

ACE HARDWARE REPORTS FOURTH QUARTER AND FULL YEAR 2023 RESULTS

- *Fourth quarter revenues of \$2.1 billion, a decrease of 3.0 percent*
- *Full year revenues of \$9.1 billion, a decrease of 0.4 percent*
- *Record full year operating income of \$361.1 million, an increase of 5.6 percent*
- *Record patronage dividend to shareholders of \$356.5 million, an increase of 3.5 percent*

OAK BROOK, Ill., Feb. 14, 2024 /PRNewswire/ -- Ace Hardware Corporation ("Ace" or the "Company") today reported fourth quarter 2023 revenues of \$2.1 billion, a decrease of \$66.7 million, or 3.0 percent, from the fourth quarter of 2022. Net income was \$0.5 million for the fourth quarter of 2023, an increase of \$5.1 million from a net loss of \$4.6 million for the fourth quarter of 2022.

Full year revenues were \$9.1 billion, a decrease of \$38.7 million, or 0.4 percent, from 2022 revenue. Net income for fiscal 2023 was \$323.4 million, a decrease of \$17.2 million, from fiscal 2022 when the Company recorded a non-recurring gain of \$21.7 million on the sale of a former Retail Support Center.

"I'm pleased to announce record operating income, record shareholder distributions, and record contributions to our charitable foundation," said John Venhuizen, President and CEO. "With shareholder dividends of \$356.5 million and pre-tax return on equity of 38.7 percent, the Ace team is to be commended for the discipline, production, and stewardship with which they managed our resources and opportunities."

"While Q4 revenue was disappointing, the miss is entirely a result of lower sales on winter goods as a result of a particularly mild December," said Venhuizen.

The approximately 3,700 domestic Ace stores that share daily sales data reported a 5.2 percent decrease in retail same-store-sales during the fourth quarter of 2023, which was the result of a 3.2 percent decrease in same-store transactions and a 2.0 percent decrease in average ticket. For the full year, retail same-store-sales decreased 2.2 percent, which was the result of a 1.1 percent decrease in same-store transactions and a 1.0 percent decrease in average ticket.

Revenues

Fourth Quarter

Consolidated revenues for the three months ended December 30, 2023 totaled \$2.1 billion. Total wholesale revenues were \$1.9 billion, a decrease of \$59.8 million, or 3.0 percent, as compared to the prior year fourth quarter. Decreases were seen across a majority of departments with plumbing, outdoor power equipment, and grilling showing the largest declines.

Wholesale merchandise revenues to new domestic Ace stores activated from January 2022 through December 2023 contributed \$38.6 million of incremental revenues during the fourth quarter of 2023, while wholesale merchandise revenues decreased \$9.0 million during the fourth quarter due to domestic Ace stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic Ace stores decreased \$126.4 million for the quarter. The Company's Ace Hardware International Holdings, Ltd. ("AIH") subsidiary experienced a \$0.6 million decrease in wholesale revenue versus the fourth quarter of 2022, while Ace Wholesale Holdings LLC ("AWH") reported a \$5.7 million decrease in wholesale revenues from the fourth quarter of 2022. The Company's Ace Services Holdings LLC ("ASH") subsidiary, which is reported as part of the Company's wholesale business, experienced a \$41.1 million increase in wholesale revenues from the fourth 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 \$40.0 million of incremental revenues during the fourth quarter of 2023.

Total retail revenues from Ace Retail Holdings LLC ("ARH") for the quarter were \$182.6 million, a decrease of \$6.9 million, or 3.6 percent, as compared to the prior year fourth quarter. The Westlake Ace Hardware ("Westlake") chain experienced a 6.1 percent decrease in same-store-sales while the Great Lakes Ace Hardware ("GLA") chain experienced a 10.1 percent decrease in same-store-sales in the quarter. The new stores opened by Westlake and GLA since the third quarter of 2022 contributed \$6.2 million of incremental revenues during the fourth quarter of 2023. Westlake and GLA together operated 235 stores at the end of the fourth quarter of 2023 compared to 222 stores at the end of the fourth quarter of 2022.

Fiscal Year

Consolidated revenues for fiscal 2023 totaled \$9.1 billion, a decrease of \$38.7 million, or 0.4 percent, as compared to the prior year. Total wholesale revenues were \$8.3 billion, a decrease of \$27.6 million, or 0.3 percent, as compared to the prior year. Decreases were seen across many departments with plumbing, grilling, and outdoor power equipment showing the largest declines.

