

**ACE HARDWARE CORPORATION**  
Quarterly report for the period ended April 3, 2021



**ACE HARDWARE CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY DATA**

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## Review Report of Independent Auditors

The Board of Directors  
Ace Hardware Corporation

We have reviewed the consolidated financial information of Ace Hardware Corporation, which comprise the consolidated balance sheets as of April 3, 2021, January 2, 2021, and March 28, 2020, and the related consolidated statements of income and comprehensive income for the three-month periods ended April 3, 2021 and March 28, 2020, and the consolidated statements of equity and cash flows for the three-month periods ended April 3, 2021 and March 28, 2020.

### Management's Responsibility for the Financial Information

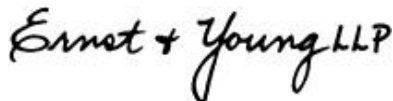
Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

### Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Chicago, Illinois  
May 18, 2021

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

	Three Months Ended	
	April 3, 2021 (13 Weeks)	March 28, 2020 (13 Weeks)
Revenues:		
Wholesale revenues	\$ 1,869.1	\$ 1,318.0
Retail revenues	162.7	112.4
Total revenues	2,031.8	1,430.4
Cost of revenues:		
Wholesale cost of revenues	1,625.5	1,148.2
Retail cost of revenues	86.6	59.6
Total cost of revenues	1,712.1	1,207.8
Gross profit:		
Wholesale gross profit	243.6	169.8
Retail gross profit	76.1	52.8
Total gross profit	319.7	222.6
Wholesale operating expenses:		
Distribution operations expenses	54.4	45.0
Selling, general and administrative expenses	52.6	51.3
Retailer success and development expenses	38.6	32.2
Retail operating expenses	61.7	55.5
Retail pre-opening expenses	0.6	0.3
Total operating expenses	207.9	184.3
Operating income	111.8	38.3
Interest expense	(4.0)	(5.8)
Interest income	1.2	1.4
Other income, net	0.5	1.5
Income tax (expense) benefit	(4.1)	0.8
Net income	105.4	36.2
Less: net loss attributable to noncontrolling interests	(0.1)	(0.1)
Net income attributable to Ace Hardware Corporation	\$ 105.5	\$ 36.3
Patronage distributions accrued	\$ 109.0	\$ 53.4
Patronage distributions accrued for third party retailers	\$ 106.1	\$ 51.1

See accompanying notes to the consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>April 3, 2021 (13 Weeks)</b>	<b>March 28, 2020 (13 Weeks)</b>
Net income	\$ 105.4	\$ 36.2
Other comprehensive loss net of tax:		
Unrealized loss on available-for-sale debt securities	(1.7)	(1.2)
Total other comprehensive loss, net	(1.7)	(1.2)
Comprehensive income	103.7	35.0
Less: Comprehensive loss attributable to noncontrolling interests	(0.1)	(0.1)
Comprehensive income attributable to Ace Hardware Corporation	\$ 103.8	\$ 35.1

See accompanying notes to the consolidated financial statements.

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

	<b>April 3, 2021</b>	<b>January 2, 2021</b>	<b>March 28, 2020</b>
<b>Assets</b>	<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>
Cash and cash equivalents	\$ 37.4	\$ 28.9	\$ 315.6
Marketable securities	59.8	63.2	56.8
Receivables, net of allowance for doubtful accounts of \$6.1, \$4.8 and \$6.7, respectively	737.1	527.7	651.3
Inventories	1,303.5	1,133.0	1,071.6
Prepaid expenses and other current assets	62.1	55.1	45.4
Total current assets	2,199.9	1,807.9	2,140.7
Property and equipment, net	433.1	423.3	384.9
Operating lease right-of-use assets, net	485.4	455.5	459.1
Finance lease right-of-use assets, net	35.9	25.0	-
Goodwill and other intangible assets, net	100.8	100.3	91.6
Other assets	119.1	90.9	115.8
Total assets	<u>\$ 3,374.2</u>	<u>\$ 2,902.9</u>	<u>\$ 3,192.1</u>
<b>Liabilities and Equity</b>			
Current maturities of long-term debt	\$ 41.5	\$ 31.7	\$ 96.5
Accounts payable	1,407.9	1,109.4	940.6
Patronage distributions payable in cash	138.9	112.9	91.3
Patronage refund certificates payable	26.5	26.6	17.4
Current operating lease liabilities	65.7	64.5	74.4
Current finance lease liabilities	5.4	3.7	-
Accrued expenses	145.9	237.5	138.5
Total current liabilities	1,831.8	1,586.3	1,358.7
Long-term debt	155.7	24.8	688.4
Patronage refund certificates payable	102.6	95.3	115.9
Long-term operating lease liabilities	441.0	412.2	403.6
Long-term finance lease liabilities	30.0	20.8	-
Other long-term liabilities	76.0	73.6	68.2
Total liabilities	2,637.1	2,213.0	2,634.8
<b>Member Retailers' Equity:</b>			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,686, 2,689 and 2,694 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 4,921,646, 5,015,306 and 4,739,809 issued and outstanding, respectively	492.2	501.5	474.0
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 1,779,506, 1,191,050 and 707,170 shares issuable, respectively	178.0	119.1	70.7
Contributed capital	18.9	19.0	18.7
Retained earnings (accumulated deficit)	31.6	32.3	(23.5)
Accumulated other comprehensive income (loss)	1.3	3.0	(0.3)
Equity attributable to Ace member retailers	724.7	677.6	542.3
Equity attributable to noncontrolling interests	12.4	12.3	15.0
Total equity	737.1	689.9	557.3
Total liabilities and equity	<u>\$ 3,374.2</u>	<u>\$ 2,902.9</u>	<u>\$ 3,192.1</u>

See accompanying notes to the consolidated financial statements.

