



PRESS RELEASE

ACE HARDWARE REPORTS SECOND QUARTER 2021 RESULTS

- *Record second quarter revenues of \$2.5 billion, an increase of 8.2 percent from last year*
- *Second quarter net income of \$116.0 million, a decrease of 16.5 percent from last year*
- *Accrued patronage dividend to shareholders of \$204.7 million, an increase of 21.1 percent from the first six months of 2020*
- *Ranked “Highest in Customer Satisfaction with Home Improvement Retail Stores” according to J.D. Power, marking fourteen out of the last fifteen years*

Oak Brook, Ill. (August 18, 2021) – Ace Hardware Corporation (“Ace” or the “Company”) today reported record second quarter 2021 revenues of \$2.5 billion, an increase of \$187.8 million, or 8.2 percent, from the second quarter of 2020. Net income was \$116.0 million for the second quarter of 2021, a decrease of \$22.9 million from the second quarter of 2020. The decrease in net income was due to write-downs of excess personal protective equipment (“PPE”), higher warehouse labor costs and a non-recurring \$6.9 million income tax benefit recorded in 2020 due to changes in tax laws.

“Our second quarter vastly exceeded our expectations. Not only did we positively comp 2020’s unprecedented surge in business, our two-year stacked growth for the quarter is up 46 percent in revenue and 116 percent in net income from 2019,” said John Venhuizen, President & CEO. “My sincere thanks to the entire Ace team for their servant hearts and exceptional performance.”

U.S. retail same-store-sales reported by the approximately 3,400 Ace retailers who share daily retail sales data rose 1.2 percent during the second quarter of 2021 and was the result of a 7.1 percent increase in average ticket partially offset by a 5.5 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended July 3, 2021 totaled \$2.5 billion. Total wholesale revenues were \$2.2 billion, an increase of \$181.7 million, or 9.0 percent, as compared to the prior year second quarter. Wholesale merchandise revenues to new domestic stores activated from January 2020 through June 2021 contributed \$64.8 million of incremental revenues during the second quarter of 2021, while wholesale merchandise revenues decreased \$11.4 million during the second quarter due to domestic stores whose memberships were cancelled. Wholesale merchandise revenues to comparable domestic stores increased \$103.3 million for the quarter. Increases were seen across a majority of departments with outdoor power equipment, grilling, basic electrical and hand tools showing the largest gains. The Company’s Ace International Holdings, Ltd. (“AIH”) subsidiary experienced a \$24.2 million increase in wholesale revenue versus the second quarter of 2020, while Ace Wholesale Holdings LLC (“AWH”) reported an \$18.3 million increase in wholesale revenues from the second quarter of 2020.

Total retail revenues for the quarter were \$255.3 million, an increase of \$6.1 million, or 2.4 percent, as compared to the prior year second quarter. Retail revenues from Ace Retail Holdings LLC (“ARH”) were \$248.7 million in the second quarter of 2021, an increase of \$9.4 million, or 3.9 percent, from the second quarter of 2020. This increase was the result of new stores added by the Westlake Ace Hardware (“Westlake”) and the Great Lakes Ace Hardware, Inc. (“GLA”) chains since the second quarter of 2020. Westlake and GLA together operated 211 stores at the end of the second quarter of 2021 compared to 192 stores at the end of the second quarter of 2020. Retail revenues from Ace Ecommerce Holdings LLC (“AEH”) were \$6.6 million in the second quarter of 2021. This was a decrease of \$3.3 million, or 33.3 percent, from the second quarter of 2020, primarily driven by a decrease in new customer acquisitions.

Ace added 55 new domestic stores in the second quarter of 2021 and cancelled 6 stores. The Company’s total domestic store count was 4,729 at the end of the second quarter of 2021 which was an increase of 165 stores from the second quarter of 2020. On a worldwide basis, Ace added 61 stores in the second quarter of 2021 and cancelled 9, bringing the worldwide store count to 5,550 at the end of the second quarter of 2021.

Gross Profit

Wholesale gross profit for the three months ended July 3, 2021 was \$263.2 million, a decrease of \$0.4 million from the second quarter of 2020. The wholesale gross margin percentage was 11.9 percent of wholesale revenues in the second quarter of 2021, down from 13.0 percent in the second quarter of 2020. The decrease in wholesale gross margin percentage was primarily due to higher receiving costs caused by lower Retail Support Center productivity and increased wages, and inventory write-downs to reduce the carrying value of certain personal protective equipment.

