

**ACE HARDWARE CORPORATION**  
Quarterly report for the period ended October 2, 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 October 2, 2021, January 2, 2021, and September 26, 2020, and the related consolidated statements of income and comprehensive income for the three- and nine-month periods ended October 2, 2021 and September 26, 2020, and the consolidated statements of equity and cash flows for the nine-month periods ended October 2, 2021 and September 26, 2020.

### **Management's Responsibility for the Financial Information**

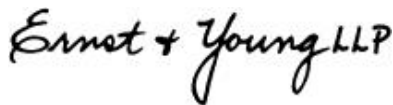
Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis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

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

Chicago, Illinois  
November 16, 2021

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

	Three Months Ended		Nine Months Ended	
	October 2, 2021 (13 Weeks)	September 26, 2020 (13 Weeks)	October 2, 2021 (39 Weeks)	September 26, 2020 (39 Weeks)
Revenues:				
Wholesale revenues	\$ 1,839.5	\$ 1,814.2	\$ 5,920.2	\$ 5,162.1
Retail revenues	189.1	186.3	607.1	547.9
Total revenues	2,028.6	2,000.5	6,527.3	5,710.0
Cost of revenues:				
Wholesale cost of revenues	1,601.4	1,572.0	5,175.3	4,486.5
Retail cost of revenues	100.4	99.6	328.6	301.4
Total cost of revenues	1,701.8	1,671.6	5,503.9	4,787.9
Gross profit:				
Wholesale gross profit	238.1	242.2	744.9	675.6
Retail gross profit	88.7	86.7	278.5	246.5
Total gross profit	326.8	328.9	1,023.4	922.1
Wholesale operating expenses:				
Distribution operations expenses	60.4	58.3	180.3	162.5
Selling, general and administrative expenses	53.2	54.7	161.2	156.4
Retailer success and development expenses	44.4	45.2	147.0	136.9
Retail operating expenses	65.0	61.8	195.7	180.3
Retail pre-opening expenses	0.8	0.4	2.5	0.8
Total operating expenses	223.8	220.4	686.7	636.9
Operating income	103.0	108.5	336.7	285.2
Interest expense	(3.4)	(3.9)	(10.8)	(15.1)
Interest income	2.4	0.3	5.1	2.5
Other income, net	1.1	0.2	2.7	4.2
Income tax expense	(3.8)	(6.4)	(13.0)	(3.0)
Net income	99.3	98.7	320.7	273.8
Less: net loss attributable to noncontrolling interests	-	(0.2)	(0.1)	(0.5)
Net income attributable to Ace Hardware Corporation	\$ 99.3	\$ 98.9	\$ 320.8	\$ 274.3
Patronage distributions accrued	\$ 91.6	\$ 94.8	\$ 296.3	\$ 263.8
Patronage distributions accrued for third party retailers	\$ 88.6	\$ 90.9	\$ 287.3	\$ 255.0

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>Nine Months Ended</b>	
	<b>October 2, 2021 (13 Weeks)</b>	<b>September 26, 2020 (13 Weeks)</b>	<b>October 2, 2021 (39 Weeks)</b>	<b>September 26, 2020 (39 Weeks)</b>
Net income	\$ 99.3	\$ 98.7	\$ 320.7	\$ 273.8
Other comprehensive income, net of tax:				
Foreign currency translation	(0.1)	-	(0.1)	-
Unrealized (loss) gain on available-for-sale securities	(0.3)	0.4	(1.6)	2.0
Unrealized gain on derivative financial instrument	-	-	-	0.2
Total other comprehensive (loss) income, net	(0.4)	0.4	(1.7)	2.2
Comprehensive income	98.9	99.1	319.0	276.0
Less: Comprehensive loss attributable to noncontrolling interests	-	(0.2)	(0.1)	(0.5)
Comprehensive income attributable to Ace Hardware Corporation	<u>\$ 98.9</u>	<u>\$ 99.3</u>	<u>\$ 319.1</u>	<u>\$ 276.5</u>

See accompanying notes to the consolidated financial statements.

