

ACE HARDWARE CORPORATION
Quarterly report for the period ended April 2, 2022



ACE HARDWARE CORPORATION
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SUPPLEMENTARY DATA

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Review Report of Independent Auditors

The Board of Directors
Ace Hardware Corporation

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated interim financial statements of Ace Hardware Corporation (the Company), which comprise the consolidated balance sheets as of April 2, 2022 and April 3, 2021, and the related consolidated statements of income and comprehensive income for the three-month periods ended April 2, 2022 and April 3, 2021, and the consolidated statements of equity and cash flows for the three-month periods ended April 2, 2022 and April 3, 2021, and the related notes (collectively referred to as the “interim financial information”).

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

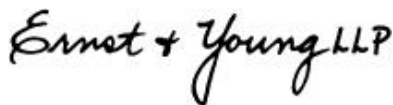
We conducted our review in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Balance Sheet as of January 1, 2022

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of January 1, 2022, and the related consolidated statements of income, comprehensive income, consolidated statement of equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 15, 2022. In our opinion, the accompanying consolidated balance sheet of the Company as of January 1, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chicago, Illinois
May 17, 2022

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

	Three Months Ended	
	April 2, 2022 (13 Weeks)	April 3, 2021 (13 Weeks)
Revenues:		
Wholesale revenues	\$ 2,057.0	\$ 1,869.1
Retail revenues	156.6	162.7
Total revenues	2,213.6	2,031.8
Cost of revenues:		
Wholesale cost of revenues	1,795.0	1,625.5
Retail cost of revenues	83.6	86.6
Total cost of revenues	1,878.6	1,712.1
Gross profit:		
Wholesale gross profit	262.0	243.6
Retail gross profit	73.0	76.1
Total gross profit	335.0	319.7
Wholesale operating expenses:		
Distribution operations expenses	61.5	54.4
Selling, general and administrative expenses	57.2	52.6
Retailer success and development expenses	42.7	38.6
Retail operating expenses	67.8	61.7
Retail pre-opening expenses	0.2	0.6
Total operating expenses	229.4	207.9
Operating income	105.6	111.8
Interest expense	(4.0)	(4.0)
Interest income	1.6	1.2
Other income, net	21.7	0.5
Income tax expense	(5.1)	(4.1)
Net income	119.8	105.4
Less: net loss attributable to noncontrolling interests	(0.3)	(0.1)
Net income attributable to Ace Hardware Corporation	\$ 120.1	\$ 105.5
Patronage distributions accrued	\$ 135.6	\$ 109.0
Patronage distributions accrued for third party Retailers	\$ 130.9	\$ 106.1

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended	
	April 2, 2022 (13 Weeks)	April 3, 2021 (13 Weeks)
Net income	\$ 119.8	\$ 105.4
Other comprehensive loss net of tax:		
Foreign currency translation	0.3	-
Unrealized loss on available-for-sale debt securities	(2.4)	(1.7)
Total other comprehensive loss, net	(2.1)	(1.7)
Comprehensive income	117.7	103.7
Less: Comprehensive loss attributable to noncontrolling interests	(0.3)	(0.1)
Comprehensive income attributable to Ace Hardware Corporation	\$ 118.0	\$ 103.8

See accompanying notes to the consolidated financial statements.

