

ACE HARDWARE REPORTS SECOND QUARTER 2023 RESULTS

- *Second quarter revenues of \$2.6 billion, an increase of 3.9 percent from last year*
- *Operating income was \$141.0 million, a 6.6 percent increase versus second quarter of 2022*
- *Second quarter net income of \$126.7 million, an increase of 1.5 percent from last year*
- *Ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, marking sixteen out of the last seventeen years*

OAK BROOK, Ill., Aug. 16, 2023 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported second quarter 2023 revenues of \$2.6 billion, an increase of \$99.6 million, or 3.9 percent, from the second quarter of 2022. Net income was \$126.7 million for the second quarter of 2023, an increase of \$1.9 million from the second quarter of 2022.

"A 45 percent increase in visits to Acehardware.com drove an 18 percent increase in our digital business, a 3 percent increase in store visits, and an encouraging 1.1 percent increase in same-store transactions during the quarter," said John Venhuizen, President & CEO. "I'm very proud of the Ace team for delivering a 3.9 percent increase in revenue and a 6.6 percent increase in operating income within a difficult environment for retailers of durable goods."

The approximately 3,600 Ace retailers who share daily retail sales data reported a 0.4 percent increase in U.S. retail same-store-sales during the second quarter of 2023, which was the result of a 1.1 percent increase in same-store transactions; partially offset by a 0.8 percent decrease in average ticket.

Revenues

Consolidated revenues for the quarter ended July 1, 2023 totaled \$2.6 billion. Total wholesale revenues were \$2.4 billion, an increase of \$96.9 million, or 4.3 percent, as compared to the prior year second quarter. Increases were seen across a majority of departments with lawn and garden, paint, and grilling showing the largest gains. New stores are defined as stores that were activated from January 2022 through June 2023. The Company had an increase in wholesale merchandise revenues from new domestic stores of \$58.4 million during the second quarter of 2023, while wholesale merchandise revenues decreased \$9.8 million during the second quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$11.7 million for the quarter. The Company's Ace International Holdings, Ltd. subsidiary experienced a \$3.7 million decrease in wholesale revenue versus the second quarter of 2022, while Ace Wholesale Holdings LLC reported a \$0.2 million decrease in wholesale revenues from the second quarter of 2022.

Total retail revenues for the quarter were \$260.7 million, an increase of \$2.7 million, or 1.0 percent, as compared to the prior year second quarter. Retail revenues were negatively impacted by 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 second quarter of 2023 compared with \$5.6 million in the second quarter of 2022. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$260.7 million in the second quarter of 2023, an increase of \$8.3 million, or 3.3 percent, from the second quarter of 2022. This increase was primarily driven by new stores added by the Westlake Ace Hardware ("Westlake") and the Great Lakes Ace Hardware ("GLA") chains since the end of the first quarter of 2022, which contributed \$6.7 million of incremental revenues. Westlake experienced a 2.4 percent increase in same-store-sales while GLA experienced a 1.5 percent decrease in same-store-sales in the quarter. Westlake and GLA together operated 231 stores at the end of the second quarter of 2023 compared to 215 stores at the end of the second quarter of 2022.

Ace added 36 new domestic stores in the second quarter of 2023 and cancelled 13 stores. The Company's total domestic store count was 4,924 at the end of the second quarter of 2023 which was an increase of 108 stores from the second quarter of 2022.

On a worldwide basis, Ace added 46 stores in the second quarter of 2023 and cancelled 14, bringing the worldwide store count to 5,811 at the end of the second quarter of 2023.

Gross Profit

Wholesale gross profit for the three months ended July 1, 2023 was \$323.6 million, an increase of \$36.3 million from the second quarter of 2022. The wholesale gross margin percentage was 13.6 percent of wholesale revenues in the second quarter of 2023, up from 12.6 percent in the second quarter of 2022. The increase in wholesale gross margin percentage was primarily due to a decrease in LIFO expense driven by moderating vendor prices.

Retail gross profit for the three months ended July 1, 2023 was \$112.6 million, a decrease of \$1.9 million from the second quarter of 2022. The retail gross margin percentage was 43.2 percent of retail revenues in the second quarter of 2023, down from 44.4

percent in the second quarter of 2022. The decrease in retail gross margin percentage primarily resulted from product mix and increased shrink expense. 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 \$35.6 million, or 18.9 percent, from the second quarter of 2022. The increase is due to increased advertising expenses, greater lease expense driven by the opening of additional Retail Support Centers and higher compensation expense. Wholesale operating expenses as a percent of wholesale revenues increased to 9.4 percent in the second quarter of 2023 from 8.3 percent in the second quarter of 2022.