Wholesale merchandise revenues from new domestic Ace stores were \$207.2 million in fiscal 2023. This increase was partially offset by a decrease in wholesale merchandise revenues of \$43.5 million due to domestic Ace store cancellations. Wholesale merchandise revenues to comparable domestic Ace stores decreased \$333.8 million in fiscal 2023 compared to fiscal 2022. AIH wholesale

revenues decreased \$7.6 million compared to the prior year, while AWH wholesale revenues decreased \$20.1 million compared to the prior year. ASH wholesale revenues increased \$109.0 million, primarily due to the acquisition of UICH, which contributed \$99.5 million of incremental revenues in fiscal 2023.

Total retail revenues were \$786.4 million, a decrease of \$11.1 million, or 1.4 percent, as compared to the prior year. Retail revenues were negatively impacted by the closure of The Grommet during the third quarter of 2022, resulting in the absence of revenues from Ace Ecommerce Holdings LLC ("AEH") in 2023 compared with \$10.5 million in the prior year. ARH revenues decreased \$0.6 million or 0.1 percent from the prior year. The Westlake chain experienced a 1.8 percent decrease in same-store-sales while the GLA chain experienced a 4.2 percent decrease in same-store-sales in fiscal 2023. The new stores opened by Westlake and GLA in 2022 and 2023 contributed \$17.8 million of incremental revenues during fiscal 2023.

Ace added 203 new domestic stores in fiscal 2023 and cancelled 76 stores. This brought the Company's total domestic store count to 4,994 at the end of fiscal 2023, an increase of 127 stores from the end of fiscal 2022. On a worldwide basis, Ace added 222 stores in fiscal 2023 and cancelled 98, bringing the worldwide store count to 5,870 at the end of fiscal 2023.

Gross Profit

Fourth Quarter

Wholesale gross profit for the three months ended December 30, 2023 was \$226.5 million, an increase of \$44.8 million from the fourth quarter of 2022. The wholesale gross margin percentage was 11.7 percent of wholesale revenues in the fourth quarter of 2023, up from 9.1 percent in the fourth quarter of 2022. The increase in the wholesale gross margin percentage was primarily due to a decrease in LIFO expense driven by moderating inflation and lower inventory levels as well as the higher margin rate associated with the ASH business.

Retail gross profit for the three months ended December 30, 2023 was \$83.9 million, an increase of \$1.6 million from the fourth quarter of 2022. The retail gross margin percentage was 45.9 percent of retail revenues in the fourth quarter of 2023, up from 43.4 percent in the fourth quarter of 2022. The increase in retail gross margin percentage primarily resulted from 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.

Fiscal Year

Wholesale gross profit for fiscal 2023 was \$1.1 billion, an increase of \$118.1 million from fiscal 2022. The wholesale gross margin percentage was 13.4 percent of wholesale revenues in fiscal 2023, up from 12.0 percent in fiscal 2022. The increase in the wholesale gross margin percentage was primarily due to a reversal of LIFO from an expense in fiscal 2022 when vendor prices were rising, to LIFO income in fiscal 2023 when inflation moderated and inventory levels declined.

Retail gross profit for fiscal 2023 was \$356.3 million, a decrease of \$1.6 million from fiscal 2022. The retail gross margin percentage was 45.3 percent of retail revenues in fiscal 2023, up from 44.9 percent in fiscal 2022. The increase in retail gross margin percentage primarily resulted from 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

Fourth Quarter

Wholesale operating expenses increased \$34.3 million, or 17.3 percent, from the fourth quarter of 2022. The increase is primarily due to the acquisition of UICH, which added \$24.5 million of incremental operating expenses, higher compensation benefit expense and increased lease expense driven by additional warehouse space. As a percentage of wholesale revenues, wholesale operating expenses increased to 12.0 percent of wholesale revenues in the fourth quarter of 2023 from 9.9 percent of wholesale revenues in the fourth quarter of 2022.

Retail operating expenses increased \$0.1 million, or 0.1 percent, from the fourth quarter of 2022. Retail operating expenses as a percentage of retail revenue increased to 37.8 percent in the fourth quarter of 2023 from 36.4 percent in the fourth quarter of 2022.

Interest expense increased \$5.7 million from the fourth quarter of 2022 due to increased borrowings for the acquisition of UICH and higher interest rates.