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

	April 2, 2022	January 1, 2022	April 3, 2021
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 47.5	\$ 37.6	\$ 37.4
Marketable securities	56.3	58.0	59.8
Receivables, net of allowance for doubtful accounts of \$5.8, \$4.3 and \$6.1, respectively	853.6	533.6	737.1
Inventories	1,520.0	1,224.3	1,303.5
Prepaid expenses and other current assets	68.4	63.9	62.1
Total current assets	2,545.8	1,917.4	2,199.9
Property and equipment, net	453.7	453.4	433.1
Operating lease right-of-use assets, net	493.4	497.3	485.4
Finance lease right-of-use assets, net	73.9	68.1	35.9
Goodwill and other intangible assets, net	99.1	99.5	100.8
Other assets	118.3	105.7	119.1
Total assets	\$ 3,784.2	\$ 3,141.4	\$ 3,374.2
Liabilities and Equity			
Current maturities of long-term debt	\$ 50.1	\$ 17.1	\$ 41.5
Accounts payable	1,586.1	1,095.2	1,407.9
Patronage distributions payable in cash	174.4	120.6	138.9
Patronage refund certificates payable	27.2	27.2	26.5
Current operating lease liabilities	68.0	64.3	65.7
Current finance lease liabilities	12.3	10.9	5.4
Accrued expenses	184.4	282.9	145.9
Total current liabilities	2,102.5	1,618.2	1,831.8
Long-term debt	142.3	18.6	155.7
Patronage refund certificates payable	103.5	92.8	102.6
Long-term operating lease liabilities	448.4	456.3	441.0
Long-term finance lease liabilities	60.7	56.4	30.0
Other long-term liabilities	94.2	91.0	76.0
Total liabilities	2,951.6	2,333.3	2,637.1
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,680, 2,681 and 2,686 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 10,000,000 shares authorized, 5,672,347, 5,838,265 and 4,921,646 issued and outstanding, respectively	567.2	583.8	492.2
Class C nonvoting common stock, \$100 par value, issuable to Retailers for patronage distributions, 1,752,589, 1,209,075 and 1,779,506 shares issuable, respectively	175.2	120.9	178.0
Contributed capital	19.0	19.1	18.9
Retained earnings	58.1	68.9	31.6
Accumulated other comprehensive (loss) income	(1.2)	1.0	1.3
Equity attributable to Ace member Retailers	821.0	796.4	724.7
Equity attributable to noncontrolling interests	11.6	11.7	12.4
Total equity	832.6	808.1	737.1
Total liabilities and equity	\$ 3,784.2	\$ 3,141.4	\$ 3,374.2

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	Additional Stock Subscribed	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
	Class A	Class C	Issuable to Retailers for Patronage Dividends						
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
Balances at January 1, 2022	\$ 2.7	\$ 583.8	\$ 120.9	\$ -	\$ 19.1	\$ 68.9	\$ 1.0	\$ 11.7	\$ 808.1
Net income	-	-	-	-	-	120.1	-	(0.3)	119.8
Other comprehensive loss	-	-	-	-	-	-	(2.1)	-	(2.1)
Stock issued	-	0.5	-	-	-	-	-	-	0.5
Change in noncontrolling interests	-	-	-	-	(0.1)	-	(0.1)	0.2	-
Stock repurchased	-	(17.1)	-	-	-	-	-	-	(17.1)
Patronage distributions issuable	-	-	54.3	-	-	-	-	-	54.3
Patronage distributions payable	-	-	-	-	-	(130.9)	-	-	(130.9)
Balances at April 2, 2022	\$ 2.7	\$ 567.2	\$ 175.2	\$ -	\$ 19.0	\$ 58.1	\$ (1.2)	\$ 11.6	\$ 832.6

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended	
	April 2, 2022 (13 Weeks)	April 3, 2021 (13 Weeks)
Operating Activities		
Net income	\$ 119.8	\$ 105.4
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19.0	17.4
Amortization of deferred financing costs	0.1	0.1
Gain on the disposal of assets, net	(21.8)	(0.1)
Provision for doubtful accounts	1.1	1.0
Other, net	3.8	1.8
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(346.7)	(241.5)
Inventories	(295.7)	(168.9)
Other current assets	(4.6)	(6.9)
Other long-term assets	(3.4)	4.0
Accounts payable and accrued expenses	419.5	222.6
Other long-term liabilities	3.3	2.4
Deferred taxes	(1.0)	0.1
Net cash used in operating activities	<u>(106.6)</u>	<u>(62.6)</u>
Investing Activities		
Purchases of investment securities	(3.3)	(22.2)
Proceeds from sale of investment securities	1.8	7.4
Purchases of property and equipment	(25.5)	(25.4)
Cash paid for acquired businesses, net of cash received	-	(2.6)
Increase in notes receivable, net	(3.6)	(4.6)
Proceeds from sale of assets	27.2	-
Other, net	(0.7)	(0.2)
Net cash used in investing activities	<u>(4.1)</u>	<u>(47.6)</u>
Financing Activities		
Net borrowings under revolving lines of credit	154.6	141.8
Principal payments on long-term debt	(3.6)	(2.6)
Payments of patronage refund certificates	(25.9)	(16.9)
Repurchase of stock	(1.1)	(2.3)
Purchase of noncontrolling interests	(0.2)	(0.1)
Other, net	(3.2)	(1.2)
Net cash provided by financing activities	<u>120.6</u>	<u>118.7</u>
Increase in cash and cash equivalents	9.9	8.5
Cash and cash equivalents at beginning of period	<u>37.6</u>	<u>28.9</u>
Cash and cash equivalents at end of period	<u>\$ 47.5</u>	<u>\$ 37.4</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 6.6</u>	<u>\$ 7.1</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 21.3 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 59 store Great Lakes Ace Hardware, Inc. (“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. AWH was formed so that the Company could begin making 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. In the fourth quarter of 2021, ASH began operations of Ace Senior Services, which provides basic home maintenance and essential tasks for seniors. On December 22, 2021, ASH acquired the assets of Mountain Skyline Painting LLC, a provider of home painting 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 2021 Annual Report. The unaudited consolidated financial statements for the three months ended April 2, 2022 and April 3, 2021 both cover a 13-week period, respectively.

