

ACE HARDWARE REPORTS THIRD QUARTER 2023 RESULTS

- Record third quarter revenues of \$2.3 billion, an increase of 2.5 percent from last year
- Record third quarter net income of \$130.0 million, an increase of 29.2 percent from last year
- Accrued patronage dividend to shareholders of \$338.2 million, a decrease of 1.7 percent from the first nine months of 2022
- Ace ranked fifth largest U.S. based franchise system by Franchise Times
- Ace named Top 10 Workplace in Chicagoland for the sixth time by Chicago Tribune

OAK BROOK, Ill., Nov. 15, 2023 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported record third quarter 2023 revenues of \$2.3 billion, an increase of \$55.8 million, or 2.5 percent, from the third quarter of 2022. Net income was \$130.0 million for the third quarter of 2023, an increase of \$29.4 million from the third quarter of 2022.

"It's quite the privilege to once again announce record revenue and record earnings for the quarter," said John Venhuizen, President & CEO. "Nearly 24% growth in our digital business is a testament to the efficacy of the Ace team and the degree to which our local retailers have integrated our digital and physical assets as 90% of the business is either picked up in store, or, delivered to the customer by our retail associates."

The approximately 3,700 Ace retailers who share daily retail sales data reported a 0.7 percent decrease in U.S. retail same-store-sales during the third quarter of 2023, which was the result of a 0.5 percent decrease in average ticket and a 0.2 percent decrease in same-store transactions. Removing the deflationary impact of lumber stores, U.S. retail same-store-sales were up 0.6 percent in the third quarter of 2023.

Revenues

Consolidated revenues for the quarter ended September 30, 2023 totaled \$2.3 billion. Total wholesale revenues were \$2.1 billion, an increase of \$54.3 million, or 2.7 percent, as compared to the prior year third quarter. Increases were seen across a majority of departments with outdoor power equipment, power tools and lawn and garden showing the largest gains. New stores are defined as stores that were activated from January 2022 through September 2023. The Company had an increase in wholesale merchandise revenues from new domestic stores of \$55.5 million during the third quarter of 2023, while wholesale merchandise revenues decreased \$7.9 million during the third quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores decreased \$43.0 million for the quarter. The Company's Ace International Holdings, Ltd. subsidiary experienced a \$1.9 million decrease in wholesale revenue versus the third quarter of 2022, while Ace Wholesale Holdings LLC reported a \$0.8 million decrease in wholesale revenues from the third quarter of 2022. The Company's Ace Services Holdings LLC subsidiary, which is reported as part of the Company's wholesale business, experienced a \$41.9 million increase in wholesale revenues from the third quarter of 2022. This is primarily due to the acquisition of Unique Indoor Comfort Holdings, LLC ("UICH") during the second quarter of 2023, which contributed \$39.7 million of incremental revenues.

Total retail revenues for the quarter were \$194.9 million, an increase of \$1.5 million, or 0.8 percent, as compared to the prior year third quarter. Ace Retail Holdings LLC ("ARH") revenues increased \$2.8 million, or 1.5 percent, from the third quarter of 2022. This increase was driven by new stores added by the Westlake Ace Hardware ("Westlake") and the Great Lakes Ace Hardware ("GLA") chains since the end of the second quarter of 2022, which contributed \$5.7 million of incremental revenues. Westlake experienced a 1.0 percent decrease in same-store-sales, while GLA experienced a 0.4 percent decrease in same-store-sales in the quarter. Westlake and GLA together operated 233 stores at the end of the third quarter of 2023 compared to 216 stores at the end of the third quarter of 2022.

Ace added 36 new domestic stores in the third quarter of 2023 and cancelled 17 stores. The Company's total domestic store count was 4,943 at the end of the third quarter of 2023, which was an increase of 102 stores from the third quarter of 2022.

On a worldwide basis, Ace added 38 stores in the third quarter of 2023 and cancelled 21, bringing the worldwide store count to 5,828 at the end of the third quarter of 2023.

Gross Profit

Wholesale gross profit for the three months ended September 30, 2023 was \$318.9 million, an increase of \$46.4 million from the third quarter of 2022. The wholesale gross margin percentage was 15.2 percent of wholesale revenues in the third quarter

of 2023, up from 13.4 percent in the third quarter of 2022. The increase in wholesale gross margin percentage was primarily due to a reversal in LIFO from an expense in 2022 when vendor prices were rising, to LIFO income in the third quarter of 2023 as certain vendor prices declined.