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

**Shareholders of Ace Hardware Corporation**

	Capital Stock		Class C Stock Issuable to Retailers for Patronage Dividends	Additional Stock Subscribed	Contributed Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
	Class A	Class C							
Balances at December 28, 2019	\$ 2.7	\$ 482.7	\$ 54.6	\$ -	\$ 18.8	\$ (8.7)	\$ 0.9	\$ 14.8	\$ 565.8
Net income	-	-	-	-	-	36.3	-	(0.1)	36.2
Other comprehensive loss	-	-	-	-	-	-	(1.2)	-	(1.2)
Net payments on subscriptions	-	-	-	0.3	-	-	-	-	0.3
Stock issued	-	0.4	-	(0.3)	-	-	-	-	0.1
Change in noncontrolling interests	-	-	-	-	(0.1)	(0.1)	-	0.3	0.1
Stock repurchased	-	(9.1)	-	-	-	-	-	-	(9.1)
Patronage distributions issuable	-	-	16.1	-	-	-	-	-	16.1
Patronage distributions payable	-	-	-	-	-	(51.1)	-	-	(51.1)
Other	-	-	-	-	-	0.1	-	-	0.1
Balances at March 28, 2020	\$ 2.7	\$ 474.0	\$ 70.7	\$ -	\$ 18.7	\$ (23.5)	\$ (0.3)	\$ 15.0	\$ 557.3
Balances at January 2, 2021	\$ 2.7	\$ 501.5	\$ 119.1	\$ -	\$ 19.0	\$ 32.3	\$ 3.0	\$ 12.3	\$ 689.9
Net income	-	-	-	-	-	105.5	-	(0.1)	105.4
Other comprehensive loss	-	-	-	-	-	-	(1.7)	-	(1.7)
Net payments on subscriptions	-	-	-	0.4	-	-	-	-	0.4
Stock issued	-	0.4	-	(0.4)	-	-	-	-	-
Change in noncontrolling interests	-	-	-	-	(0.1)	(0.1)	-	0.2	-
Stock repurchased	-	(9.7)	-	-	-	-	-	-	(9.7)
Patronage distributions issuable	-	-	58.9	-	-	-	-	-	58.9
Patronage distributions payable	-	-	-	-	-	(106.1)	-	-	(106.1)
Balances at April 3, 2021	\$ 2.7	\$ 492.2	\$ 178.0	\$ -	\$ 18.9	\$ 31.6	\$ 1.3	\$ 12.4	\$ 737.1

See accompanying notes to the consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>April 3, 2021 (13 Weeks)</b>	<b>March 28, 2020 (13 Weeks)</b>
<b>Operating Activities</b>		
Net income	\$ 105.4	\$ 36.2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17.4	15.7
Amortization of deferred financing costs	0.1	0.1
Gain on the disposal of assets, net	(0.1)	-
Provision for doubtful accounts	1.0	1.2
Other, net	1.8	(4.5)
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(241.5)	(181.5)
Inventories	(168.9)	(138.5)
Other current assets	(6.9)	1.3
Other long-term assets	4.0	8.2
Accounts payable and accrued expenses	222.6	91.5
Other long-term liabilities	2.4	(1.6)
Deferred taxes	0.1	(1.9)
Net cash used in operating activities	<u>(62.6)</u>	<u>(173.8)</u>
<b>Investing Activities</b>		
Purchases of marketable securities	(4.6)	(5.5)
Proceeds from sale of marketable securities	5.8	7.0
Purchase of long-term securities	(17.6)	-
Proceeds from sale of long-term securities	1.6	-
Purchases of property and equipment	(25.4)	(18.4)
Cash paid for acquired businesses, net of cash received	(2.6)	(5.0)
Increase in notes receivable, net	(4.6)	(2.1)
Other, net	(0.2)	0.3
Net cash used in investing activities	<u>(47.6)</u>	<u>(23.7)</u>
<b>Financing Activities</b>		
Net borrowings under revolving lines of credit	141.8	507.8
Principal payments on long-term debt	(2.6)	(3.4)
Payments of patronage refund certificates	(16.9)	(9.5)
Repurchase of stock	(2.3)	(0.2)
Purchase of noncontrolling interests	(0.1)	-
Other, net	(1.2)	0.2
Net cash provided by financing activities	<u>118.7</u>	<u>494.9</u>
Increase in cash and cash equivalents	8.5	297.4
Cash and cash equivalents at beginning of period	28.9	18.2
Cash and cash equivalents at end of period	<u>\$ 37.4</u>	<u>\$ 315.6</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 7.1</u>	<u>\$ 7.9</u>
Income taxes paid	<u>\$ 0.3</u>	<u>\$ 0.3</u>

See accompanying notes to the consolidated financial statements.



**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited, in millions)**

**(1) Summary of Significant Accounting Policies**

***The Company and Its Business***

Ace Hardware Corporation (“the Company”) is a wholesaler of hardware, paint and other related products. The Company also provides to its retail members (“Retailers”) value-added services such as advertising, marketing, merchandising and store location and design services. The Company’s goods and services are sold predominately within the United States, primarily to retailers that operate hardware stores and with whom the Company has a retail membership agreement. As a retailer-owned cooperative, the Company distributes substantially all of its patronage sourced income in the form of patronage distributions to Retailers based on their volume of merchandise purchases.

Ace Hardware International Holdings, Ltd. (“AIH”), is a majority-owned and controlled subsidiary of the Company with a 21.0 percent noncontrolling interest. International retailers do not own shares of stock in the Company nor receive patronage dividends.

Ace Retail Holdings LLC (“ARH”) is the owner of the 151 store Westlake Ace Hardware (“Westlake”) and the 58 store Great Lakes Ace Hardware (“GLA”) retail chains. As a result, the Company is also a retailer of hardware, paint and other related products.

Ace Wholesale Holdings LLC (“AWH”) owns and operates Emery Jensen Distribution and its related wholesale companies. AWH was formed so that the Company could make wholesale hardware sales to non-member retailers.

Ace Ecommerce Holdings LLC (“AEH”) owns The Grommet, an e-commerce company that operates a website that markets and sells new and innovative products created by independent entrepreneurs.

Ace Services Holdings LLC (“ASH”) owns Ace Handyman Services, a franchisor of home improvement, maintenance and repair services.

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited consolidated financial statements and notes should be read in conjunction with the financial statements and notes thereto included in the Company’s 2020 Annual Report. The unaudited consolidated financial statements for the three months ended April 3, 2021 and March 28, 2020 both cover a 13-week period, respectively.

