a decrease of \$8.4 million, or 5.4 percent, as compared to the prior year first quarter. This decrease is partially 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 first quarter of 2023 compared with \$3.6 million in the first quarter of 2022. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$148.2 million in the first quarter of 2023, a decrease of \$4.8 million, or 3.1 percent, from the first quarter of 2022. The Westlake Ace Hardware ("Westlake") chain experienced a 3.8 percent decrease in same-store-sales while the Great Lakes Ace Hardware ("GLA") chain experienced a 6.8 percent decrease in same-store-sales in the quarter. The new stores opened by Westlake and GLA since the first quarter of 2022 contributed \$3.6 million of incremental revenues during the first quarter of 2023. Westlake and GLA together operated 230 stores at the end of the first quarter of 2023 compared to 210 stores at the end of the first quarter of 2022.

Ace added 50 new domestic stores in the first quarter of 2023 and cancelled 16 stores. The Company's total domestic store count was 4,901 at the end of the first quarter of 2023 which was an increase of 111 stores from the first quarter of 2022. On a worldwide basis, Ace added 52 stores in the first quarter of 2023 and cancelled 19, bringing the worldwide store count to 5,779 at the end of the first quarter of 2023.

Gross Profit

Wholesale gross profit for the three months ended April 1, 2023 was \$252.6 million, a decrease of \$9.4 million from the first

quarter of 2022. The wholesale gross margin percentage was 13.0 percent of wholesale revenues in the first quarter of 2023, up from 12.7 percent in the first quarter of 2022. The increase in wholesale gross margin percentage was primarily due to a decrease in LIFO expense driven by lower vendor prices.

Retail gross profit for the three months ended April 1, 2023 was \$70.0 million, a decrease of \$3.0 million from the first quarter of 2022. The retail gross margin percentage was 47.2 percent of retail revenues in the first quarter of 2023, up from 46.6 percent in the first quarter of 2022. The increase in retail gross margin percentage primarily resulted from the exclusion of The Grommet in 2023. 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 \$16.5 million, or 10.2 percent, from the first quarter of 2022. The increase is due to greater lease expense driven by the expansion of our warehouse space, higher health insurance expenses and higher bad debt expense. Wholesale operating expenses as a percent of wholesale revenue was 9.2 percent, up from 7.8 percent in first quarter of 2022.

Retail operating expenses increased \$2.4 million, or 3.5 percent, from the first quarter of 2022. This increase was primarily driven by an increase in store payroll and expenses incurred related to the new stores added since the first quarter of 2022; partially offset by the closure of The Grommet during the third quarter of 2022. Retail operating expenses as a percent of retail revenue increased to 47.4 percent in the first quarter of 2023 from 43.3 percent in the first quarter of 2022.

Other income, net decreased \$22.0 million, as a result of the \$21.7 million gain on sale of the Company's RSC located in Gainesville, Georgia during the first quarter of 2022.

Balance Sheet and Cash Flow

Receivables decreased \$34.3 million from the first quarter of 2022 due to lower sales volumes.

Inventories decreased \$68.6 million from the first quarter of 2022 due to an increase in the LIFO reserve caused by inflation.

Long-term debt, including current maturities, decreased \$13.4 million versus the first quarter of 2022. At the end of the first quarter of 2023, long-term debt consisted of \$96.2 million outstanding on the revolving credit facility, \$39.4 million outstanding on the Westlake credit facility, and \$43.4 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 60 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.

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

Three Months Ended	
April 1, 2023 (13 Weeks)	April 2, 2022 (13 Weeks)

Revenues:

Wholesale revenues	\$ 1,938.0	\$ 2,057.0
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Retail revenues	148.2	156.6
Total revenues	2,086.2	2,213.6
Cost of revenues:		
Wholesale cost of revenues	1,685.4	1,795.0
Retail cost of revenues	78.2	83.6
Total cost of revenues	1,763.6	1,878.6
Gross profit:		
Wholesale gross profit	252.6	262.0
Retail gross profit	70.0	73.0
Total gross profit	322.6	335.0
Wholesale operating expenses:		
Distribution operations expenses	66.5	61.5
Selling, general and administrative expenses	67.2	57.2
Retailer success and development expenses	44.2	42.7
Retail operating expenses	70.2	67.8
Retail pre-opening expenses	1.4	0.2
Total operating expenses	249.5	229.4
Operating income	73.1	105.6
Interest expense	(6.3)	(4.0)
Interest income	1.3	0.6
Other income, net	0.7	22.7
Income tax expense	(2.6)	(5.1)
Net income	66.2	119.8
Less: net loss attributable to noncontrolling interests	(0.4)	(0.3)
Net income attributable to Ace Hardware Corporation	\$ 66.6	\$ 120.1
Patronage distributions accrued	\$ 88.4	\$ 135.6
Patronage distributions accrued for third party Retailers	\$ 83.8	\$ 130.9