Retail gross profit for the three months ended September 30, 2023 was \$89.8 million, an increase of \$1.7 million from the third quarter of 2022. The retail gross margin percentage was 46.1 percent of retail revenues in the third quarter of 2023, up from 45.6 percent in the third quarter of 2022. The increase in retail gross margin percentage was primarily due to vendor funds earned related to new store openings. 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 \$14.2 million, or 7.8 percent, from the third quarter of 2022. The increase is primarily due to the acquisition of UICH during the second quarter of 2023, which added \$17.1 million of incremental operating expenses in the third quarter of 2023; partially offset by lower compensation benefit expense. Wholesale operating expenses as a percent of wholesale revenues increased to 9.4 percent in the third quarter of 2023 from 9.0 percent in the third quarter of 2022.

Retail operating expenses increased \$0.5 million, or 0.7 percent, from the third quarter of 2022. Retail operating expenses as a percent of retail revenue was unchanged at 36.0 percent in both the third quarter of 2023 and 2022.

Interest expense increased \$4.8 million from the third quarter of 2022 due to higher interest rates and increased borrowings, resulting from the acquisition of UICH.

Balance Sheet and Cash Flow

Receivables increased \$18.1 million from the third quarter of 2022 driven by an increase in notes receivable from Ace Retailers due in future years.

Inventories decreased \$135.3 million from the third quarter of 2022 primarily as a result of efforts to reduce overstock inventory. The change in the LIFO reserve also contributed to the decrease.

Long-term debt, including current maturities, increased \$156.5 million versus the third quarter of 2022. At the end of the third quarter of 2023, long-term debt consisted of \$343.9 million outstanding on the revolving credit facility, \$13.8 million outstanding on the Westlake credit facility, and \$47.7 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 Cuautitlán Izcalli, 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		Nine Months Ended	
September		September	
30,	October 1,	30,	October 1,

	2023 (13 Weeks)	2022 (13 Weeks)	2023 (39 Weeks)	2022 (39 Weeks)
Revenues:				
Wholesale revenues	\$ 2,092.7	\$ 2,038.4	\$ 6,402.6	\$ 6,370.4
Retail revenues	194.9	193.4	603.8	608.0
Total revenues	2,287.6	2,231.8	7,006.4	6,978.4
Cost of revenues:				
Wholesale cost of revenues	1,773.8	1,765.9	5,507.5	5,548.6
Retail cost of revenues	105.1	105.3	331.4	332.4
Total cost of revenues	1,878.9	1,871.2	5,838.9	5,881.0
Gross profit:				
Wholesale gross profit	318.9	272.5	895.1	821.8
Retail gross profit	89.8	88.1	272.4	275.6
Total gross profit	408.7	360.6	1,167.5	1,097.4
Wholesale operating expenses:				
Distribution operations expenses	69.0	63.2	206.1	189.3
Selling, general and administrative expenses	78.6	70.0	218.2	183.8
Retailer success and development expenses	49.5	49.7	174.2	159.1
Retail operating expenses	70.1	69.6	211.0	218.5
Retail pre-opening expenses	1.5	0.7	3.9	1.4
Total operating expenses	268.7	253.2	813.4	752.1
Operating income	140.0	107.4	354.1	345.3
Interest expense	(9.9)	(5.1)	(27.0)	(13.5)
Interest income	1.3	1.1	3.6	2.1
Other income (expense), net	1.1	0.9	(1.4)	23.6
Income tax expense	(2.5)	(3.7)	(6.4)	(12.3)
Net income	130.0	100.6	322.9	345.2
Less: net loss attributable to noncontrolling interests	(0.5)	(0.1)	(1.1)	(0.5)
Net income attributable to Ace Hardware Corporation	\$ 130.5	\$ 100.7	\$ 324.0	\$ 345.7
Patronage distributions accrued	\$ 133.1	\$ 96.8	\$ 338.2	\$ 344.1
Patronage distributions accrued for third party Retailers	\$ 128.2	\$ 91.9	\$ 323.4	\$ 329.2

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)	October 1, 2022 (Unaudited)
Assets			
Cash and cash equivalents	\$ 42.5	\$ 28.5	\$ 44.0
Marketable securities	50.8	53.3	51.6
Receivables, net of allowance for doubtful accounts of \$7.8, \$7.0 and \$5.0, respectively	716.5	650.8	698.4
Inventories	1,356.5	1,303.7	1,491.8
Prepaid expenses and other current assets	70.0	59.7	51.9
Total current assets	2,236.3	2,096.0	2,337.7
Property and equipment, net	524.3	463.6	450.0
Operating lease right-of-use assets, net	673.0	613.8	622.9
Finance lease right-of-use assets, net	127.0	84.2	83.4
Goodwill and other intangible assets, net	408.2	105.7	105.5