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

	<b>October 2, 2021</b>	<b>January 2, 2021</b>	<b>September 26, 2020</b>
<b>Assets</b>	<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>
Cash and cash equivalents	\$ 36.3	\$ 28.9	\$ 53.3
Marketable securities	58.2	63.2	62.4
Receivables, net of allowance for doubtful accounts of \$4.0, \$4.8 and \$4.3, respectively	598.1	527.7	587.9
Inventories	1,263.4	1,133.0	1,098.4
Prepaid expenses and other current assets	64.6	55.1	54.1
Total current assets	2,020.6	1,807.9	1,856.1
Property and equipment, net	447.0	423.3	408.9
Operating lease right-of-use assets, net	506.1	455.5	459.9
Finance lease right-of-use assets, net	60.1	25.0	23.6
Goodwill and other intangible assets, net	99.9	100.3	94.8
Other assets	109.3	90.9	84.6
Total assets	<u>\$ 3,243.0</u>	<u>\$ 2,902.9</u>	<u>\$ 2,927.9</u>
<b>Liabilities and Equity</b>			
Current maturities of long-term debt	\$ 18.0	\$ 31.7	\$ 17.6
Accounts payable	1,155.4	1,109.4	1,208.0
Patronage distributions payable in cash	118.5	112.9	104.7
Patronage refund certificates payable	26.5	26.6	17.4
Current operating lease liabilities	64.4	64.5	70.4
Current finance lease liabilities	9.5	3.7	3.8
Accrued expenses	201.9	237.5	196.4
Total current liabilities	1,594.2	1,586.3	1,618.3
Long-term debt	120.0	24.8	15.3
Patronage refund certificates payable	110.3	95.3	153.2
Long-term operating lease liabilities	466.5	412.2	409.8
Long-term finance lease liabilities	49.9	20.8	19.8
Other long-term liabilities	84.9	73.6	71.3
Total liabilities	2,425.8	2,213.0	2,287.7
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,695, 2,689 and 2,688 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 5,935,288, 5,015,306 and 5,119,074 issued and outstanding, respectively	593.5	501.5	511.9
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 1,226,716, 1,191,050 and 818,540 shares issuable, respectively	122.7	119.1	81.8
Contributed capital	19.0	19.0	18.8
Retained earnings	65.7	32.3	9.3
Accumulated other comprehensive income	1.3	3.0	3.1
Equity attributable to Ace member retailers	804.9	677.6	627.6
Equity attributable to noncontrolling interests	12.3	12.3	12.6
Total equity	817.2	689.9	640.2
Total liabilities and equity	<u>\$ 3,243.0</u>	<u>\$ 2,902.9</u>	<u>\$ 2,927.9</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 (loss)	-	-	-	-	-	274.3	-	(0.5)	273.8
Other comprehensive income	-	-	-	-	-	-	2.2	-	2.2
Net payments on subscriptions	-	-	-	0.7	-	-	-	-	0.7
Stock issued	0.1	54.0	(54.6)	(0.7)	-	(0.1)	-	-	(1.3)
Change in noncontrolling interests	-	-	-	-	(0.1)	(0.1)	-	(0.1)	(0.3)
Stock repurchased	(0.1)	(24.8)	-	-	-	-	-	-	(24.9)
Patronage distributions issuable	-	-	81.8	-	-	-	-	-	81.8
Patronage distributions payable	-	-	-	-	-	(255.0)	-	-	(255.0)
Other	-	-	-	-	0.1	(1.1)	-	(1.6)	(2.6)
Balances at September 26, 2020	\$ 2.7	\$ 511.9	\$ 81.8	\$ -	\$ 18.8	\$ 9.3	\$ 3.1	\$ 12.6	\$ 640.2
Balances at January 2, 2021	\$ 2.7	\$ 501.5	\$ 119.1	\$ -	\$ 19.0	\$ 32.3	\$ 3.0	\$ 12.3	\$ 689.9
Net income (loss)	-	-	-	-	-	320.8	-	(0.1)	320.7
Other comprehensive loss	-	-	-	-	-	-	(1.7)	-	(1.7)
Net payments on subscriptions	-	-	-	1.2	-	-	-	-	1.2
Stock issued	0.1	117.3	(119.1)	(1.2)	-	(0.1)	-	-	(3.0)
Change in noncontrolling interests	-	-	-	-	(0.1)	(0.1)	-	0.1	(0.1)
Stock repurchased	(0.1)	(25.3)	-	-	-	-	-	-	(25.4)
Patronage distributions issuable	-	-	122.7	-	-	-	-	-	122.7
Patronage distributions payable	-	-	-	-	-	(287.3)	-	-	(287.3)
Other	-	-	-	-	0.1	0.1	-	-	0.2
Balances at October 2, 2021	\$ 2.7	\$ 593.5	\$ 122.7	\$ -	\$ 19.0	\$ 65.7	\$ 1.3	\$ 12.3	\$ 817.2

See accompanying notes to the consolidated financial statements.

