



PRESS RELEASE

ACE HARDWARE REPORTS SECOND QUARTER 2015 REVENUES AND PROFITS

- *Record second quarter revenues of \$1.4 billion, an increase of 6.5 percent from last year*
- *Second quarter net income of \$57.5 million, second highest in Company history*
- *Consumers ranked Ace “Highest in Customer Satisfaction” for the ninth consecutive year according to J.D. Power**
- *Credit facility amended to extend maturity date to May 2020 and lower the interest rate by 25 basis points*

Oak Brook, Ill. (August 19, 2015) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported second quarter 2015 revenues of \$1.4 billion, an increase of \$86.2 million or 6.5 percent from the second quarter of 2014. Net income was \$57.5 million for the second quarter of 2015, a decrease of \$9.0 million from last year, but the second highest in Company history.

"Ace's record second quarter revenues for the second consecutive year were a direct result of the hard and effective work of our great people and world class retailers," said John Venhuizen, President and CEO, Ace Hardware Corp. "While our net income declined from last year, we are still far ahead of our plan and believe the investments we are making are a significant driver of the impressive 4.6 percent increase in retail same-store-sales for the quarter."

For the first half of 2015, retail same-store-sales reported by the approximately 3,000 Ace retailers who share daily retail sales data increased 6.5 percent and Ace Retail Holdings LLC (“ARH”) rose 4.7 percent due to an increase in customer count and average transaction size.

Revenues

Consolidated revenues for the three months ended July 4, 2015 totaled \$1.4 billion. Total wholesale revenues were \$1.3 billion, an increase of \$80.5 million, or 6.4 percent, as compared to the prior year quarter. Increases were noted across almost all departments with outdoor living, electrical and lawn and garden showing the largest increases. Excluding the non-recurring revenues related to the rollout of the new Paint Studio equipment in 2014, wholesale revenues increased by \$93.6 million, or 7.1 percent, in the second quarter of 2015 compared to the prior year.

Wholesale merchandise revenues from new domestic stores were \$23.3 million in the second quarter of 2015. This increase was partially offset by a decrease in wholesale merchandise revenues of \$12.0 million due to domestic store cancellations. Wholesale merchandise revenues to comparable domestic stores increased \$38.5 million in the second quarter of 2015 compared to the prior year period. Note that the new store, cancelled store and comparable store amounts all exclude the impact of non-recurring Paint Studio equipment revenues in 2014. Wholesale

revenues from the Company's Ace Wholesale Holdings LLC ("AWH") subsidiary contributed \$46.2 million of the increase.

Retail revenues from ARH were \$85.4 million during the second quarter, an increase of \$5.7 million or 7.2 percent. Average ticket price increased 3.1 percent and customer count increased 0.9 percent compared to the prior year period. Same-store-sales increased 3.9 percent compared to the second quarter of 2014 with the largest increases in lawn and garden and electrical.

Ace added 31 new domestic stores in the second quarter of 2015 and cancelled 27 stores. This brought the Company's total domestic store count to 4,256 at the end of the second quarter of 2015, an increase of 30 stores from the second quarter of 2014.

Gross Profit

Wholesale gross profit for the three months ended July 4, 2015, was \$163.5 million, a decrease of \$11.9 million from the second quarter of 2014. The wholesale gross margin percentage was 12.3 percent of wholesale revenues in the second quarter of 2015, a decrease from 2014's unusually high second quarter gross margin percentage of 14.0 percent (the second quarter 2013 gross margin percentage was 12.9 percent). The second quarter of 2014 gross margin rate was higher than normal due to incentives received from vendors.

Retail gross profit for the second quarter of 2015 was \$37.1 million, an increase of \$1.8 million from the second quarter of 2014. The retail gross margin percentage was 43.4 percent of retail revenues in the second quarter of 2015, down from 44.3 percent in the prior year quarter. The decrease in the retail gross margin percentage was primarily the result of product mix and an increase in promotional discounting.