Subsequent events have been evaluated through May 17, 2022, 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 2, 2022 are not necessarily indicative of the results to be expected for the full fiscal year 2022.

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 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 March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2022-02, "Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings ("TDRs") and Vintage Disclosures". The amendments in this update eliminate the accounting guidance for TDRs by creditors and instead requires an evaluation of all receivable modifications under the Accounting Standards Codification Section 310 to determine whether a modification results in a new loan or a continuation of the existing loan. The amendments also provide enhanced disclosure requirements for certain loan refinancing and restructurings by creditors made to borrowers experiencing financial difficulty. In addition, the ASU requires disclosure of current-period gross write-offs by year of origination for financing receivables for public business entities. The amendments in this update are effective for the Company for year-end and quarterly financial statements in fiscal 2023. The Company is evaluating the impact that this ASU along with ASU 2016-13 will have on the Company's consolidated financial statements.

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

In November 2021, the FASB issued ASU No. 2021-09, “Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities”. Topic 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect to use a risk-free rate as the discount rate for all leases. The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. The guidance also requires a lessee to use the rate implicit in the lease if the rate is readily determinable, regardless of whether the lessee has elected the risk-free rate expedient. ASU 2021-09 is effective for the Company for year-end financial statements in fiscal 2022. The Company is evaluating the impact that ASU 2021-09 will have on the Company’s consolidated financial statements.

In June 2016, the 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.

(2) Acquisitions and Dispositions

No acquisitions were made during the three months ended April 2, 2022. 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.

During the three months ended April 2, 2022, the Company sold its Gainesville, Georgia retail support center (“RSC”) for proceeds of \$27.1 million and recorded a pre-tax gain of \$21.7 million which is presented in Other income, net in the Consolidated Statements of Income. The Company has leased-back this RSC on a short-term basis until construction of the replacement RSC in Jefferson, Georgia is complete.

(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 \$552.1 million and \$557.4 million as of April 2, 2022 and January 1, 2022, respectively. The future minimum undiscounted lease payments under finance leases was \$75.0 million and \$69.0 million as of April 2, 2022 and January 1, 2022, respectively.

During the three months ended April 2, 2022 the Company recorded \$15.2 million of operating ROU assets and \$9.5 million of finance ROU assets in exchange for new lease liabilities. The increase in operating ROU assets was primarily due to the addition of the Gainesville RSC leaseback and the modification of existing leases. 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.

Additionally, the Company has excluded approximately \$174.2 million of payments (undiscounted basis) for leases that have not yet commenced. These leases will commence in the second quarter of 2022 with terms of up to fifteen years and will include a lease in Jefferson, Georgia for the replacement of the Gainesville RSC which the Company previously owned, a lease for a new RSC location in Visalia, California to expand our distribution network and a lease for a new office in Monterrey, Mexico.