Other assets	152.4	127.7	122.7
Total assets	<u>\$ 4,121.2</u>	<u>\$ 3,491.0</u>	<u>\$ 3,722.2</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 32.3	\$ 15.1	\$ 28.3
Accounts payable	1,268.1	1,165.5	1,217.6
Patronage distributions payable in cash	133.1	133.1	135.4
Patronage refund certificates payable	23.0	23.1	27.2
Current operating lease liabilities	83.3	77.0	73.2
Current finance lease liabilities	25.2	17.2	15.0
Accrued expenses	233.3	299.5	225.0
Total current liabilities	<u>1,798.3</u>	<u>1,730.5</u>	<u>1,721.7</u>
Long-term debt	373.1	23.0	220.6
Patronage refund certificates payable	150.5	111.3	119.2
Long-term operating lease liabilities	613.5	562.4	575.2
Long-term finance lease liabilities	103.5	67.6	67.5
Other long-term liabilities	113.5	104.4	99.0
Total liabilities	<u>3,152.4</u>	<u>2,599.2</u>	<u>2,803.2</u>
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,636, 2,662 and 2,679 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 7,330,493, 6,561,209 and 6,696,541 issued and outstanding, respectively	733.0	656.1	669.6
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 1,172,429, 1,181,824 and 1,357,811 shares issuable, respectively	117.2	118.1	135.8
Contributed capital	19.2	19.2	19.1
Retained earnings	88.3	87.2	85.7
Accumulated other comprehensive loss	(1.8)	(2.3)	(5.2)
Equity attributable to Ace member Retailers	<u>958.6</u>	<u>881.0</u>	<u>907.7</u>
Equity attributable to noncontrolling interests	<u>10.2</u>	<u>10.8</u>	<u>11.3</u>
Total equity	<u>968.8</u>	<u>891.8</u>	<u>919.0</u>
Total liabilities and equity	<u>\$ 4,121.2</u>	<u>\$ 3,491.0</u>	<u>\$ 3,722.2</u>

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

	Nine Months Ended	
	September 30 2023 (39 Weeks)	October 1, 2022 (39 Weeks)
Operating Activities		
Net income	\$ 322.9	\$ 345.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65.9	66.3
Non cash lease expense	19.9	12.2
Amortization of deferred financing costs	1.0	0.3
Loss (gain) on the disposal of assets, net	3.2	(21.2)
Provision for doubtful accounts	2.2	1.8
Other, net	1.8	5.4
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(94.0)	(201.7)
Inventories	(46.0)	(265.4)

Other current assets	(8.5)	11.9
Other long-term assets	(11.0)	(7.3)
Accounts payable and accrued expenses	50.2	88.9
Other long-term liabilities	7.0	8.1
Deferred taxes	(0.4)	1.0
Net cash provided by operating activities	314.2	45.5
Investing Activities		
Purchases of investment securities	(33.5)	(32.4)
Proceeds from sale of investment securities	33.8	21.0
Purchases of property and equipment	(123.4)	(62.8)
Cash paid for acquired businesses, net of cash received	(306.6)	(12.8)
Increase in notes receivable, net	(22.4)	(12.9)
Proceeds from sale of assets	0.1	28.4
Other, net	(0.7)	(0.6)
Net cash used in investing activities	(452.7)	(72.1)
Financing Activities		
Net borrowings under revolving lines of credit	357.7	204.9
Principal payments on long-term debt	(11.3)	(7.1)
Payments of debt issuance costs	(4.4)	-
Principal portion of finance lease payment	(20.9)	(13.1)
Payments of cash portion of patronage distribution	(133.1)	(121.0)
Payments of patronage refund certificates	(26.7)	(25.9)
Repurchase of stock	(9.3)	(5.7)
Purchase of noncontrolling interests	(0.3)	(0.4)
Other, net	0.8	1.3
Net cash provided by financing activities	152.5	33.0
Increase in cash and cash equivalents	14.0	6.4
Cash and cash equivalents at beginning of period	28.5	37.6
Cash and cash equivalents at end of period	\$ 42.5	\$ 44.0
Supplemental disclosure of cash flow information:		
Interest paid	\$ 21.2	\$ 10.6
Income taxes paid	\$ 4.3	\$ 5.3

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