Expenses

Wholesale operating expenses decreased \$9.4 million, or 8.2 percent, for the second quarter of 2015 as compared to the second quarter of 2014. The decrease was primarily driven by the settlement of a gain contingency. The additional operating expenses caused by the AWH acquisition of Jensen-Byrd Co., LLC ("Jensen") in December 2014 were offset by lower advertising expenses due to the timing of promotional spending. As a percentage of wholesale revenues, wholesale operating expenses decreased from 9.2 percent of wholesale revenues in the second quarter of 2014 to 7.9 percent of wholesale revenues in the second quarter of 2015.

Retail operating expenses of \$25.7 million increased \$1.9 million, or 8.0 percent, in the second quarter of 2015 as compared to the second quarter of 2014, primarily as a result of higher expenses associated with ARH's acquisition of five retail stores during the second quarter of 2015, as well as the timing of advertising expenses. Retail operating expenses as a percent of retail revenues remained relatively constant at 30.1 percent of retail revenues in the second quarter of 2015 versus 29.9 percent in the second quarter of 2014.

Interest expense increased by \$2.3 million, from \$3.5 million in the second quarter of fiscal 2014 to \$5.8 million in the second quarter of 2015. During the second quarter of 2015 the Company refinanced its debt with its existing lenders. The previous \$400 million revolving credit facility and \$165 million amortizing term loan were replaced with a \$600 million revolving credit facility that expires in May of 2020. The interest rate on the facility was also reduced by 25 basis points. Because of the refinancing, the Company was required to write-off \$2.2 million of deferred financing fees related to the old credit facility and term loan. This write-off was recorded as additional interest expense.

Income tax expense increased \$2.1 million, from \$3.9 million in the second quarter of fiscal 2014 to \$6.0 million in the second quarter of 2015. The increase is the result of taxes that were recorded on the settlement of the gain contingency, which is taxable to the Company.

Balance Sheet

Receivables decreased \$17.8 million from the second quarter of 2014 as a result of lower balances on extended dating programs for retailers, partially offset by sales growth and AWH's acquisition of Jensen in December of 2014.

Inventories increased \$170.4 million from the second quarter of 2014 driven in part by an intentional \$50.0 million build-up of LED lighting inventories for planned resets and promotions, higher inventory levels to support higher sales volumes and the carryover of seasonal merchandise. AWH's acquisition of Jensen in the fourth quarter of 2014 contributed \$24.7 million towards the increase in inventory. Additionally, ARH inventory increased by \$12.1 million compared to the prior year due to the acquisition of additional retail stores and to support higher sales volumes.

Accounts payable increased \$132.5 million from the second quarter of 2014 primarily as a result of an increase in inventory purchases compared to the prior year as well as the acquisition of Jensen.

Debt decreased \$28.1 million versus the second quarter of 2014 as a result of lower borrowing on the Company's revolving credit facilities.

About Ace Hardware

For more than 90 years, Ace Hardware has been known as the place with the helpful hardware folks in thousands of neighborhoods across America, providing customers with a more personal kind of helpful. In 2015, Ace ranked “Highest in Customer Satisfaction among Home Improvement Retail Stores, Nine Years in a Row,” according to J.D. Power. With more than 4,800 hardware stores locally owned and operated across the globe, Ace is the largest retailer-owned hardware cooperative in the world. Headquartered in Oak Brook, Ill., Ace and its subsidiaries currently operate 17 distribution centers in the U.S. and also have distribution capabilities in Shanghai, China; Panama City, Panama; and Dubai, United Arab Emirates. Its retailers' stores are located in all 50 states, the District of Columbia and approximately 60 countries. For more information on Ace, visit www.acehardware.com.