(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. 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 \$181.7 million, \$172.5 million and \$109.9 million at April 2, 2022, January 1, 2022 and April 3, 2021, respectively. An actual valuation of inventory under the LIFO

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

method can be made only at the end of each year based on the inventory levels and costs at the 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 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 2, 2022	January 1, 2022	April 3, 2021
Wholesale merchandise inventory (LIFO)	\$ 1,290.5	\$ 1,031.4	\$ 1,111.8
Retail merchandise inventory at ARH stores and AEH warehouse (FIFO)	229.5	192.9	191.7
Inventories	\$ 1,520.0	\$ 1,224.3	\$ 1,303.5

(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 2, 2022. 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 2, 2022, the Company was in compliance with its covenants and had \$121.9 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 2, 2022, a total of \$17.3 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 2, 2022, there were no loans or other extensions of credit provided to AIH.

The Company’s Westlake subsidiary has a \$125.0 million asset-based revolving credit facility (“Westlake Facility”) that expires on August 3, 2026. The 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 a portion of the increased facility. 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 2, 2022.

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 2, 2022, ARH was in compliance with its covenants and had \$37.6 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.

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

Total debt outstanding is comprised of the following:

	April 2, 2022	January 1, 2022	April 3, 2021
Revolving Credit Facility	\$ 121.9	\$ -	\$ 139.8
Westlake Facility	37.6	4.9	30.0
Installment notes with maturities through 2026 at a fixed rate of 6.00%	32.9	30.8	27.4
Total debt	192.4	35.7	197.2
Less: maturities within one year	(50.1)	(17.1)	(41.5)
Long-term debt	<u>\$ 142.3</u>	<u>\$ 18.6</u>	<u>\$ 155.7</u>

(6) Fair Value Measurements

The tables below set forth, by level, the Company's financial assets and liabilities that were accounted for at fair value as of April 2, 2022, January 1, 2022 and April 3, 2021. 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.

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value			
	April 2, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	\$ 3.5	\$ 3.5	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	32.0	-	32.0	-
Mortgage-backed securities	8.0	-	8.0	-
U.S. government notes	9.9	9.2	0.7	-
Other	6.4	-	6.4	-
Total marketable securities	<u>\$ 56.3</u>	<u>\$ 9.2</u>	<u>\$ 47.1</u>	<u>\$ -</u>
Other assets:				
Money market funds	\$ 10.3	\$ 10.3	\$ -	\$ -
Fixed income mutual funds	2.3	2.3	-	-
Equity mutual funds	4.3	4.3	-	-
Total other assets	<u>\$ 16.9</u>	<u>\$ 16.9</u>	<u>\$ -</u>	<u>\$ -</u>

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

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value			
	January 1, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	\$ 5.1	\$ 5.1	\$ -	\$ -
Marketable securities:				
Corporate fixed income securities	32.2	-	32.2	-
Mortgage-backed securities	8.8	-	8.8	-
U.S. government notes	10.4	9.6	0.8	-
Other	6.6	-	6.6	-
Total marketable securities	<u>\$ 58.0</u>	<u>\$ 9.6</u>	<u>\$ 48.4</u>	<u>\$ -</u>
Other assets:				
Money market funds	\$ 10.4	\$ 10.4	\$ -	\$ -
Fixed income mutual funds	2.3	2.3	-	-
Equity mutual funds	4.6	4.6	-	-
Total other assets	<u>\$ 17.3</u>	<u>\$ 17.3</u>	<u>\$ -</u>	<u>\$ -</u>

Items measured at fair value on a recurring basis	Carrying Value Measured at Fair Value			
	April 3, 2021	Level 1	Level 2	Level 3
Assets:				
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	0.9	0.9	-	-
Total other assets	<u>\$ 17.0</u>	<u>\$ 17.0</u>	<u>\$ -</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 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 was below cost by \$2.0 million and exceeded their cost by \$1.5 million at April 2, 2022 and April 3, 2021, respectively. The realized and unrealized gains and losses on equity securities are recorded to Other income, net 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 2, 2022 and April 3, 2021 were as follows:

	Three Months Ended	
	April 2, 2022	April 3, 2021
Gross proceeds	\$ 1.8	\$ 7.1
Gross realized gains	-	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 2, 2022, the Company reclassified immaterial amounts of unrealized gains and unrealized losses on the marketable securities that were recorded in AOCI as of January 1, 2022 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 2, 2022. Actual maturities may differ from the contractual or expected maturities since borrowers may have the right to prepay obligations with or without prepayment penalties.