Retail gross profit for the three months ended July 3, 2021 was \$113.7 million, an increase of \$6.7 million from the second quarter of 2020. This increase was the result of the new stores opened in 2020 and 2021. The retail gross margin percentage was 44.5 percent of retail revenues in the second quarter of 2021, an increase from 42.9 percent in the second quarter of 2020. 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 \$15.8 million, or 9.3 percent, from the second quarter of 2020. The increase is due to higher distribution costs resulting from higher wholesale revenues and higher warehouse wage rates as well as an increase in consumer advertising expenses. Wholesale operating expenses as a percent of wholesale revenues increased slightly to 8.4 percent in the second quarter of 2021 from 8.3 percent in the second quarter of 2020.

Retail operating expenses increased \$6.0 million, or 9.5 percent, from the second quarter of 2020. This increase was primarily driven by expenses incurred related to the new stores opened in 2020 and 2021. Retail operating expenses as a percent of retail revenue increased to 27.0 percent in the second quarter of 2021 from 25.3 percent in the second quarter of 2020.

Balance Sheet and Cash Flow

Receivables increased \$36.8 million from the second quarter of 2020 due to higher sales volumes and datings for seasonal programs.

Inventories increased \$231.0 million from the second quarter of 2020 due to the intentional build-up of inventory to support increased demand and to act as a hedge against supplier shortages.

Long-term debt, including current maturities, increased \$60.1 million versus the second quarter of 2020. At the end of the second quarter of 2021, long term debt consisted of \$56.2 million outstanding on the revolving credit facility, and \$29.6 million owed to former retailers.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with over 5,500 locally owned and operated hardware stores in approximately 65 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; Colon, Panama; and Dubai, United Arab Emirates. 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 2021, Ace ranked “Highest in Customer Satisfaction with Home Improvement Retail Stores” according to J.D. Power, fourteen out of the last fifteen years.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 3, 2021 (13 Weeks)</u>	<u>June 27, 2020 (13 Weeks)</u>	<u>July 3, 2021 (26 Weeks)</u>	<u>June 27, 2020 (26 Weeks)</u>
Revenues:				
Wholesale revenues	\$ 2,211.6	\$ 2,029.9	\$ 4,080.7	\$ 3,347.9
Retail revenues	255.3	249.2	418.0	361.6
Total revenues	<u>2,466.9</u>	<u>2,279.1</u>	<u>4,498.7</u>	<u>3,709.5</u>
Cost of revenues:				
Wholesale cost of revenues	1,948.4	1,766.3	3,573.9	2,914.5
Retail cost of revenues	141.6	142.2	228.2	201.8
Total cost of revenues	<u>2,090.0</u>	<u>1,908.5</u>	<u>3,802.1</u>	<u>3,116.3</u>
Gross profit:				
Wholesale gross profit	263.2	263.6	506.8	433.4
Retail gross profit	113.7	107.0	189.8	159.8
Total gross profit	<u>376.9</u>	<u>370.6</u>	<u>696.6</u>	<u>593.2</u>
Wholesale operating expenses:				
Distribution operations expenses	65.5	59.2	119.9	104.2
Selling, general and administrative expenses	55.4	50.4	108.0	101.7
Retailer success and development expenses	64.0	59.5	102.6	91.7
Retail operating expenses	69.0	63.0	130.7	118.5
Retail pre-opening expenses	1.1	0.1	1.7	0.4
Total operating expenses	<u>255.0</u>	<u>232.2</u>	<u>462.9</u>	<u>416.5</u>
Operating income	<u>121.9</u>	<u>138.4</u>	<u>233.7</u>	<u>176.7</u>
Interest expense	(3.4)	(5.4)	(7.4)	(11.2)
Interest income	1.5	0.8	2.7	2.2
Other income, net	1.1	2.5	1.6	4.0
Income tax (expense) benefit	<u>(5.1)</u>	<u>2.6</u>	<u>(9.2)</u>	<u>3.4</u>
Net income	<u>116.0</u>	<u>138.9</u>	<u>221.4</u>	<u>175.1</u>
Less: net loss attributable to noncontrolling interests	<u>-</u>	<u>(0.2)</u>	<u>(0.1)</u>	<u>(0.3)</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 116.0</u>	<u>\$ 139.1</u>	<u>\$ 221.5</u>	<u>\$ 175.4</u>
Patronage distributions accrued	<u>\$ 95.7</u>	<u>\$ 115.6</u>	<u>\$ 204.7</u>	<u>\$ 169.0</u>
Patronage distributions accrued for third party retailers	<u>\$ 92.6</u>	<u>\$ 113.0</u>	<u>\$ 198.7</u>	<u>\$ 164.1</u>