Other (expense) income, net decreased \$2.4 million from the fourth quarter of 2022 primarily due to \$8.6 million of expenses incurred related to a cybersecurity incident that took place during the fourth quarter of 2023, partially offset by an increase in gains recognized on investments.

Fiscal Year

Wholesale operating expenses increased \$100.6 million, or 13.8 percent, in fiscal 2023 as compared to fiscal 2022. The increase is primarily due to the acquisition of UICH, which added \$49.5 million of incremental operating expenses in fiscal 2023, increased lease expense driven by additional warehouse space, increased marketing and advertising expenses, increased depreciation expense and higher health insurance expenses. As a percentage of wholesale revenues, wholesale operating expenses increased to 10.0 percent in fiscal 2023 from 8.7 percent in fiscal 2022.

Retail operating expenses decreased \$7.4 million, or 2.6 percent, in fiscal 2023 as compared to fiscal 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 fiscal 2023. Retail operating expenses as a percentage of retail revenue decreased to 35.6 percent in fiscal 2023 from 36.1 percent in fiscal

2022.

Interest expense increased \$19.2 million in fiscal 2023 due to increased borrowings for the acquisition of UICH and higher interest rates.

Other (expense) income, net decreased \$27.4 million in fiscal 2023 compared to fiscal 2022. The decrease is due to the \$21.7 million non-recurring gain on sale of the Company's Retail Support Center located in Gainesville, Georgia during 2022, coupled with \$8.6 million of expenses incurred related to a cybersecurity incident that took place during the fourth quarter of 2023.

Balance Sheet and Cash Flow

Receivables increased \$23.6 million from the prior year driven by an increase in notes receivable from Ace Retailers due in future years.

Inventories decreased \$68.6 million from the prior year end primarily as a result of efforts to reduce overstock inventory.

Long-term debt, including current maturities, increased \$370.2 million versus 2022. At the end of 2023, long-term debt consisted of \$331.5 million outstanding on the revolving credit facility, \$30.5 million outstanding on the Westlake credit facility, and \$46.3 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 (In millions)

	Three Months Ended		Twelve Months Ended	
	December 30, 2023 (13 Weeks)	December 31, 2022 (13 Weeks)	December 30, 2023 (52 Weeks)	December 31, 2022 (52 Weeks)
Revenues:				
Wholesale revenues	\$ 1,942.1	\$ 2,001.9	\$ 8,344.7	\$ 8,372.3
Retail revenues	182.6	189.5	786.4	797.5
Total revenues	2,124.7	2,191.4	9,131.1	9,169.8
Cost of revenues:				
Wholesale cost of revenues	1,715.6	1,820.2	7,223.1	7,368.8
Retail cost of revenues	98.7	107.2	430.1	439.6
Total cost of revenues	1,814.3	1,927.4	7,653.2	7,808.4
Gross profit:				
Wholesale gross profit	226.5	181.7	1,121.6	1,003.5
Retail gross profit	83.9	82.3	356.3	357.9
Total gross profit	310.4	264.0	1,477.9	1,361.4
Wholesale operating expenses:				
Distribution operations expenses	75.4	73.0	281.5	262.3
Selling, general and administrative expenses	96.5	60.8	314.7	244.6
Retailer success and development expenses	60.3	64.1	234.5	223.2

Retail operating expenses	69.1	69.0	280.1	287.5
Retail pre-opening expenses	2.1	0.5	6.0	1.9
Total operating expenses	303.4	267.4	1,116.8	1,019.5
Operating income (loss)	7.0	(3.4)	361.1	341.9
Interest expense	(11.4)	(5.7)	(38.4)	(19.2)
Interest income	1.8	1.1	5.4	3.2
Other (expense) income, net	(2.3)	0.1	(3.7)	23.7
Income tax benefit (expense)	5.4	3.3	(1.0)	(9.0)
Net income (loss)	0.5	(4.6)	323.4	340.6
Less Net loss attributable to noncontrolling interests	(1.6)	(0.6)	(2.7)	(1.1)
Net income (loss) attributable to Ace Hardware Corporation	\$ 2.1	\$ (4.0)	\$ 326.1	\$ 341.7
Patronage distributions accrued	\$ 18.3	\$ 0.4	\$ 356.5	\$ 344.5
Patronage distributions accrued (reversed) for third party Retailers	\$ 12.3	\$ (5.6)	\$ 335.7	\$ 323.6