Fair value of available-for-sale debt securities	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	\$ 4.1	\$ 12.1	\$ 10.6	\$ 5.2	\$ 32.0
Mortgage-backed securities	-	0.2	0.4	7.4	8.0
U.S. government notes	0.1	6.8	1.0	2.0	9.9
Other	0.5	1.5	1.7	2.7	6.4
Total	\$ 4.7	\$ 20.6	\$ 13.7	\$ 17.3	\$ 56.3

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 2, 2022. 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:

	Three Months Ended	
	April 2, 2022	April 3, 2021
Expected tax at U.S. Federal income tax rate	\$ (26.2)	\$ (23.0)
Patronage distribution deductions	27.5	22.3
Other, net	(6.4)	(3.4)
Income tax expense	\$ (5.1)	\$ (4.1)

(8) Supplemental Disclosures of Cash Flow Information

During the three months ended April 2, 2022 and April 3, 2021, accrued patronage distributions of \$12.1 million and \$14.0 million, respectively, were offset against trade receivables and notes receivable owed to the Company by its Retailers with no net impact in the Consolidated Statements of Cash Flows.

During the three months ended April 2, 2022 and April 3, 2021, non-cash repurchases of stock from Retailers of \$16.0 million and \$7.5 million, respectively, were offset against trade receivables of \$4.8 million and \$4.0 million, respectively, and notes receivable of \$5.5 million and \$2.0 million, respectively. The remaining \$5.7 million and \$1.5 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 2, 2022, the Company received \$6.5 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 2, 2022. During the three months ended April 2, 2022, the Company paid \$7.8 million for property and equipment that was purchased and accrued during the year ended January 1, 2022. 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 2, 2022.

**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 2, 2022 and April 3, 2021. This discussion and analysis should be read in conjunction with the Company's 2021 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 2, 2022 to the Three Months Ended April 3, 2021

The following data summarizes the Company's performance in 2022 as compared to 2021 (in millions):

	2022		2021		Favorable/ (Unfavorable)	
	\$	% of Revenues*	\$	% of Revenues*	\$	%
Revenues:						
Wholesale revenues	2,057.0	92.9%	1,869.1	92.0%	187.9	10.1%
Retail revenues	156.6	7.1%	162.7	8.0%	(6.1)	(3.7%)
Total revenues	2,213.6	100.0%	2,031.8	100.0%	181.8	8.9%
Gross profit:						
Wholesale gross profit	262.0	12.7%	243.6	13.0%	18.4	7.6%
Retail gross profit	73.0	46.6%	76.1	46.8%	(3.1)	(4.1%)
Total gross profit	335.0	15.1%	319.7	15.7%	15.3	4.8%
Operating expenses:						
Wholesale operating expenses	161.4	7.8%	145.6	7.8%	(15.8)	(10.9%)
Retail operating expenses	67.8	43.3%	61.7	37.9%	(6.1)	(9.9%)
Retail pre-opening expenses	0.2	0.1%	0.6	0.4%	0.4	66.7%
Total operating expenses	229.4	10.4%	207.9	10.2%	(21.5)	(10.3%)
Operating income	105.6	4.8%	111.8	5.5%	(6.2)	(5.5%)
Interest expense	(4.0)	(0.2%)	(4.0)	(0.2%)	-	0.0%
Other income (expense), net	18.5	0.8%	(2.3)	(0.1%)	20.8	904.3%
Net income attributable to Ace Hardware Corporation	120.1	5.4%	105.5	5.2%	14.6	13.8%

*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. 2021
2021 Revenues	\$ 2,031.8	
<i>Wholesale Merchandise Revenues change based on new and cancelled domestic stores:</i>		
Revenues increase from new stores added since January 2021	57.3	2.8%
Revenues decrease from stores cancelled since January 2021	(11.9)	(0.6%)
Increase in wholesale merchandise revenues to comparable domestic stores	136.0	6.7%
Increase in AWH revenues	13.8	0.7%
Decrease in AIH revenues	(10.3)	(0.5%)
Decrease in ARH revenues	(4.1)	(0.2%)
Decrease in AEH retail revenues	(2.0)	(0.1%)
Decrease in Acehardware.com revenues	(7.8)	(0.4%)
Other revenue changes, net	10.8	0.5%
2022 Revenues	\$ 2,213.6	8.9%