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

	<b>Nine Months Ended</b>	
	<b>October 2, 2021 (39 Weeks)</b>	<b>September 26, 2020 (39 Weeks)</b>
<b>Operating Activities</b>		
Net income	\$ 320.7	\$ 273.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52.6	48.2
Amortization of deferred financing costs	0.4	0.3
(Gain) loss on the disposal of assets, net	(0.2)	0.9
Credit for doubtful accounts	(1.0)	(1.8)
Other, net	8.1	(0.5)
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(101.4)	(124.1)
Inventories	(128.8)	(163.6)
Other current assets	(9.5)	(8.5)
Other long-term assets	7.9	8.6
Accounts payable and accrued expenses	27.5	414.2
Other long-term liabilities	11.2	1.1
Deferred taxes	(6.9)	9.8
Net cash provided by operating activities	<u>180.6</u>	<u>458.4</u>
<b>Investing Activities</b>		
Purchases of investment securities	(36.6)	(18.3)
Proceeds from sale of investment securities	23.8	17.9
Purchases of property and equipment	(75.4)	(71.1)
Cash paid for acquired businesses, net of cash received	(2.6)	(11.8)
Increase in notes receivable, net	(10.4)	(3.5)
Other, net	(1.5)	0.2
Net cash used in investing activities	<u>(102.7)</u>	<u>(86.6)</u>
<b>Financing Activities</b>		
Net borrowings (payments) under revolving lines of credit	79.6	(246.3)
Principal payments on long-term debt	(9.3)	(7.5)
Payments of cash portion of patronage distribution	(113.8)	(66.2)
Payments of patronage refund certificates	(17.1)	(9.6)
Repurchase of stock	(4.5)	(2.8)
Purchase of noncontrolling interests	(0.4)	(3.0)
Other, net	(5.0)	(1.3)
Net cash used in financing activities	<u>(70.5)</u>	<u>(336.7)</u>
Increase in cash and cash equivalents	7.4	35.1
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>\$ 36.3</u>	<u>\$ 53.3</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 9.9</u>	<u>\$ 14.4</u>
Income taxes paid	<u>\$ 15.5</u>	<u>\$ 3.6</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 held by AIH customers. AIH shareholders 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 and nine months ended October 2, 2021 and September 26, 2020 both cover a 13-week and 39-week period, respectively.

Subsequent events have been evaluated through November 16, 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 and nine months ended October 2, 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.

**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. 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 Accounting Standards Update ("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 nine months ended October 2, 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 operating and finance 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 were \$569.0 million and \$508.3 million as of October 2, 2021 and January 2, 2021, respectively. The future minimum undiscounted lease payments under finance leases were \$60.9 million and \$24.9 million as of October 2, 2021 and January 2, 2021, respectively.

During the nine months ended October 2, 2021 the Company recorded \$106.5 million of operating ROU assets and \$40.7 million of finance ROU assets in exchange for new lease liabilities. The increase in operating ROU assets was primarily due to a new lease to replace a retail distribution center in Washington, a new lease for a retail support center (“RSC”) to replace the existing RSC in Tampa, Florida, new leases for retail stores and the leasing of two new bulk distribution centers. The increase in finance ROU assets was primarily due to the replacement of expiring truck and trailer leases which are generally renewed every five to seven years. Additionally, we have excluded two leases that will increase our ROU Assets by approximately \$173.6 million (undiscounted basis) that have not yet commenced as of October 2, 2021. These two leases will commence during 2022 with lease terms of up to 15 years. One lease is the replacement of an RSC which we currently own in Georgia and the other lease is for a new RSC location in Visalia, California to expand our distribution network.

**(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 \$134.6 million, \$109.1 million and \$109.2 million at October 2, 2021, January 2, 2021 and September 26, 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:

	October 2, 2021	January 2, 2021	September 26, 2020
Wholesale merchandise inventory (LIFO)	\$ 1,071.0	\$ 973.6	\$ 943.5
Retail merchandise inventory at ARH stores and AEH warehouses (FIFO)	192.4	159.4	154.9
<b>Inventories</b>	<b>\$ 1,263.4</b>	<b>\$ 1,133.0</b>	<b>\$ 1,098.4</b>

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

**(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 October 2, 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 October 2, 2021, the Company was in compliance with its covenants and had \$101.8 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 October 2, 2021, a total of \$16.1 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 October 2, 2021, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary had a \$100.0 million asset-based revolving credit facility ("Westlake Facility") that was scheduled to expire on October 24, 2022. On August 3, 2021, Westlake amended the facility by increasing the maximum borrowing to \$125.0 million and extending the due date to August 3, 2026. The amended facility is expandable to \$150.0 million through a \$25.0 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. Under the new 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 October 2, 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 October 2, 2021, ARH was in compliance with its covenants and had \$5.8 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.

Total debt outstanding is comprised of the following:

	October 2, 2021	January 2, 2021	September 26, 2020
Revolving Credit Facility	\$ 101.8	\$ 7.9	\$ -
Westlake Facility	5.8	20.1	6.6
Installment notes with maturities through 2025 at a fixed rate of 6.00%	30.4	28.5	26.3
Total debt	138.0	56.5	32.9
Less: maturities within one year	(18.0)	(31.7)	(17.6)
Long-term debt	<u>\$ 120.0</u>	<u>\$ 24.8</u>	<u>\$ 15.3</u>

**(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 October 2, 2021, January 2, 2021 and September 26, 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

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(Unaudited, in millions)

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.