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

	December 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	\$ 31.9	\$ 28.5
Marketable securities	49.4	53.3
Receivables, net of allowance for doubtful accounts of \$12.1 and \$7.0, respectively	674.4	650.8
Inventories	1,235.1	1,303.7
Prepaid expenses and other current assets	69.9	59.7
Total current assets	2,060.7	2,096.0
Property and equipment, net	541.0	463.6
Operating lease right-of-use assets, net	668.0	613.8
Finance lease right-of-use assets, net	123.9	84.2
Goodwill and other intangible assets	410.9	105.7
Other assets	153.1	127.7
Total assets	\$ 3,957.6	\$ 3,491.0
Liabilities and Equity		
Current maturities of long-term debt	\$ 49.1	\$ 15.1
Accounts payable	1,081.5	1,165.5
Patronage distributions payable in cash	137.1	133.1
Patronage refund certificates payable	29.1	23.1
Current operating lease liabilities	88.5	77.0
Current finance lease liabilities	25.6	17.2
Accrued expenses	292.0	299.5
Total current liabilities	1,702.9	1,730.5
Long-term debt	359.2	23.0
Patronage refund certificates payable	149.6	111.3
Long-term operating lease liabilities	603.2	562.4
Long-term finance lease liabilities	100.4	67.6
Other long-term liabilities	120.9	104.4
Total liabilities	3,036.2	2,599.2
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,615 and 2,662 issued and outstanding, respectively	2.6	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized 7,226,176 and 6,561,209 issued and outstanding, respectively	722.6	656.1
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 897,317 and 1,181,824 shares issuable, respectively	89.7	118.1
Contributed capital	19.2	19.2
Retained earnings	78.2	87.2
Accumulated other comprehensive income (loss)	0.3	(2.3)

Equity attributable to Ace member Retailers	912.6	881.0
Equity attributable to noncontrolling interests	8.8	10.8
Total equity	921.4	891.8
Total liabilities and equity	\$ 3,957.6	\$ 3,491.0

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

	Twelve Months Ended	
	December 30, 2023 (52 Weeks)	December 31 2022 (52 Weeks)
Operating Activities		
Net income	\$ 323.4	\$ 340.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92.2	86.6
Non cash lease expense	26.9	17.1
Amortization of deferred financing costs	1.3	0.4
Loss (gain) on disposal of assets, net	5.5	(19.8)
Provision for doubtful accounts	6.9	3.0
Other, net	1.2	5.8
Changes in operating assets and liabilities, exclusive of effect of acquisitions:		
Receivables	(55.4)	(159.6)
Inventories	74.7	(77.3)
Other current assets	(9.1)	4.1
Other long-term assets	(13.5)	(9.1)
Accounts payable and accrued expenses	(104.7)	80.4
Other long-term liabilities	14.5	13.4
Deferred taxes	(0.1)	(3.1)
Net cash provided by operating activities	363.8	282.5
Investing Activities		
Purchases of investment securities	(39.9)	(60.3)
Proceeds from sale of investment securities	43.2	47.7
Purchases of property and equipment	(164.6)	(92.8)
Cash paid for acquired businesses, net of cash acquired	(309.7)	(12.8)
Increase in notes receivable, net	(31.8)	(19.7)
Proceeds from sale of assets	1.3	29.4
Other, net	(0.8)	(0.6)
Net cash used in investing activities	(502.3)	(109.1)
Financing Activities		
Net borrowings (payments) under revolving lines of credit	362.0	(4.9)
Principal payments on long-term debt	(17.8)	(7.1)
Principal portion of finance lease payment	(28.3)	(16.7)
Payments of debt issuance costs	(4.4)	-
Payments of cash portion of patronage distribution	(133.1)	(121.0)
Payments of patronage refund certificates	(26.7)	(26.1)
Repurchase of stock	(10.8)	(8.0)
Purchase of noncontrolling interests	(0.4)	(0.4)
Other, net	1.4	1.7
Net cash provided by (used in) financing activities	141.9	(182.5)
Increase (decrease) in cash and cash equivalents	3.4	(9.1)
Cash and cash equivalents at beginning of period	28.5	37.6
Cash and cash equivalents at end of period	\$ 31.9	\$ 28.5
Supplemental disclosure of cash flow information:		
Interest paid	\$ 29.7	\$ 14.5
Income taxes paid	\$ 5.6	\$ 11.5

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