Consolidated revenues for the three months ended April 2, 2022 totaled \$2.2 billion, an increase of \$181.8 million, or 8.9 percent, as compared to the prior year first quarter. Total wholesale revenues were \$2.1 billion for the first quarter 2022, an increase of \$187.9 million, or 10.1 percent, as compared to the prior year first quarter. Increases were seen across most departments with outdoor power equipment, lawn and garden and plumbing showing the largest gains. New stores are defined as stores that were activated from January 2021 through March 2022. In 2022, the Company had an increase in wholesale merchandise revenues from new domestic stores of \$57.3 million. This increase was partially offset by a decrease in wholesale merchandise revenues due to domestic store cancellations of \$11.9 million. As a result, the Company realized a net increase in wholesale merchandise revenues of \$45.4 million related to the impact of both new stores affiliated with the Company and from stores that cancelled their membership in 2021 and 2022. Wholesale merchandise revenues to comparable domestic stores increased \$136.0 million for the quarter. All of this increase was the result of estimated wholesale price inflation of 13.0 percent.

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

	Three Months Ended	
	April 2, 2022	April 3, 2021
Retail outlets at beginning of period	5,583	5,463
New retail outlets added	54	51
Retail outlet cancellations	(11)	(16)
Retail outlets at end of period	5,626	5,498

Ace Wholesale Holdings LLC ("AWH") revenues were \$117.7 million during the three months ended April 2, 2022, representing a \$13.8 million increase in wholesale revenues from the first quarter of 2021.

Ace Hardware International Holdings, Ltd. ("AIH") revenues were \$53.6 million during the three months ended April 2, 2022, representing a \$10.3 million decrease in wholesale revenue from the first quarter of 2021. This decrease was primarily the result of a decline in sales to AIH's largest customer.

Total retail revenues for the quarter were \$156.6 million, a decrease of \$6.1 million, or 3.7 percent, as compared to the prior year first quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$153.0 million in the first quarter of 2022, a decrease of \$4.1 million, or 2.6 percent, from the first quarter of 2021. The Westlake Ace Hardware ("Westlake") retail chain experienced a 5.7 percent decrease in same-store-sales while the Great Lakes Ace Hardware ("GLA") chain experienced a 6.4 percent decrease in same-store-sales in the quarter. The new stores opened by Westlake and GLA in the prior year contributed \$5.0 million of incremental revenues during the first quarter of 2022, partially offsetting the decrease in same-store-sales. Westlake and GLA together operated 210 stores at the end of the first quarter of 2022 compared to 209 stores at the end of the first quarter of 2021. Retail revenues from Ace Ecommerce Holdings LLC ("AEH") were \$3.6 million in the first quarter of 2022, a decrease of \$2.0 million, or 35.7 percent, from the first quarter of 2021.

Wholesale gross profit for the three months ended April 2, 2022 was \$262.0 million, an increase of \$18.4 million from the first quarter of 2021. The wholesale gross margin percentage was 12.7 percent of wholesale revenues in the first quarter of 2022, down from 13.0 percent in the first quarter of 2021. The decrease in wholesale gross margin percentage was primarily due to an increase in LIFO expense which was driven by increased vendor prices due to inflation and a decrease in vendor funds earned.

Retail gross profit for the three months ended April 2, 2022 was \$73.0 million, a decrease of \$3.1 million from the first quarter of 2021. The retail gross margin percentage was 46.6 percent of retail revenues in the first quarter of 2022, down slightly from 46.8 percent in the first quarter of 2021. The decline in retail gross margin percentage primarily resulted from product mix and the liquidation of personal protective equipment. 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 \$15.8 million, or 10.9 percent, from the first quarter of 2021. The increase is due to higher warehouse labor costs as a result of higher headcount in anticipation of the spring selling season. Wholesale operating expenses as a percent of wholesale revenues was unchanged at 7.8 percent in both the first quarter of 2022 and 2021.

Retail operating expenses increased \$6.1 million, or 9.9 percent, from the first quarter of 2021. This increase was primarily driven by a planned increase in store payroll along with expenses incurred related to the new stores opened in 2021. Retail operating expenses as a percent of retail revenue increased to 43.3 percent in the first quarter of 2022 from 37.9 percent in the first quarter of 2021.