	Carrying Value Measured at Fair Value			
<b>Items measured at fair value on a recurring basis</b>	<b>October 2, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash equivalents:				
Money market funds	\$ 4.6	\$ 4.6	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	35.0	-	35.0	-
Mortgage-backed securities	12.7	-	12.7	-
U.S. government notes	10.4	9.7	0.7	-
Other	0.1	-	0.1	-
Total marketable securities	<u>\$ 58.2</u>	<u>\$ 9.7</u>	<u>\$ 48.5</u>	<u>\$ -</u>
Other assets:				
Money market funds	\$ 10.3	\$ 10.3	\$ -	\$ -
Fixed income mutual funds	2.4	2.4	-	-
Equity mutual funds	4.3	4.3	-	-
Total other assets	<u>\$ 17.0</u>	<u>\$ 17.0</u>	<u>\$ -</u>	<u>\$ -</u>

	Carrying Value Measured at Fair Value			
<b>Items measured at fair value on a recurring basis</b>	<b>January 2, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<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>

	Carrying Value Measured at Fair Value			
<b>Items measured at fair value on a recurring basis</b>	<b>September 26, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash equivalents:				
Money market funds	\$ 3.7	\$ 3.7	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	34.0	-	34.0	-
Mortgage-backed securities	11.6	-	11.6	-
U.S. government notes	16.4	9.1	7.3	-
Other	0.4	-	0.4	-
Total marketable securities	<u>\$ 62.4</u>	<u>\$ 9.1</u>	<u>\$ 53.3</u>	<u>\$ -</u>

**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, Money market funds and U.S. government notes. The Company’s valuation techniques used to measure the fair values of Level 1 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 on the Balance Sheet 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 Level 2 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 \$1.7 million and \$3.8 million at October 2, 2021 and September 26, 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 and nine months ended October 2, 2021 and September 26, 2020 were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Gross proceeds	\$ 7.6	\$ 7.2	\$ 23.8	\$ 17.9
Gross realized gains	0.1	0.2	0.4	0.4
Gross realized losses	-	-	(0.1)	(0.1)

Gross realized gains and losses were determined using the specific identification method. For the nine months ended October 2, 2021, the Company reclassified \$0.4 million of unrealized gains and \$0.1 million of unrealized losses on the marketable securities that were recorded in Accumulated other comprehensive income 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 October 2, 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>	<b>Due in One Year or Less</b>	<b>Due After One Year through Five Years</b>	<b>Due After Five Years through Ten Years</b>	<b>Due After Ten Years</b>	<b>Total</b>
Corporate fixed income securities	\$ 2.7	\$ 13.7	\$ 12.3	\$ 6.3	\$ 35.0
Mortgage-backed securities	-	2.3	1.6	8.8	12.7
U.S. government notes	1.4	5.1	1.4	2.5	10.4
Other	-	-	0.1	-	0.1
<b>Total</b>	<b>\$ 4.1</b>	<b>\$ 21.1</b>	<b>\$ 15.4</b>	<b>\$ 17.6</b>	<b>\$ 58.2</b>

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 October 2, 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.

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**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>		<b>Nine Months Ended</b>	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Expected tax at U.S. Federal income tax rate	\$ (21.7)	\$ (22.1)	\$ (70.1)	\$ (58.1)
Patronage distribution deductions	18.6	19.1	60.3	53.6
Other, net	(0.7)	(3.4)	(3.2)	1.5
Income tax expense	<u>\$ (3.8)</u>	<u>\$ (6.4)</u>	<u>\$ (13.0)</u>	<u>\$ (3.0)</u>

During the nine months ended September 26, 2020 the Company recorded a \$6.9 million income tax benefit as a result of the Coronavirus Aid Relief and Economic Security Act (“CARES Act”). The CARES Act allows the Company to generate a tax refund by carrying back losses generated in 2018 and 2019.

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

During the nine months ended October 2, 2021 and September 26, 2020, accrued patronage distributions of \$31.2 million and \$22.6 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 nine months ended October 2, 2021 and September 26, 2020, non-cash repurchases of stock from retailers of \$20.7 million and \$22.0 million, respectively, were offset against trade receivables of \$2.1 million and \$7.7 million, respectively, and notes receivable of \$7.4 million and \$4.3 million, respectively. The remaining \$11.2 million and \$10.0 million, respectively, were primarily issued as notes payable with no net impact in the Consolidated Statements of Cash Flows.

During the nine months ended October 2, 2021 and September 26, 2020, the Company received \$8.9 million and \$6.8 million, respectively, 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 nine months ended October 2, 2021 and September 26, 2020. During the nine months ended October 2, 2021 and September 26, 2020, the Company paid \$9.4 million and \$5.1 million, respectively, for property and equipment that was purchased and accrued during the years ended January 2, 2021 and December 28, 2019. These capital expenditures were included in the Purchases of property and equipment in the Consolidated Statement of Cash Flows for the nine months ended October 2, 2021 and September 26, 2020.