Subsequent events have been evaluated through May 18, 2021, the date these statements were available to be issued.

The financial information included herein reflects all adjustments (consisting only of normal recurring adjustments), which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three months ended April 3, 2021 are not necessarily indicative of the results to be expected for the full fiscal year 2021.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions have been eliminated.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no net effect on the consolidated financial statements.

**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**(Unaudited, in millions)**

***Revenue Recognition***

Revenue is recognized when performance obligations under the terms of contracts with our customers are satisfied; generally, this occurs with the transfer of control of merchandise or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The Company excludes sales and usage-based taxes collected and recognizes revenues net of expected returns. Provisions for sales returns are provided at the time the related sales are recorded based on historic returns activity.

The Company's warehouse merchandise revenue originates with a single performance obligation to ship the products, and therefore the Company's performance obligations are satisfied when control of the products is transferred to the customer per the arranged shipping terms. The customer takes ownership and assumes risk of loss for warehouse merchandise upon delivery. Although products are generally shipped FOB shipping point, the Company effectively retains the responsibilities of ownership until the goods reach the customer. Generally, customer billings for warehouse merchandise occur in bi-weekly intervals subsequent to revenue recognition. The Company considers shipping and handling as activities to fulfill its performance obligation for warehouse merchandise revenues. Billings for freight are accounted for as Revenues and shipping and handling costs are accounted for in Cost of revenues.

The Company has direct shipment arrangements with various vendors to deliver products to its customers without having to physically hold the inventory at the Company's warehouses, thereby increasing efficiency and reducing costs. The Company recognizes revenue for direct shipment arrangements upon delivery to the customer with contract terms that typically specify FOB destination. The Company recognizes the revenue and cost of goods sold from these arrangements on a gross basis as the principal in the transaction. The Company is primarily responsible for fulfilling the promise to customers to provide merchandise at negotiated prices with the vendors, assumes inventory risk if the product is returned by the customers, and assumes all the credit risk for the vendors with the customers. Therefore, the Company concluded it is the principal for these transactions.

Retail revenues from retail locations owned and operated by the Company and e-commerce revenues are recognized when the customer takes ownership of the products sold and assumes the risk of loss. The customer takes ownership and assumes risk of loss generally at the point of sale in our owned retail locations. The Company's e-commerce revenues come from Ace Hardware's website and sales from AEH. For e-commerce transactions, customers choose whether to have merchandise delivered to them (using third-party parcel delivery companies) or to collect their merchandise from one of our stores ("in-store pick up"). For items delivered directly to the customer, control passes and revenue is recognized when delivery has been completed to the customer, as title has passed and we have transferred possession to the customer. For in-store pick up, control passes and revenue is recognized once the customer has taken possession of the merchandise. Any fees charged to customers for delivery are a component of the transaction price and are recognized when delivery has been completed. Payment terms for retail and e-commerce sales are at the point of sale.

Service revenues (advertising activities, brand building initiatives and fees for other services provided primarily to domestic Retailers) are recognized when the service is complete as this is when the Retailer has the ability to direct the use of and obtain the benefits from the service.

The Company offers its retailers various incentive programs which provide the retailers with certain sales allowances. The Company offers these incentive programs in anticipation of future sales to the retailers that participate in these programs. Since the sales allowances provide future economic benefit to the Company, they are capitalized in Other assets and amortized as a reduction of revenue on a straight-line basis over the period of expected future sales to these retailers, which is generally five years.

***Impact of New Accounting Standards***

Recently issued accounting pronouncements that are not yet effective and that were not discussed in the Company's 2020 Annual Report or below are either inapplicable to the Company or, if applicable, the Company does not expect that they will have a material impact on consolidated results of operations, consolidated financial condition, or consolidated cash flows.

***New Accounting Pronouncements - Issued***

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" along with amendments issued in 2018. The guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The amortized cost basis of financial assets should be reduced by expected credit losses to present the net carrying value in the financial statements at the amount expected to be collected. The measurement of expected credit losses is based on past events, historical experience, current conditions and forecasts that affect the collectability of the financial assets. Additionally, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. ASU 2016-13 is effective for the Company for year-end financial statements and quarterly financial statements in fiscal 2023. The Company is evaluating the impact that ASU 2016-13 will have on the Company's consolidated financial statements.

**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**(Unaudited, in millions)**

**(2) Acquisitions**

During the three months ended April 3, 2021, ARH acquired additional retail stores for consideration of \$2.6 million, prior to working capital adjustments. These acquisitions resulted in ARH recording \$1.0 million of goodwill. Goodwill has an indefinite life and, therefore, is not amortized. The goodwill is expected to be deductible for tax purposes.

**(3) Leases**

The Company leases certain warehouse and distribution space, office space, retail locations, equipment and vehicles under finance and operating leases. The Company determines if an arrangement is a lease at inception and recognizes a lease liability and right-of-use (“ROU”) asset in the Company’s Consolidated Balance Sheets upon commencement of a lease. Operating and finance lease assets represent the right to use an underlying asset for the lease term. Operating and finance lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at commencement date which is the date the Company takes possession or control of the property or equipment.

The future minimum undiscounted lease payments under operating leases was \$539.6 million and \$508.3 million as of April 3, 2021 and January 2, 2021, respectively. The future minimum undiscounted lease payments under finance leases was \$36.0 million and \$24.9 million as of April 3, 2021 and January 2, 2021, respectively.

During the three months ended April 3, 2021 the Company recorded \$35.4 million of operating ROU assets and \$12.3 million of finance ROU assets in exchange for new lease liabilities. The increase in operating ROU assets was primarily due to an extension of a lease at one of the Company’s freight re-distribution centers. The increase in finance ROU assets was primarily due to the replacement of expiring truck leases which are generally renewed every five to seven years.