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

	April 1, 2023	December 31, 2022	April 2, 2022
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 46.4	\$ 28.5	\$ 47.5
Marketable securities	49.7	53.3	56.3
Receivables, net of allowance for doubtful accounts of \$9.0, \$7.0 and \$5.8, respectively	819.3	650.8	853.6
Inventories	1,451.4	1,303.7	1,520.0
Prepaid expenses and other current assets	57.8	59.7	68.4
Total current assets	2,424.6	2,096.0	2,545.8
Property and equipment, net	480.8	463.6	453.7
Operating lease right-of-use assets, net	677.2	613.8	493.4
Finance lease right-of-use assets, net	121.1	84.2	73.9
Goodwill and other intangible assets, net	106.7	105.7	99.1
Other assets	141.6	127.7	118.3
Total assets	\$ 3,952.0	\$ 3,491.0	\$ 3,784.2
Liabilities and Equity			
Current maturities of long-term debt	\$ 56.1	\$ 15.1	\$ 50.1

Accounts payable	1,440.6	1,165.5	1,586.1
Patronage distributions payable in cash	167.5	133.1	174.4
Patronage refund certificates payable	23.0	23.1	27.2
Current operating lease liabilities	71.7	77.0	68.0
Current finance lease liabilities	20.3	17.2	12.3
Accrued expenses	202.6	299.5	184.4
Total current liabilities	1,981.8	1,730.5	2,102.5
Long-term debt	122.9	23.0	142.3
Patronage refund certificates payable	121.7	111.3	103.5
Long-term operating lease liabilities	629.5	562.4	448.4
Long-term finance lease liabilities	99.3	67.6	60.7
Other long-term liabilities	106.9	104.4	94.2
Total liabilities	3,062.1	2,599.2	2,951.6
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,659, 2,662 and 2,680 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 6,396,829, 6,561,209 and 5,672,347 issued and outstanding, respectively	639.7	656.1	567.2
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 1,486,130, 1,181,824 and 1,752,589 shares issuable, respectively	148.6	118.1	175.2
Contributed capital	19.1	19.2	19.0
Retained earnings	70.0	87.2	58.1
Accumulated other comprehensive loss	(1.1)	(2.3)	(1.2)
Equity attributable to Ace member retailers	879.0	881.0	821.0
Equity attributable to noncontrolling interests	10.9	10.8	11.6
Total equity	889.9	891.8	832.6
Total liabilities and equity	\$ 3,952.0	\$ 3,491.0	\$ 3,784.2

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

	Three Months Ended	
	April 1, 2023 (13 Weeks)	April 2, 2022 (13 Weeks)
Operating Activities		
Net income	\$ 66.2	\$ 119.8
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	20.3	19.0
Non cash lease expense	6.1	3.6
Amortization of deferred financing costs	0.6	0.1
Loss (gain) on the disposal of assets, net	2.6	(21.8)
Provision for doubtful accounts	2.8	1.1
Other, net	(0.3)	0.2
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(183.8)	(346.7)
Inventories	(146.6)	(295.7)
Other current assets	2.0	(4.6)
Other long-term assets	(3.2)	(3.4)
Accounts payable and accrued expenses	208.6	419.5
Other long-term liabilities	2.6	3.3

Deferred taxes	(0.1)	(1.0)
Net cash used in operating activities	(22.2)	(106.6)
Investing Activities		
Purchases of investment securities	(4.2)	(3.3)
Proceeds from sale of investment securities	8.0	1.8
Purchases of property and equipment	(43.7)	(25.5)
Cash paid for acquired businesses, net of cash received	(2.3)	-
Increase in notes receivable, net	(6.7)	(3.6)
Proceeds from sale of assets	-	27.2
Other, net	(0.2)	(0.7)
Net cash used in investing activities	(49.1)	(4.1)
Financing Activities		
Net borrowings under revolving lines of credit	135.6	154.6
Principal payments on long-term debt	(3.9)	(3.6)
Payments of debt issuance costs	(4.4)	-
Principal portion of finance lease payment	(8.9)	(3.9)
Payments of patronage refund certificates	(26.6)	(25.9)
Repurchase of stock	(2.8)	(1.1)
Purchase of noncontrolling interests	(0.2)	(0.2)
Other, net	0.4	0.7
Net cash provided by financing activities	89.2	120.6
Increase in cash and cash equivalents	17.9	9.9
Cash and cash equivalents at beginning of period	28.5	37.6
Cash and cash equivalents at end of period	\$ 46.4	\$ 47.5
Supplemental disclosure of cash flow information:		
Interest paid	\$ 7.3	\$ 6.6
Income taxes paid	\$ 0.3	\$ 0.3

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