Retail operating expenses decreased \$10.4 million, or 12.8 percent, from the second quarter of 2022. This decrease was driven by the closure of The Grommet during the third quarter of 2022, resulting in the absence of operating expenses from AEH in the second quarter of 2023. Retail operating expenses as a percent of retail revenue decreased to 27.1 percent in the second quarter of 2023 from 31.4 percent in the second quarter of 2022.

Interest expense increased \$6.4 million from the second quarter of 2022 due to higher interest rates and increased borrowings.

Balance Sheet and Cash Flow

Receivables increased \$18.3 million from the second quarter of 2022 driven by an increase in past due trade balances and an increase in notes receivable from Ace Retailers.

Inventories decreased \$156.9 million from the second quarter of 2022 primarily as a result of a \$68.6 million increase in the LIFO reserve recorded in the second half of 2022 and a reduction in overstock inventory.

Long-term debt, including current maturities, increased \$101.4 million versus the second quarter of 2022. At the end of the second quarter of 2023, long-term debt consisted of \$280.0 million outstanding on the revolving credit facility, and \$49.9 million owed to former retailers.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with over 5,800 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.

In 2023, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, sixteen out of the last seventeen years.

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

	Three Months Ended		Six Months Ended	
	July 1, 2023 (13 Weeks)	July 2, 2022 (13 Weeks)	July 1, 2023 (26 Weeks)	July 2, 2022 (26 Weeks)
Revenues:				
Wholesale revenues	\$ 2,371.9	\$ 2,275.0	\$ 4,309.9	\$ 4,332.0
Retail revenues	260.7	258.0	408.9	414.6
Total revenues	2,632.6	2,533.0	4,718.8	4,746.6
Cost of revenues:				
Wholesale cost of revenues	2,048.3	1,987.7	3,733.7	3,782.7

Retail cost of revenues	148.1	143.5	226.3	227.1
Total cost of revenues	2,196.4	2,131.2	3,960.0	4,009.8
Gross profit:				
Wholesale gross profit	323.6	287.3	576.2	549.3
Retail gross profit	112.6	114.5	182.6	187.5
Total gross profit	436.2	401.8	758.8	736.8
Wholesale operating expenses:				
Distribution operations expenses	70.6	64.6	137.1	126.1
Selling, general and administrative expenses	72.4	56.6	139.6	113.8
Retailer success and development expenses	80.5	66.7	124.7	109.4
Retail operating expenses	70.7	81.1	140.9	148.9
Retail pre-opening expenses	1.0	0.5	2.4	0.7
Total operating expenses	295.2	269.5	544.7	498.9
Operating income	141.0	132.3	214.1	237.9
Interest expense	(10.8)	(4.4)	(17.1)	(8.4)
Interest income	1.0	0.4	2.3	1.0
Other (expense) income, net	(3.2)	-	(2.5)	22.7
Income tax expense	(1.3)	(3.5)	(3.9)	(8.6)
Net income	126.7	124.8	192.9	244.6
Less: net loss attributable to noncontrolling interests	(0.2)	(0.1)	(0.6)	(0.4)
Net income attributable to Ace Hardware Corporation	\$ 126.9	\$ 124.9	\$ 193.5	\$ 245.0
Patronage distributions accrued	\$ 116.7	\$ 111.7	\$ 205.1	\$ 247.3
Patronage distributions accrued for third party Retailers	\$ 111.4	\$ 106.4	\$ 195.2	\$ 237.3