**(4) Inventories**

Inventories consist of wholesale merchandise inventories held for sale to customers and retail merchandise inventory held for resale at ARH retail locations and at AEH’s warehouse locations. Substantially all of the Company’s wholesale inventories are valued on the last-in, first-out (“LIFO”) method. The excess of replacement cost over the LIFO value of inventory was \$109.9 million, \$109.1 million and \$105.7 million at April 3, 2021, January 2, 2021 and March 28, 2020, respectively. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation. Inventories at retail locations operated by ARH and at AEH’s warehouses are valued at the lower of cost or net realizable value. Inventory cost is determined using the moving average method, which approximates the first-in, first-out (“FIFO”) method. The Company regularly reviews its inventory and establishes a reserve for excess and obsolete inventory based on a number of factors, including historical sales, sales forecasts, obsolescence due to technology changes and defective goods.

Inventories consisted of:

	April 3, 2021	January 2, 2021	March 28, 2020
Wholesale merchandise inventory (LIFO)	\$ 1,111.8	\$ 973.6	\$ 901.1
Retail merchandise inventory at ARH stores and AEH warehouses (FIFO)	191.7	159.4	170.5
<b>Inventories</b>	<b>\$ 1,303.5</b>	<b>\$ 1,133.0</b>	<b>\$ 1,071.6</b>

**(5) Debt**

The Company has a \$700.0 million line of credit facility. The facility is expandable to \$1.0 billion through a \$300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. At the Company’s discretion, borrowings under the credit facility bear interest at a rate of either 0 to 75 basis points over the prime rate or 100 to 175 basis points over the London Interbank Offered Rate (“LIBOR”) rate depending on the Company’s leverage ratio as defined under the agreement. The credit facility was priced at LIBOR plus 100 basis points at April 3, 2021. The credit facility expires on February 1, 2024 and requires maintenance of certain financial covenants including a maximum allowable average leverage ratio and a minimum

**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**(Unaudited, in millions)**

fixed charge coverage ratio. As of April 3, 2021, the Company was in compliance with its covenants and had \$139.8 million in borrowings outstanding under the credit facility.

The credit facility includes a \$175.0 million sublimit for the issuance of standby and commercial letters of credit. As of April 3, 2021, a total of \$14.1 million in letters of credit were outstanding. The credit facility requires the Company to pay fees based on the unused portion of the line of credit at a rate of 12.5 to 25 basis points per annum depending on the Company’s leverage ratio.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed \$75.0 million at any time. As of April 3, 2021, there were no loans or other extensions of credit provided to AIH.

The Company’s Westlake subsidiary has a \$100.0 million asset-based revolving credit facility (“Westlake Facility”). The Westlake Facility expires on October 24, 2022. Under this facility, Westlake has the right to issue letters of credit up to a maximum of \$7.5 million. At Westlake’s discretion, borrowings under this facility bear interest at a rate of either the prime rate plus an applicable spread of 25 basis points to 50 basis points or LIBOR plus an applicable spread of 125 basis points to 150 basis points, depending on Westlake’s average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 125 basis points at April 3, 2021.

The Westlake Facility is collateralized by substantially all of Westlake’s personal property and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of April 3, 2021, ARH was in compliance with its covenants and had \$30.0 million in borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake’s daily available cash being applied to the outstanding borrowings under their facility. Pursuant to FASB Accounting Standards Codification Section 470-10-45, “Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses,” the borrowings under the Westlake Facility have been classified as a Current maturity of long-term debt. The GLA Facility was classified under this guidance in prior presented periods.

The Company’s GLA subsidiary had a \$20.0 million asset-based revolving credit facility (“GLA Facility”) that had a maturity date of November 6, 2022. GLA terminated the facility effective August 31, 2020.

Total debt outstanding is comprised of the following:

	April 3, 2021	January 2, 2021	March 28, 2020
Revolving Credit Facility	\$ 139.8	\$ 7.9	\$ 675.0
Westlake Facility	30.0	20.1	76.3
GLA Facility	-	-	9.5
Installment notes with maturities through 2025 at a fixed rate of 6.00%	27.4	28.5	24.1
Total debt	197.2	56.5	784.9
Less: maturities within one year	(41.5)	(31.7)	(96.5)
Long-term debt	\$ 155.7	\$ 24.8	\$ 688.4

**(6) Fair Value Measurements**

The tables below set forth, by level, the Company’s financial assets, liabilities and derivative instruments that were accounted for at fair value as of April 3, 2021, January 2, 2021 and March 28, 2020. The tables do not include cash on hand and also do not include assets and liabilities that are measured at historical cost or any basis other than fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. Long-term notes receivable approximate fair value because the Company charges its Retailers interest and a significant portion of the notes have the Company’s stock as collateral.

**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**(Unaudited, in millions)**

<b>Items measured at fair value on a recurring basis</b>	Carrying Value Measured at Fair Value			
	April 3, 2021	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents:				
Money market funds	\$ 4.2	\$ 4.2	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	33.2	-	33.2	-
Mortgage-backed securities	8.7	-	8.7	-
U.S. government notes	17.5	9.8	7.7	-
Other	0.4	-	0.4	-
Total marketable securities	<u>\$ 59.8</u>	<u>\$ 9.8</u>	<u>\$ 50.0</u>	<u>\$ -</u>
Other assets:				
Money market funds	\$ 15.6	\$ 15.6	\$ -	\$ -
Fixed income mutual funds	0.5	0.5	-	-
Equity mutual funds	0.6	0.6	-	-
Other equity investments	0.3	0.3	-	-
Total other assets	<u>\$ 17.0</u>	<u>\$ 17.0</u>	<u>\$ -</u>	<u>\$ -</u>

<b>Items measured at fair value on a recurring basis</b>	Carrying Value Measured at Fair Value			
	January 2, 2021	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents:				
Money market funds	\$ 2.8	\$ 2.8	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	35.1	-	35.1	-
Mortgage-backed securities	9.9	-	9.9	-
U.S. government notes	17.8	9.8	8.0	-
Other	0.4	-	0.4	-
Total marketable securities	<u>\$ 63.2</u>	<u>\$ 9.8</u>	<u>\$ 53.4</u>	<u>\$ -</u>

<b>Items measured at fair value on a recurring basis</b>	Carrying Value Measured at Fair Value			
	March 28, 2020	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents:				
Money market funds	\$ 6.3	\$ 6.3	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	28.4	-	28.4	-
Mortgage-backed securities	13.1	-	13.1	-
U.S. government notes	14.5	9.2	5.3	-
Other	0.8	-	0.8	-
Total marketable securities	<u>\$ 56.8</u>	<u>\$ 9.2</u>	<u>\$ 47.6</u>	<u>\$ -</u>
Accrued expenses:				
Interest rate swap derivative	\$ 0.3	\$ -	\$ 0.3	\$ -

**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
**(Unaudited, in millions)**

*Level 1* – Investments included in this category are the Company’s Fixed income mutual funds, Equity mutual funds, other equity securities, Money market funds and U.S. government notes. Other equity investments primarily consist of securities that invest the majority of their holdings in stocks. The Company’s valuation techniques used to measure the fair values of these investments are derived from quoted market prices for identical instruments, as active markets for these instruments exist. The Company has classified its investments used to support the Company’s deferred compensation plan as Other assets as these investments are restricted solely for this purpose.