Other income (expense), net increased \$20.8 million compared to the first quarter of 2021 as a result of the \$21.7 million gain on sale of the Company's retail support center located in Gainesville, Georgia.

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 2, 2022. 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 2, 2022, the Company was in compliance with its covenants and had \$121.9 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 2, 2022, a total of \$17.3 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 2, 2022, there were no loans or other extensions of credit provided to AIH.

The Company's Westlake subsidiary has a \$125.0 million asset-based revolving credit facility ("Westlake Facility") that expires on August 3, 2026. 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 2, 2022.

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 2, 2022, ARH was in compliance with its covenants and had \$37.6 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 \$159.5 million borrowed on lines of credit, was \$192.4 million as of April 2, 2022, compared to \$35.7 million and \$197.2 million as of January 1, 2022 and April 3, 2021, respectively.

Cash Flows

The Company had \$47.5 million and \$37.4 million of cash and cash equivalents at April 2, 2022 and April 3, 2021, respectively. Following is a summary of the Company's cash flows from operating, investing and financing activities for the first three months of 2022 and 2021, respectively (in millions):

	2022	2021
Cash provided by operating activities before changes in assets and liabilities	\$ 122.0	\$ 125.6
Net changes in assets and liabilities	(228.6)	(188.2)
Net cash used in operating activities	(106.6)	(62.6)
Net cash used in investing activities	(4.1)	(47.6)
Net cash provided by financing activities	120.6	118.7
Net change in cash and cash equivalents	\$ 9.9	\$ 8.5

The Company's operating activities used \$106.6 million of cash during the first three months of 2022 compared to \$62.6 million in 2021. Excluding the impact of net changes in assets and liabilities, cash provided by operating activities decreased from \$125.6 million in the first three months of 2021 to \$122.0 million in the first three months of 2022. This was due to the decrease in net income excluding the gain on sale of assets which is not an operating activity.

The net change in assets and liabilities used \$228.6 million of cash in the first three months of 2022 compared to the use of \$188.2 million in the first three months of 2021. Accounts receivable and inventories increased \$642.4 million during the first three months of 2022 compared to an increase of \$410.4 million during the first three months of 2021. The increases in 2022 were due to higher sales volumes and the intentional build-up of inventory as a hedge against supplier shortages and to increase fill rates to Retailers. Accounts payable and accrued expenses increased \$419.5 million during the first three months of 2022 compared to an increase of \$222.6 million during the first three months of 2021, partially offsetting the combined increases in accounts receivable and inventories.

Net cash used in investing activities was \$4.1 million in the first three months of 2022 compared to \$47.6 million in the first three months of 2021. Investing activities in 2022 primarily consisted of \$25.5 million in capital expenditures and \$3.3 million for the purchases of investment securities, partially offset by \$27.2 million of cash proceeds from the sale of assets, which included the sale of the Gainesville Retail Support Center. Investing activities in 2021 primarily consisted of \$25.4 million in capital expenditures and \$22.2 million for the purchases of investment securities, a portion of which was used to support the Company's deferred compensation plan.

Net cash provided by financing activities was \$120.6 million in the first three months of 2022 compared to \$118.7 million in the first three months of 2021. During 2022, the Company had a \$154.6 million increase of net borrowings under its revolving credit facilities, paid \$25.9 million on patronage refund certificates and made payments on long-term debt of \$3.6 million. During 2021, the Company had a \$141.8 million increase of net borrowings under the revolving lines of credit, paid \$16.9 million on patronage refund certificates and made payments on long-term debt of \$2.6 million.

Contractual Obligations and Commitments

For the three months ended April 2, 2022, there have been no significant changes to the Company's contractual obligations and commitments as disclosed in its 2021 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 2021 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 2021 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, ransomware attacks, 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 continues to have a significant effect on overall economic conditions and the preventative and protective measures taken by governments throughout the world are resulting in global business disruptions, including the Company’s customers and vendors. While the impact of the pandemic is 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 future 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.

The U.S. economy is experiencing a significant increase in inflation as the prices of raw materials and freight 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.

The Company continues to monitor these market forces but cannot reasonably predict the long-term impacts of these evolving developments.

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 17, 2022

/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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