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

	July 1, 2023 (Unaudited)	December 31, 2022 (Audited)	July 2, 2022 (Unaudited)
Assets			
Cash and cash equivalents	\$ 50.6	\$ 28.5	\$ 48.8
Marketable securities	52.1	53.3	52.8
Receivables, net of allowance for doubtful accounts of \$9.0, \$7.0 and \$5.8, respectively	845.9	650.8	827.6
Inventories	1,376.4	1,303.7	1,533.3
Prepaid expenses and other current assets	60.1	59.7	59.8
Total current assets	2,385.1	2,096.0	2,522.3
Property and equipment, net	510.8	463.6	451.6
Operating lease right-of-use assets, net	669.9	613.8	616.9
Finance lease right-of-use assets, net	120.4	84.2	80.4
Goodwill and other intangible assets, net	405.7	105.7	93.8
Other assets	153.4	127.7	115.2
Total assets	\$ 4,245.3	\$ 3,491.0	\$ 3,880.2
Liabilities and Equity			
Current maturities of long-term debt	\$ 18.6	\$ 15.1	\$ 13.6
Accounts payable	1,598.6	1,165.5	1,503.8
Patronage distributions payable in cash	80.3	133.1	97.6
Patronage refund certificates payable	23.0	23.1	27.2
Current operating lease liabilities	73.7	77.0	70.4
Current finance lease liabilities	21.4	17.2	14.0
Accrued expenses	221.4	299.5	213.6
Total current liabilities	2,037.0	1,730.5	1,940.2
Long-term debt	311.3	23.0	214.9

Patronage refund certificates payable	134.5	111.3	111.6
Long-term operating lease liabilities	621.2	562.4	571.7
Long-term finance lease liabilities	98.3	67.6	65.4
Other long-term liabilities	112.0	104.4	96.8
Total liabilities	<u>3,314.3</u>	<u>2,599.2</u>	<u>3,000.6</u>
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,649, 2,662 and 2,675 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 7,420,294, 6,561,209 and 6,753,381 issued and outstanding, respectively	742.0	656.1	675.3
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 706,506, 1,181,824 and 981,230 shares issuable, respectively	70.7	118.1	98.2
Contributed capital	19.1	19.2	19.0
Retained earnings	85.9	87.2	76.7
Accumulated other comprehensive loss	(0.2)	(2.3)	(3.7)
Equity attributable to Ace member Retailers	<u>920.2</u>	<u>881.0</u>	<u>868.2</u>
Equity attributable to noncontrolling interests	10.8	10.8	11.4
Total equity	<u>931.0</u>	<u>891.8</u>	<u>879.6</u>
Total liabilities and equity	<u>\$ 4,245.3</u>	<u>\$ 3,491.0</u>	<u>\$ 3,880.2</u>

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

	Six Months Ended	
	July 1, 2023	July 2, 2022
	(26 Weeks)	(26 Weeks)
Operating Activities		
Net income	\$ 192.9	\$ 244.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42.4	46.6
Non cash lease expense	12.7	7.7
Amortization of deferred financing costs	0.8	0.2
Loss (gain) on the disposal of assets, net	3.1	(21.7)
Provision for doubtful accounts	3.1	2.1
Other, net	1.7	4.0
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(215.6)	(328.2)
Inventories	(66.1)	(308.4)
Other current assets	1.3	4.0
Other long-term assets	(11.3)	(3.4)
Accounts payable and accrued expenses	361.7	365.7
Other long-term liabilities	5.0	5.8
Deferred taxes	(0.5)	0.5
Net cash provided by operating activities	<u>331.2</u>	<u>19.5</u>
Investing Activities		
Purchases of investment securities	(25.7)	(7.8)
Proceeds from sale of investment securities	26.6	6.8
Purchases of property and equipment	(77.7)	(45.5)
Cash paid for acquired businesses, net of cash received	(306.0)	(1.0)
Increase in notes receivable, net	(12.9)	(9.3)
Proceeds from sale of assets	0.1	28.3
Other, net	(0.3)	(1.1)

Net cash used in investing activities	(395.9)	(29.6)
Financing Activities		
Net borrowings under revolving lines of credit	280.0	186.9
Principal payments on long-term debt	(7.3)	(6.1)
Payments of debt issuance costs	(4.4)	-
Principal portion of finance lease payment	(15.3)	(8.3)
Payments of cash portion of patronage distribution	(133.1)	(121.0)
Payments of patronage refund certificates	(26.7)	(25.9)
Repurchase of stock	(6.6)	(4.8)
Purchase of noncontrolling interests	(0.3)	(0.4)
Other, net	0.5	0.9
Net cash provided by financing activities	86.8	21.3
Increase in cash and cash equivalents	22.1	11.2
Cash and cash equivalents at beginning of period	28.5	37.6
Cash and cash equivalents at end of period	<u>\$ 50.6</u>	<u>\$ 48.8</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 14.6</u>	<u>\$ 8.0</u>
Income taxes paid	<u>\$ 1.9</u>	<u>\$ 1.0</u>

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