*Level 2* – Investments included in this category are the Company’s Corporate fixed income securities, Mortgage-backed securities, U.S. government notes and Other debt securities. Other debt securities primarily consist of taxable municipal bonds, corporate asset-backed securities, and U.S. Agency fixed rate notes and bonds. The Company’s valuation techniques used to measure the fair values of these securities are derived from the following: non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data.

The fair value of the Company’s debt and equity securities exceeded their cost by \$1.5 million and was below cost by \$0.4 million at April 3, 2021 and March 28, 2020, respectively. The realized and unrealized gains and losses on equity securities and the realized gain or loss on debt securities are recorded in the period in which the gain or loss occurs to Interest income in the Consolidated Statement of Income. Unrealized gains and losses on debt securities are recorded as a component of Other comprehensive income (loss), net of tax.

Gross proceeds from the sale of money market, debt and equity securities and the related realized gains and losses for the three months ended April 3, 2021 and March 28, 2020 were as follows:

	<b>Three Months Ended</b>	
	April 3, 2021	March 28, 2020
Gross proceeds	\$ 7.1	\$ 7.0
Gross realized gains	0.1	0.1
Gross realized losses	(0.1)	-

Gross realized gains and losses were determined using the specific identification method. For the three months ended April 3, 2021, the Company reclassified \$0.1 million of unrealized gains and \$0.1 million of unrealized losses on the marketable securities that were recorded in AOCI as of January 2, 2021 into realized income. These amounts were recorded to Interest income in the Consolidated Statement of Income.

The following table summarizes the contractual maturity distributions of the Company’s debt securities at April 3, 2021. Actual maturities may differ from the contractual or expected maturities since borrowers may have the right to prepay obligations with or without prepayment penalties.

<b>Fair value of available-for-sale debt securities</b>	Due in One Year or Less	Due After One Year through Five Years	Due After Five Years through Ten Years	Due After Ten Years	Total
Corporate fixed income securities	\$ 3.1	\$ 16.3	\$ 8.6	\$ 5.2	\$ 33.2
Mortgage-backed securities	-	0.2	0.7	7.8	8.7
U.S. government notes	3.0	4.3	4.3	5.9	17.5
Other	-	-	0.3	0.1	0.4
Total	\$ 6.1	\$ 20.8	\$ 13.9	\$ 19.0	\$ 59.8

The Company’s debt instruments are recorded at cost on the Consolidated Balance Sheets. The fair value of the Company’s debt approximated its carrying value at April 3, 2021. The estimated fair value of long-term debt is based on estimated rates for similar instruments and discounted cash flow analysis using the Company’s weighted-average interest rate and is, therefore, classified as Level 3 within the fair value hierarchy.

**ACE HARDWARE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
(Unaudited, in millions)

**(7) Income Taxes**

Income tax differs from the amount computed by applying the statutory U.S. Federal income tax rate of 21 percent to pre-tax income because of the effect of the following items:

	<b>Three Months Ended</b>	
	April 3, 2021	March 28, 2020
Expected tax at U.S. Federal income tax rate	\$ (23.0)	\$ (7.4)
Patronage distribution deductions	22.3	10.7
Other, net	(3.4)	(2.5)
Income tax (expense) benefit	\$ (4.1)	\$ 0.8

**(8) Supplemental Disclosures of Cash Flow Information**

During the three months ended April 3, 2021 and March 28, 2020, accrued patronage distributions of \$14.0 million and \$5.5 million, respectively, were offset against trade receivables and notes receivable owed to the Company by its member retailers with no net impact in the Consolidated Statements of Cash Flows.

During the three months ended April 3, 2021 and March 28, 2020, non-cash repurchases of stock from retailers of \$7.5 million and \$8.9 million, respectively, were offset against trade receivables of \$4.0 million and \$3.3 million, respectively, and notes receivable of \$2.0 million and \$1.9 million, respectively. The remaining \$1.5 million and \$3.7 million, respectively, were primarily issued as notes payable with no net impact in the Consolidated Statements of Cash Flows.

During the three months ended April 3, 2021, the Company received \$10.5 million of property and equipment prior to quarter end and accrued for these items as no cash payments were made. These capital expenditures were not included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the three months ended April 3, 2021. During the three months ended April 3, 2021, the Company paid \$9.4 million for property and equipment that was purchased and accrued during the year ended January 2, 2021. These capital expenditures were included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the three months ended April 3, 2021.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis summarizes the significant factors affecting the Company's consolidated operating results and financial condition during the three-month periods ended April 3, 2021 and March 28, 2020. This discussion and analysis should be read in conjunction with the Company's 2020 Annual Report, as well as the consolidated financial statements (unaudited) and notes thereto contained in this report that have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Results of the interim periods presented are not necessarily indicative of the results to be expected for the full fiscal year due to seasonal and other factors.