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

	July 3, 2021	January 2, 2021	June 27, 2020
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 51.7	\$ 28.9	\$ 40.3
Marketable securities	61.8	63.2	60.8
Receivables, net of allowance for doubtful accounts of \$6.4, \$4.8 and \$6.2, respectively	746.1	527.7	709.3
Inventories	1,203.6	1,133.0	972.6
Prepaid expenses and other current assets	61.3	55.1	61.8
Total current assets	2,124.5	1,807.9	1,844.8
Property and equipment, net	437.6	423.3	395.8
Operating lease right-of-use assets, net	532.4	455.5	471.1
Finance lease right-of-use assets, net	44.8	25.0	22.7
Goodwill and other intangible assets, net	100.3	100.3	91.9
Other assets	109.9	90.9	95.5
Total assets	<u>\$ 3,349.5</u>	<u>\$ 2,902.9</u>	<u>\$ 2,921.8</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 11.9	\$ 31.7	\$ 10.9
Accounts payable	1,413.3	1,109.4	1,304.7
Patronage distributions payable in cash	82.0	112.9	67.5
Patronage refund certificates payable	26.5	26.6	17.4
Current operating lease liabilities	66.6	64.5	72.6
Current finance lease liabilities	6.9	3.7	3.4
Accrued expenses	182.9	237.5	175.0
Total current liabilities	1,790.1	1,586.3	1,651.5
Long-term debt	73.9	24.8	14.8
Patronage refund certificates payable	105.6	95.3	142.3
Long-term operating lease liabilities	488.1	412.2	418.8
Long-term finance lease liabilities	37.2	20.8	19.3
Other long-term liabilities	78.1	73.6	69.0
Total liabilities	2,573.0	2,213.0	2,315.7
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,697, 2,689 and 2,682 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 6,007,367, 5,015,306 and 5,189,905 issued and outstanding, respectively	600.8	501.5	519.0
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 848,949, 1,191,050 and 462,804 shares issuable, respectively	84.9	119.1	46.2
Contributed capital	19.0	19.0	18.9
Retained earnings	55.0	32.3	2.3
Accumulated other comprehensive income	1.7	3.0	2.7
Equity attributable to Ace member retailers	764.1	677.6	591.8
Equity attributable to noncontrolling interests	12.4	12.3	14.3
Total equity	776.5	689.9	606.1
Total liabilities and equity	<u>\$ 3,349.5</u>	<u>\$ 2,902.9</u>	<u>\$ 2,921.8</u>

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

	Six Months Ended	
	July 3, 2021 (26 Weeks)	June 27, 2020 (26 Weeks)
Operating Activities		
Net income	\$ 221.4	\$ 175.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34.8	31.7
Amortization of deferred financing costs	0.2	0.2
(Gain) loss on the disposal of assets, net	(0.2)	0.9
Provision for doubtful accounts	1.4	0.5
Other, net	4.7	0.9
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(246.2)	(250.3)
Inventories	(69.0)	(39.0)
Other current assets	(6.1)	(16.2)
Other long-term assets	6.0	45.4
Accounts payable and accrued expenses	269.5	451.9
Other long-term liabilities	4.5	(0.8)
Deferred taxes	(3.7)	9.8
Net cash provided by operating activities	<u>217.3</u>	<u>410.1</u>
Investing Activities		
Purchases of investment securities	(32.3)	(9.9)
Proceeds from sale of investment securities	16.2	10.7
Purchases of property and equipment	(51.7)	(43.7)
Cash paid for acquired businesses, net of cash received	(2.6)	(6.6)
Increase in notes receivable, net	(8.1)	(3.0)
Other, net	(0.2)	0.3
Net cash used in investing activities	<u>(78.7)</u>	<u>(52.2)</u>
Financing Activities		
Net borrowings (payments) under revolving lines of credit	28.2	(253.0)
Principal payments on long-term debt	(6.6)	(5.3)
Payments of cash portion of patronage distribution	(113.8)	(66.2)
Payments of patronage refund certificates	(16.9)	(9.5)
Repurchase of stock	(3.7)	(1.2)
Purchase of noncontrolling interests	(0.2)	(0.2)
Other, net	(2.8)	(0.4)
Net cash used in financing activities	<u>(115.8)</u>	<u>(335.8)</u>
Increase in cash and cash equivalents	22.8	22.1
Cash and cash equivalents at beginning of period	<u>28.9</u>	<u>18.2</u>
Cash and cash equivalents at end of period	<u>\$ 51.7</u>	<u>\$ 40.3</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 8.6</u>	<u>\$ 12.6</u>
Income taxes paid	<u>\$ 10.2</u>	<u>\$ 0.7</u>