## 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- and nine-month periods ended October 2, 2021 and September 26, 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 October 2, 2021 to the Three Months Ended September 26, 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	1,839.5	90.7%	1,814.2	90.7%	25.3	1.4%
Retail revenues	189.1	9.3%	186.3	9.3%	2.8	1.5%
<b>Total revenues</b>	<b>2,028.6</b>	<b>100.0%</b>	<b>2,000.5</b>	<b>100.0%</b>	<b>28.1</b>	<b>1.4%</b>
<b>Gross profit:</b>						
Wholesale gross profit	238.1	12.9%	242.2	13.4%	(4.1)	(1.7%)
Retail gross profit	88.7	46.9%	86.7	46.5%	2.0	2.3%
<b>Total gross profit</b>	<b>326.8</b>	<b>16.1%</b>	<b>328.9</b>	<b>16.4%</b>	<b>(2.1)</b>	<b>(0.6%)</b>
<b>Operating expenses:</b>						
Wholesale operating expenses	158.0	8.6%	158.2	8.7%	0.2	0.1%
Retail operating expenses	65.0	34.4%	61.8	33.2%	(3.2)	(5.2%)
Retail pre-opening expenses	0.8	0.4%	0.4	0.2%	(0.4)	(100.0%)
<b>Total operating expenses</b>	<b>223.8</b>	<b>11.0%</b>	<b>220.4</b>	<b>11.0%</b>	<b>(3.4)</b>	<b>(1.5%)</b>
Operating income	103.0	5.1%	108.5	5.4%	(5.5)	(5.1%)
Interest expense	(3.4)	(0.2%)	(3.9)	(0.2%)	0.5	12.8%
Other expense, net	(0.3)	(0.0%)	(5.7)	(0.3%)	5.4	94.7%
<b>Net income attributable to Ace Hardware Corporation</b>	<b>99.3</b>	<b>4.9%</b>	<b>98.9</b>	<b>4.9%</b>	<b>0.4</b>	<b>0.4%</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>\$ 2,000.5</b>	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic stores:</i>		
Revenues increase from new stores added since January 2020	53.9	2.7%
Revenues decrease from stores cancelled since January 2020	(7.4)	(0.4%)
Decrease in wholesale merchandise revenues to comparable domestic stores	(44.4)	(2.2%)
Decrease in Acehardware.com revenues	(1.5)	(0.1%)
Decrease in AWH wholesale revenues	(4.6)	(0.2%)
Increase in AIH wholesale revenues	20.5	1.0%
Increase in ARH retail revenues	5.2	0.3%
Decrease in AEH retail revenues	(2.4)	(0.1%)
Other revenue changes, net	8.8	0.4%
<b>2021 Revenues</b>	<b>\$ 2,028.6</b>	<b>1.4%</b>



Consolidated revenues for the three months ended October 2, 2021 totaled \$2.0 billion, an increase of \$28.1 million, or 1.4 percent, as compared to the prior year third quarter. Total wholesale revenues were \$1.8 billion for the third quarter 2021, an increase of \$25.3 million, or 1.4 percent, as compared to the prior year third quarter. Increases were seen across several departments with outdoor power equipment, basic electrical and power tools showing the largest gains. New stores are defined as stores that were activated from January 2020 through September 2021. In 2021, the Company had an increase in wholesale merchandise revenues from new domestic stores of \$53.9 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$7.4 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$46.5 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 decreased \$44.4 million for the quarter. This follows an increase in wholesale merchandise revenues to comparable domestic stores of \$365.1 million in the prior year third quarter.

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

	<b>Three Months Ended</b>	
	October 2, 2021	September 26, 2020
Retail outlets at beginning of period	5,550	5,386
New retail outlets added	49	46
Retail outlet cancellations	(18)	(29)
Retail outlets at end of period	5,581	5,403

Ace Wholesale Holdings LLC ("AWH") revenues were \$102.0 million during the three months ended October 2, 2021, representing a \$4.6 million decrease in wholesale revenues from the third quarter of 2020.

Ace Hardware International Holdings, Ltd. ("AIH") revenues were \$70.3 million during the three months ended October 2, 2021, representing a \$20.5 million increase in wholesale revenues from the third quarter of 2020. This increase was primarily the result of a \$17.5 million decline in sales to AIH's two largest customers in the third quarter of 2020, both of which experienced extensive store closures in the prior year due to the pandemic. By comparison, AIH revenues were \$69.0 million in the third quarter of 2019.