**Results of Operations**

*Comparison of the Three Months Ended April 3, 2021 to the Three Months Ended March 28, 2020*

The following data summarizes the Company's performance in 2021 as compared to 2020 (in millions):

	2021		2020		Favorable/ (Unfavorable)	
	\$	% of Revenues*	\$	% of Revenues*	\$	%
<b>Revenues:</b>						
Wholesale revenues	1,869.1	92.0%	1,318.0	92.1%	551.1	41.8%
Retail revenues	162.7	8.0%	112.4	7.9%	50.3	44.8%
<b>Total revenues</b>	<b>2,031.8</b>	<b>100.0%</b>	<b>1,430.4</b>	<b>100.0%</b>	<b>601.4</b>	<b>42.0%</b>
<b>Gross profit:</b>						
Wholesale gross profit	243.6	13.0%	169.8	12.9%	73.8	43.5%
Retail gross profit	76.1	46.8%	52.8	47.0%	23.3	44.1%
<b>Total gross profit</b>	<b>319.7</b>	<b>15.7%</b>	<b>222.6</b>	<b>15.6%</b>	<b>97.1</b>	<b>43.6%</b>
<b>Operating expenses:</b>						
Wholesale operating expenses	145.6	7.8%	128.5	9.7%	(17.1)	(13.3%)
Retail operating expenses	61.7	37.9%	55.5	49.4%	(6.2)	(11.2%)
Retail pre-opening expenses	0.6	0.4%	0.3	0.3%	(0.3)	(100.0%)
<b>Total operating expenses</b>	<b>207.9</b>	<b>10.2%</b>	<b>184.3</b>	<b>12.9%</b>	<b>(23.6)</b>	<b>(12.8%)</b>
Operating income	111.8	5.5%	38.3	2.7%	73.5	191.9%
Interest expense	(4.0)	(0.2%)	(5.8)	(0.4%)	1.8	31.0%
Other (expense) income, net	(2.3)	(0.1%)	3.8	0.2%	(6.1)	(160.5%)
<b>Net income attributable to Ace Hardware Corporation</b>	<b>105.5</b>	<b>5.2%</b>	<b>36.3</b>	<b>2.5%</b>	<b>69.2</b>	<b>190.6%</b>

\*Wholesale gross profit and expenses are shown as a percentage of wholesale revenues. Retail gross profit and expenses are shown as a percentage of retail revenues. Non-operating items are shown as a percentage of total revenues.

A reconciliation of consolidated revenues follows (in millions):

	Amount	% Change vs. 2020
<b>2020 Revenues</b>	<b>\$ 1,430.4</b>	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic stores:</i>		
Revenues increase from new stores added since January 2020	40.1	2.8%
Revenues decrease from stores cancelled since January 2020	(9.6)	(0.7%)
Increase in wholesale merchandise revenues to comparable domestic stores	480.5	33.6%
Increase in Acehardware.com revenues	36.8	2.6%
Increase in AWH wholesale revenues	15.5	1.1%
Increase in AIH wholesale revenues	12.0	0.8%
Increase in ARH retail revenues	49.0	3.4%
Increase in AEH retail revenues	1.3	0.1%
Other revenue changes, net (primarily elimination of increased wholesale revenue to ARH)	(24.2)	(1.7%)
<b>2021 Revenues</b>	<b>\$ 2,031.8</b>	<b>42.0%</b>



Consolidated revenues for the three months ended April 3, 2021 totaled \$2.0 billion, an increase of \$601.4 million, or 42.0 percent, as compared to the prior year first quarter. Total wholesale revenues were \$1.9 billion for the first quarter 2021, an increase of \$551.1 million, or 41.8 percent, as compared to the prior year first quarter. New stores are defined as stores that were activated from January 2020 through March 2021. In 2021, the Company had an increase in wholesale merchandise revenues from new domestic stores of \$40.1 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$9.6 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$30.5 million related to the impact of both new stores affiliated with the Company and from stores that cancelled their membership in 2020 and 2021. Wholesale merchandise revenues to comparable domestic stores increased \$480.5 million for the quarter. Increases were seen across all departments with outdoor power equipment, grilling, power tools and paint showing the largest gains.

The number of the Company's worldwide Ace retail outlets is summarized as follows:

	<b>Three Months Ended</b>	
	April 3, 2021	March 28, 2020
Retail outlets at beginning of period	5,463	5,366
New retail outlets added	51	31
Retail outlet cancellations	(16)	(16)
Retail outlets at end of period	5,498	5,381

Revenues from the Ace Wholesale Holdings LLC ("AWH") subsidiary were \$103.9 million during the three months ended April 3, 2021, representing a \$15.5 million increase in wholesale revenues from the first quarter of 2020.

Revenues from the Ace Hardware International Holdings, Ltd. ("AIH") subsidiary were \$63.9 million during the three months ended April 3, 2021, representing a \$12.0 million increase in wholesale revenue from the first quarter of 2020.

Total retail revenues for the quarter were \$162.7 million, an increase of \$50.3 million, or 44.8 percent, as compared to the prior year first quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$157.1 million in the first quarter of 2021, an increase of \$49.0 million, or 45.3 percent, from the first quarter of 2020. The Westlake Ace Hardware ("Westlake") retail chain experienced a 36.5 percent increase in same-store-sales while the Great Lakes Ace Hardware Inc. ("GLA") chain grew same-store-sales by 48.9 percent. The new stores opened by Westlake and GLA in the prior year contributed \$9.1 million of the increase. Westlake and GLA together operated 209 stores at the end of the first quarter of 2021 compared to 191 stores at the end of the first quarter of 2020. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$5.6 million in the first quarter of 2021, an increase of \$1.3 million, or 30.2 percent, from the first quarter of 2020.

Wholesale gross profit for the three months ended April 3, 2021 was \$243.6 million, an increase of \$73.8 million from the first quarter of 2020. The wholesale gross margin percentage was 13.0 percent of wholesale revenues in the first quarter of 2021, up slightly from 12.9 percent in the first quarter of 2020.

Retail gross profit for the first quarter of 2021 was \$76.1 million, an increase of \$23.3 million from the first quarter of 2020. This increase was the result of the 45.3 percent increase in ARH revenues. The retail gross margin percentage was 46.8 percent of retail revenues in the first quarter of 2021, a slight decrease from 47.0 percent in the first quarter of 2020. 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.