Total retail revenues for the quarter were \$189.1 million, an increase of \$2.8 million, or 1.5 percent, as compared to the prior year third quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$185.0 million in the third quarter of 2021, an increase of \$5.2 million, or 2.9 percent, from the third quarter of 2020. This increase was the result of new stores added by the Westlake Ace Hardware ("Westlake") and Great Lakes Ace Hardware Inc. ("GLA") retail chains since the third quarter of 2020. Westlake and GLA together operated 209 stores at the end of the third quarter of 2021 compared to 194 stores at the end of the third quarter of 2020. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$4.1 million in the third quarter of 2021, a decrease of \$2.4 million, or 36.9 percent, from the third quarter of 2020, reversing the 22.6 percent pandemic related surge in the prior year.

Wholesale gross profit for the three months ended October 2, 2021 was \$238.1 million, a decrease of \$4.1 million from the third quarter of 2020. The wholesale gross margin percentage was 12.9 percent of wholesale revenues in the third quarter of 2021, down from 13.4 percent in the third quarter of 2020. The decrease in wholesale gross margin percentage was due to higher LIFO expense which was driven by increased vendor prices, and higher receiving costs in our Retail Support Centers ("RSC").

Retail gross profit for the third quarter of 2021 was \$88.7 million, an increase of \$2.0 million from the third quarter of 2020. This increase was the result of the new stores opened in 2020 and 2021. The retail gross margin percentage was 46.9 percent of retail revenues in the third quarter of 2021, an increase from 46.5 percent in the third 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.

Wholesale operating expenses decreased \$0.2 million, or 0.1 percent, from the third quarter of 2020, as higher distribution operations expenses were offset by lower selling, general and administrative and retailer success and development expenses. Wholesale operating expenses as a percent of wholesale revenues decreased slightly to 8.6 percent in the third quarter of 2021 from 8.7 percent in the third quarter of 2020.

Retail operating expenses increased \$3.2 million, or 5.2 percent, from the third quarter of 2020. This increase was primarily driven by expenses related to the new stores opened in 2020 and 2021. Retail operating expenses as a percent of retail revenue increased to 34.4 percent in the third quarter of 2021 from 33.2 percent in the third quarter of 2020.

Retail pre-opening expenses increased \$0.4 million from the third quarter of 2020, due to expenses related to the new stores Westlake opened in 2021.

Other expense, net decreased \$5.4 million from the third quarter of 2020, due to a decrease in income tax expense related to decreased taxable income from non-patronage sources and an increase in investment income.

**Comparison of the Nine Months Ended October 2, 2021 to the Nine Months Ended September 26, 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	5,920.2	90.7%	5,162.1	90.4%	758.1	14.7%
Retail revenues	607.1	9.3%	547.9	9.6%	59.2	10.8%
<b>Total revenues</b>	<b>6,527.3</b>	<b>100.0%</b>	<b>5,710.0</b>	<b>100.0%</b>	<b>817.3</b>	<b>14.3%</b>
<b>Gross profit:</b>						
Wholesale gross profit	744.9	12.6%	675.6	13.1%	69.3	10.3%
Retail gross profit	278.5	45.9%	246.5	45.0%	32.0	13.0%
<b>Total gross profit</b>	<b>1,023.4</b>	<b>15.7%</b>	<b>922.1</b>	<b>16.1%</b>	<b>101.3</b>	<b>11.0%</b>
<b>Operating expenses:</b>						
Wholesale operating expenses	488.5	8.3%	455.8	8.8%	(32.7)	(7.2%)
Retail operating expenses	195.7	32.2%	180.3	32.9%	(15.4)	(8.5%)
Retail pre-opening expenses	2.5	0.4%	0.8	0.1%	(1.7)	(212.5%)
<b>Total operating expenses</b>	<b>686.7</b>	<b>10.5%</b>	<b>636.9</b>	<b>11.2%</b>	<b>(49.8)</b>	<b>(7.8%)</b>
Operating income	336.7	5.2%	285.2	5.0%	51.5	18.1%
Interest expense	(10.8)	(0.2%)	(15.1)	(0.3%)	4.3	28.5%
Other (expense) income, net	(5.1)	(0.1%)	4.2	0.1%	(9.3)	(221.4%)
<b>Net income attributable to Ace Hardware Corporation</b>	<b>320.8</b>	<b>4.9%</b>	<b>274.3</b>	<b>4.8%</b>	<b>46.5</b>	<b>17.0%</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>\$ 5,710.0</b>	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic stores:</i>		
Revenues increase from new stores added since January 2020	158.9	2.8%
Revenues decrease from stores cancelled since January 2020	(29.1)	(0.5%)
<b>Increase in wholesale merchandise revenues to comparable domestic stores</b>	<b>539.9</b>	<b>9.5%</b>
Increase in Acehardware.com revenues	16.8	0.3%
Increase in AWH wholesale revenues	29.2	0.5%
Increase in AIH wholesale revenues	56.7	1.0%
Increase in ARH retail revenues	63.6	1.1%
Decrease in AEH retail revenues	(4.4)	(0.1%)
Other revenue changes, net	(14.3)	(0.3%)
<b>2021 Revenues</b>	<b>\$ 6,527.3</b>	<b>14.3%</b>