Wholesale operating expenses increased \$17.1 million, or 13.3 percent, from the first quarter of 2020. The increase is due to higher distribution costs resulting from higher wholesale revenues and an increase in consumer advertising expenses. The 41.8 percent increase in wholesale revenue far exceeded the 13.3 percent increase in wholesale operating costs, which allowed the Company to leverage and scale much of its fixed expenses and infrastructure. As a result, wholesale operating expenses as a percent of wholesale revenues decreased significantly to 7.8 percent in the first quarter of 2021 from 9.7 percent in the first quarter of 2020.

Retail operating expenses increased \$6.2 million, or 11.2 percent, from the first quarter of 2020. This increase was primarily driven by store payroll and operating costs to support the increase in retail revenues along with expenses incurred related to the new stores opened in 2020 and 2021. The 44.8 percent increase in retail revenue far exceeded the 11.2 percent increase in retail operating expenses, which allowed the Company to leverage and scale much of its fixed operating expenses. As a result, retail operating expenses as a percent of retail revenue decreased to 37.9 percent in the first quarter of 2021 from 49.4 percent in the first quarter of 2020.

Retail pre-opening expenses increased \$0.3 million from the first quarter of 2020, due to expenses related to the new stores Westlake opened in 2021.

Other (expense) income, net decreased \$6.1 million from income of \$3.8 million in 2020 to expense of \$2.3 million in 2021 as a result of the increase in income tax expense related to increased taxable income from non-patronage sources.

## Liquidity and Capital Resources

The Company believes that existing cash balances, along with the existing lines of credit and long-term financing, will be sufficient to finance the Company's working capital requirements, debt service, patronage distributions, capital expenditures, share redemptions from cancellations and growth initiatives for at least the next 12 months.

The Company's borrowing requirements have historically arisen from, and are expected to continue to arise from, seasonal working capital needs, debt service, capital improvements and acquisitions, patronage distributions and other general corporate purposes. In the past, the Company has met its operational cash needs using cash flows from operating activities and funds from its revolving credit facilities. The Company currently estimates that its cash flows from operating activities and working capital, together with its lines of credit, will be sufficient to fund its short-term liquidity needs. Actual liquidity and capital funding requirements depend on numerous factors, including operating results, general economic conditions and the cost of capital.

The Company has a \$700.0 million line of credit facility that is expandable to \$1.0 billion through a \$300.0 million accordion that is exercisable without the consent of existing lenders provided that the Company is not in default of the credit agreement and further provided that none of the existing lenders are required to provide any portion of the increased facility. At the Company's discretion, borrowings under the credit facility bear interest at a rate of either 0 to 75 basis points over the prime rate or 100 to 175 basis points over the London Interbank Offered Rate ("LIBOR") depending on the Company's leverage ratio as defined under the agreement. The credit facility was priced at LIBOR plus 100 basis points at April 3, 2021. The credit facility expires on February 1, 2024 and requires maintenance of certain financial covenants including a maximum allowable average leverage ratio and a minimum fixed charge coverage ratio. As of April 3, 2021, the Company was in compliance with its covenants and had \$139.8 million in borrowings outstanding under the credit facility.

The credit facility includes a \$175.0 million sublimit for the issuance of standby and commercial letters of credit. As of April 3, 2021, a total of \$14.1 million in letters of credit were outstanding. The credit facility requires the Company to pay fees based on the unused portion of the line of credit at a rate of 12.5 to 25 basis points per annum depending on the Company's leverage ratio.

The credit facility allows the Company to make revolving loans and other extensions of credit to AIH in an aggregate principal amount not to exceed \$75.0 million at any time. As of April 3, 2021, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary has a \$100.0 million asset-based revolving credit facility ("Westlake Facility"). The Westlake Facility expires on October 24, 2022. Under this facility, Westlake has the right to issue letters of credit up to a maximum of \$7.5 million. At Westlake's discretion, borrowings under this facility bear interest at a rate of either the prime rate plus an applicable spread of 25 basis points to 50 basis points or LIBOR plus an applicable spread of 125 basis points to 150 basis points, depending on Westlake's average availability under the Westlake Facility as measured on a trailing 12-month basis. The Westlake Facility was priced at LIBOR plus 125 basis points at April 3, 2021.

The Westlake Facility is collateralized by substantially all of Westlake's personal property and intangible assets. Borrowings under the facility are subject to a borrowing base calculation consisting of certain advance rates applied to eligible collateral balances (primarily consisting of certain receivables and inventories). This agreement requires maintenance of certain financial covenants including a minimum fixed charge coverage ratio. As of April 3, 2021, ARH was in compliance with its covenants and had \$30.0 million in borrowings outstanding under the Westlake Facility.

The Westlake Facility includes a lender-controlled cash concentration system that results in all of Westlake's daily available cash being applied to the outstanding borrowings under their facility. Pursuant to Financial Accounting Standards Board Accounting Standards Codification Section 470-10-45, "Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses," the borrowings under the Westlake Facility have been classified as a Current maturity of long-term debt.

Total debt, the majority of which is comprised of the \$169.8 million borrowed on lines of credit, was \$197.2 million as of April 3, 2021, compared to \$56.5 million and \$784.9 million as of January 2, 2021 and March 28, 2020, respectively. In March 2020, the Company increased its borrowings under its \$700 million line of credit to \$675 million in order to ensure the Company's ongoing liquidity during the COVID-19 pandemic. As a result, net debt (debt less cash and cash equivalents) is a better measure of the Company's liquidity position. Net debt was \$159.8 million as of April 3, 2021, compared to \$27.6 million and \$469.3 million as of January 2, 2021 and March 28, 2020, respectively.

## Cash Flows

The Company had \$37.4 million and \$315.6 million of cash and cash equivalents at April 3, 2021 and March 28, 2020, respectively. Following is a summary of the Company's cash flows from operating, investing and financing activities for the first three months of 2021 and 2020, respectively (in millions):

	2021	2020
Cash provided by operating activities before changes in assets and liabilities	\$ 125.6	\$ 48.7
Net changes in assets and liabilities	(188.2)	(222.5)
Net cash used in operating activities	(62.6)	(173.8)
Net cash used in investing activities	(47.6)	(23.7)
Net cash provided by financing activities	118.7	494.9
Net change in cash and cash equivalents	\$ 8.5	\$ 297.4

The Company's operating activities used \$62.6 million of cash during the first three months of 2021 compared to \$173.8 million used in 2020. Excluding the impact of net changes in assets and liabilities, cash provided by operating activities increased from \$48.7 million in the first three months of 2020 to \$125.6 million in the first three months of 2021. This \$76.9 million increase was primarily the result of a \$69.2 million increase in net income for the first three months of 2021 compared to the first three months of 2020.