Consolidated revenues for the nine months ended October 2, 2021 totaled \$6.5 billion, an increase of \$817.3 million, or 14.3 percent, as compared to the prior year. Increases were seen across nearly all departments with outdoor power equipment, grilling, basic electrical and fans and heaters showing the largest gains. Total wholesale revenues were \$5.9 billion, an increase of \$758.1 million, or 14.7 percent, as compared to the prior year. New stores are defined as stores that were activated from January 2020 through September 2021. During the nine months ended October 2, 2021, the Company had an increase in wholesale merchandise revenues from new domestic stores of \$158.9 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$29.1 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$129.8 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 \$539.9 million compared to the prior year.

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

	<b>Nine Months Ended</b>	
	<b>October 2, 2021</b>	<b>September 26, 2020</b>
Retailer outlets at beginning of period	5,463	5,366
New retailer outlets added	161	109
Retailer outlet cancellations	(43)	(72)
Retailer outlets at end of period	<u>5,581</u>	<u>5,403</u>

AWH revenues were \$326.2 million during the nine months ended October 2, 2021, representing a \$29.2 million increase in wholesale revenue from the prior year.

AIH revenues were \$208.0 million during the nine months ended October 2, 2021, representing a \$56.7 million increase in wholesale revenue from the prior year. This increase was primarily the result of declines in sales to AIH's two largest customers in 2020, both of which experienced extensive store closures in the prior year due to the pandemic. By comparison, AIH revenues were \$194.3 million in the first nine months of 2019.

Retail revenues from ARH were \$590.8 million during the nine months ended October 2, 2021. This is an increase of \$63.6 million or 12.1 percent from the prior year. This increase was the result of new stores added by the Westlake and GLA retail chains in 2020 and 2021, coupled with a 4.3 percent increase in Westlake same-store-sales and a 7.6 percent increase in GLA same-store-sales. Retail revenues from AEH were \$16.3 million during the nine months ended October 2, 2021. This was a decrease of \$4.4 million from the prior year, driven by a decrease in new customer acquisitions.

Wholesale gross profit for the first nine months of 2021 was \$744.9 million, an increase of \$69.3 million from the first nine months of 2020. The wholesale gross margin percentage was 12.6 percent of wholesale revenues for the nine months ended October 2, 2021, down from 13.1 percent for the nine months ended September 26, 2020. The decrease in wholesale gross margin percentage was due to higher LIFO expense which was driven by increased vendor prices, higher receiving costs in our RSC's and inventory write-downs to reduce the carrying value of certain personal protective equipment.

Retail gross profit for the nine months ended October 2, 2021 was \$278.5 million, an increase of \$32.0 million from the nine months ended September 26, 2020. This increase was the result of the new stores opened in 2020 and 2021. Retail gross margin percentage was 45.9 percent of retail revenues in 2021, up from 45.0 percent in 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 as reported in the Ace financial statements is based on the Ace wholesale acquisition cost of product, not ARH's acquisition cost which includes a markup from the Company.

Wholesale operating expenses increased \$32.7 million, or 7.2 percent, in the nine months ended October 2, 2021 as compared to the nine months ended September 26, 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. As a percentage of wholesale revenues, wholesale operating expenses decreased to 8.3 percent of wholesale revenues in 2021 from 8.8 percent of wholesale revenues in 2020.

Retail operating expenses of \$195.7 million increased \$15.4 million, or 8.5 percent, in the nine months ended October 2, 2021 as compared to the nine months ended September 26, 2020. This increase was primarily driven by expenses related to the new stores opened in 2020 and 2021. Retail operating expenses as a percentage of retail revenue decreased to 32.2 percent of retail revenues in the first nine months of 2021 from 32.9 percent in the first nine months of 2020.

Retail pre-opening expenses increased \$1.7 million in the nine months ended October 2, 2021, due to expenses related to the new stores Westlake opened in 2021.

Other (expense) income, net decreased \$9.3 million from income of \$4.2 million in 2020 to expense of \$5.1 million in 2021. The Company recorded a \$6.9 million income tax benefit in 2020 as a result of changes in tax laws. Fiscal 2021 reflects an 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 October 2, 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 October 2, 2021, the Company was in compliance with its covenants and had \$101.8 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 October 2, 2021, a total of \$16.1 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 October 2, 2021, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary had a \$100.0 million asset-based revolving credit facility ("Westlake Facility") that was scheduled to expire on October 24, 2022. On August 3, 2021, Westlake amended the facility by increasing the maximum borrowing to \$125.0 million and extending the due date to August 3, 2026. The amended facility is expandable to \$150.0 million through a \$25.0 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. Under the new 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 October 2, 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 October 2, 2021, ARH was in compliance with its covenants and had \$5.8 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 \$107.6 million borrowed on lines of credit, was \$138.0 million as of October 2, 2021, compared to \$56.5 million and \$32.9 million as of January 2, 2021 and September 26, 2020, respectively.

## Cash Flows

The Company had \$36.3 million and \$53.3 million of cash and cash equivalents at October 2, 2021 and September 26, 2020, respectively. Following is a summary of the Company's cash flows from operating, investing and financing activities for the first nine months of 2021 and 2020, respectively (in millions):

	2021	2020
Cash provided by operating activities before changes in assets and liabilities	\$ 380.6	\$ 320.9
Net changes in assets and liabilities	(200.0)	137.5
Net cash provided by operating activities	180.6	458.4
Net cash used in investing activities	(102.7)	(86.6)
Net cash used in financing activities	(70.5)	(336.7)
Net change in cash and cash equivalents	\$ 7.4	\$ 35.1

The Company's operating activities provided \$180.6 million of cash during the first nine months of 2021 compared to \$458.4 million provided in 2020. Excluding the impact of net changes in assets and liabilities, cash provided by operating activities increased from \$320.9 million in the first nine months of 2020 to \$380.6 million in the first nine months of 2021. This \$59.7 million increase was primarily the result of a \$46.9 million increase in net income for the first nine months of 2021 compared to the first nine months of 2020.

The net change in assets and liabilities used \$200.0 million of cash in the first nine months of 2021 compared to providing \$137.5 million in the first nine months of 2020. Accounts payable and accrued expenses increased \$27.5 million during the first nine months of 2021 compared to an increase of \$414.2 million during the first nine months of 2020. Accounts payable grew at a lower rate in 2021 compared to 2020 as a result of the December 2019 balances not being impacted by the significant growth the Company has seen since the start of the pandemic. The third quarter of 2020 saw a 29.2 percent increase in wholesale revenues compared to the third quarter of 2019 and the third quarter of 2021 saw an additional 1.4 percent increase in wholesale revenues compared to the third quarter of 2020. The smaller increase in wholesale revenues in the quarter led to slower growth in accounts payable for the first nine months of 2021 compared to the first nine months of 2020.

Net cash used in investing activities was \$102.7 million in the first nine months of 2021 compared to \$86.6 million in the first nine months of 2020. Investing activities in 2021 primarily consisted of \$75.4 million in capital expenditures and \$36.6 million of purchases of investment securities, a portion of which was used to support the Company's deferred compensation plan. Investing activities in 2020 primarily consisted of \$71.1 million in capital expenditures and \$11.8 million paid for the acquisition of additional retail stores by ARH.

Net cash used in financing activities was \$70.5 million in the first nine months of 2021 compared to \$336.7 million in the first nine months of 2020. During 2021, the Company had \$79.6 million of net borrowings under its revolving credit facilities, paid \$113.8 million for the cash portion of the 2020 patronage distribution, paid \$17.1 million on patronage refund certificates and made payments on long-term debt of \$9.3 million. During 2020, the Company repaid all but \$6.6 million of borrowings under its revolving credit facilities. In addition, the Company paid \$66.2 million for the cash portion of the 2019 patronage distribution, paid \$9.6 million on patronage refund certificates and made payments on long-term debt of \$7.5 million.

## Contractual Obligations and Commitments

For the nine months ended October 2, 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 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.

We continue to monitor the impact of the pandemic on our suppliers and supply chain network. During the third quarter of 2021, we continued to experience disruptions in the global supply chain. These disruptions include, but are not limited to, product availability, freight transportation availability, and labor challenges, which have negatively impacted our sales and service levels. We will continue to actively monitor and develop responses to these disruptions, but depending on duration and severity, these trends could continue to negatively impact our sales and service levels.

The U.S. economy is also experiencing a significant increase in inflation as the prices of raw materials and fuel have negatively impacted the costs the Company pays to acquire products. The Company attempts to offset the effect of increased costs by passing along cost increases to the Company’s customers. If these increases cannot be passed to our customers, our financial condition, results of operations, liquidity, and cash flows may be negatively affected.

In October 2021, the Department of Labor’s Occupational Safety and Health Administration issued a new Emergency Temporary Standard (“ETS”), which includes new obligations for certain employers with respect to COVID-19 vaccinations, testing and paid time off. OSHA’s authority to impose such obligations is being challenged in court, and the ETS has been temporarily stayed by the U.S. 5th Circuit Court of Appeals. It is not possible to know whether the ETS will be enforceable, or the impact that enforcement will have on the Company’s workforce.

Management is continuing to monitor these market forces but cannot reasonably predict the long-term impacts of these evolving developments at this time.

## 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.

November 16, 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



Ace Hardware Corporation • 2200 Kensington Court • Oak Brook, IL 60523

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[www.acehardware.com](http://www.acehardware.com)