The net change in assets and liabilities used \$188.2 million of cash in the first three months of 2021 compared to the use of \$222.5 million in the first three months of 2020. The \$222.5 million use of cash in the first quarter of 2020 was primarily due to the combined seasonal increases in receivables and inventory of \$320.0 million, offset by the seasonal increase in accounts payable and accrued expenses of \$91.5 million. In 2021, because of the large increase in revenues and demand, receivables and inventory increased by a combined total of \$410.4 million, which was \$90.4 million more than in 2020, while accounts payable and accrued expenses increased by \$222.6 million, or \$131.1 million more than in 2020. The disproportionate increase of accounts payable and accrued expenses compared to receivables and inventory is due to the Company's 60-day payment terms with its vendors. The large sales increase and inventory buildup in 2021 resulted in a greater percentage of the inventory sold in the first quarter of 2021 not having been paid for at the end of the quarter as compared to the first quarter of 2020.

Net cash used in investing activities was \$47.6 million in the first three months of 2021 compared to \$23.7 million in the first three months of 2020. Investing activities in 2021 primarily consisted of \$25.4 million in capital expenditures and \$17.6 million of purchases of long-term securities to support the Company's deferred compensation plan. Investing activities in 2020 primarily consisted of \$18.4 million in capital expenditures and \$5.0 million paid for the acquisition of additional retail stores by ARH.

Net cash provided by financing activities was \$118.7 million in the first three months of 2021 compared to \$494.9 million provided by financing activities in the first three months of 2020. During 2021, the Company had \$141.8 million of borrowings under its revolving credit facilities, paid \$16.9 million on patronage refund certificates and made payments on long-term debt of \$2.6 million. During 2020, the Company had \$507.8 million of net borrowings under the revolving lines of credit, paid \$9.5 million on patronage refund certificates and made payments on long-term debt of \$3.4 million. The \$507.8 million of net borrowings in the first quarter of 2020 was the result of the Company drawing-down its \$700.0 million line-of-credit to \$675.0 million to ensure the Company's ongoing liquidity during the COVID-19 pandemic. There was no similar draw-down at the end of the first quarter of 2021.

## Contractual Obligations and Commitments

For the three months ended April 3, 2021, there have been no significant changes to the Company's contractual obligations and commitments as disclosed in its 2020 Annual Report.

## Critical Accounting Policies and Estimates

For a description of the Company's critical accounting policies and estimates, please see the Application of Critical Accounting Policies and Estimates section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's 2020 Annual Report.

## Qualitative and Quantitative Disclosure About Market Risk

The Company is exposed to market risk in the normal course of its business operations, including the risk of loss from inflation and changes in price, foreign currency, interest rates and customer credit risk.

There has been no material change in the Company's exposure to market risk from what was disclosed in the 2020 Annual Report.

## Disclosure Regarding Forward-Looking Statements

This document includes certain forward-looking statements about the expectations of the Company. Although the Company believes these statements are based on reasonable assumptions, actual results may vary materially from stated expectations. Such forward-looking statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” “would,” “project,” “estimate,” “ultimate,” or similar phrases. Actual results may differ materially from those indicated in the Company’s forward-looking statements and undue reliance should not be placed on such statements.

Factors that could cause materially different results include, but are not limited to, weather conditions; natural disasters; fair value accounting adjustments; inventory valuation; health care costs; insurance costs or recoveries; legal costs; borrowing needs; interest rates; credit conditions; economic and market conditions; accidents, leaks, equipment failures, service interruptions, and other operating risks; legislative actions; tax rulings or audit results; asset sales; significant unplanned capital needs; changes in accounting principles, interpretations, methods, judgments or estimates; performance of major customers, transporters, suppliers and contractors; labor relations; civil unrest; pandemics; and acts of terrorism.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this report.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus a global pandemic. The pandemic is having a significant effect on overall economic conditions and the preventative and protective measures taken by governments are resulting in global business disruptions, including the Company’s customers and vendors. Some of the Company’s customers have seen a temporary reduction of operating hours for their stores, as well as temporary store closures where government mandated. While the impact of the pandemic is currently expected to be temporary, there is uncertainty around the severity and duration of the disruption. Although the Company continues to see significant increases in revenues, the possibility still exists that the pandemic may negatively affect its 2021 operating results, financial position and cash flow. However, the financial impacts cannot be reasonably estimated at this time. The Company is monitoring its working capital, including its accounts receivable and inventory, closely for signs of deterioration due to late payments, bad debts and reduced demand.

The Company continues to monitor its operations and government recommendations and has made modifications to its normal operations because of the pandemic. These modifications vary by location depending on local conditions and government mandates. While the measures the Company has taken serve to reduce the possibility of transmission of the virus within its workplaces, they do not assure that the Company’s employees will not contract the virus or bring it into the workplace. If the Company were forced to close any of its warehouses for an extended period of time, the Company’s operations would be significantly disrupted resulting in a material adverse effect on the Company’s business, financial condition, results of operations and liquidity.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements presented in this Quarterly Report have been prepared with integrity and objectivity and are the responsibility of the management of Ace Hardware Corporation. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance, at an appropriate cost, that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the internal and external auditors. In addition, the Company has distributed to employees its policies for conducting business affairs in a lawful and ethical manner.

The Audit Committee of the Board of Directors meets periodically with the independent auditors and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal control and financial reporting matters. The Audit Committee recommends to the full Board of Directors the selection of the independent auditors and regularly reviews the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.

May 18, 2021

/s/ John Venhuizen

John Venhuizen

President and Chief Executive Officer

/s/ William M. Guzik

William M. Guzik

Executive Vice President,

Chief Financial Officer and Chief Risk Officer

/s/ Steven G. Locanto

Steven G. Locanto

Vice President, Controller



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