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* Ace Hardware received the highest numerical score among retail stores in the proprietary J.D. Power 2015 Home Improvement Retail Store StudySM. Study based on responses from 2,994 consumers measuring six stores and opinions of consumers who purchased a home improvement product or service within the previous 12 months. Proprietary study results are based on experiences and perceptions of consumers surveyed January-February 2015. Your experiences may vary. Visit jdpower.com

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

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|---|--|---|--|---|
| | <u>July 4, 2015 (13 Weeks)</u> | <u>June 28, 2014 (13 Weeks)</u> | <u>July 4, 2015 (26 Weeks)</u> | <u>June 28, 2014 (26 Weeks)</u> |
| Revenues: | | | | |
| Wholesale revenues | \$ 1,332.1 | \$ 1,251.6 | \$ 2,471.9 | \$ 2,286.6 |
| Retail revenues | 85.4 | 79.7 | 131.7 | 123.4 |
| Total revenues | <u>1,417.5</u> | <u>1,331.3</u> | <u>2,603.6</u> | <u>2,410.0</u> |
| Cost of revenues: | | | | |
| Wholesale cost of revenues | 1,168.6 | 1,076.2 | 2,170.3 | 1,992.1 |
| Retail cost of revenues | 48.3 | 44.4 | 72.3 | 67.4 |
| Total cost of revenues | <u>1,216.9</u> | <u>1,120.6</u> | <u>2,242.6</u> | <u>2,059.5</u> |
| Gross profit: | | | | |
| Wholesale gross profit | 163.5 | 175.4 | 301.6 | 294.5 |
| Retail gross profit | 37.1 | 35.3 | 59.4 | 56.0 |
| Total gross profit | <u>200.6</u> | <u>210.7</u> | <u>361.0</u> | <u>350.5</u> |
| Distribution operations expenses | 33.5 | 30.3 | 64.5 | 57.2 |
| Selling, general and administrative expenses | 33.0 | 38.6 | 76.3 | 75.5 |
| Retailer success and development expenses | 39.0 | 46.0 | 69.7 | 72.9 |
| Retail operating expenses | 25.7 | 23.8 | 47.7 | 46.4 |
| Warehouse facility closure costs | 0.2 | - | 1.7 | - |
| Total operating expenses | <u>131.4</u> | <u>138.7</u> | <u>259.9</u> | <u>252.0</u> |
| Operating income | 69.2 | 72.0 | 101.1 | 98.5 |
| Interest expense | (5.8) | (3.5) | (9.3) | (6.6) |
| Interest income | 0.9 | 0.9 | 1.7 | 1.7 |
| Other income, net | 1.6 | 1.4 | 3.8 | 3.2 |
| Income tax expense | (6.0) | (3.9) | (7.5) | (5.5) |
| Net income | <u>59.9</u> | <u>66.9</u> | <u>89.8</u> | <u>91.3</u> |
| Less: net income attributable to noncontrolling interests | <u>2.4</u> | <u>0.4</u> | <u>2.4</u> | <u>0.4</u> |
| Net income attributable to Ace Hardware Corporation | <u>\$ 57.5</u> | <u>\$ 66.5</u> | <u>\$ 87.4</u> | <u>\$ 90.9</u> |
| Patronage distributions accrued | <u>\$ 43.1</u> | <u>\$ 55.9</u> | <u>\$ 76.8</u> | <u>\$ 84.2</u> |

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

| | July 4, 2015 | January 3, 2015 | June 28, 2014 |
|--|-------------------------|----------------------------|--------------------------|
| Assets | (Unaudited) | (Audited) | (Unaudited) |
| Cash and cash equivalents | \$ 35.3 | \$ 29.8 | \$ 15.7 |
| Marketable securities | 42.8 | 42.2 | 55.4 |
| Receivables, net of allowance for doubtful accounts of \$7.9, \$6.5 and \$10.0, respectively | 469.5 | 381.8 | 487.3 |
| Inventories | 807.1 | 692.9 | 636.7 |
| Prepaid expenses and other current assets | 53.4 | 54.7 | 61.2 |
| Total current assets | 1,408.1 | 1,201.4 | 1,256.3 |
| Property and equipment, net | 316.8 | 323.0 | 324.1 |
| Notes receivable, net of allowance for doubtful accounts of \$9.4, \$10.9 and \$10.0, respectively | 15.8 | 12.2 | 21.0 |
| Goodwill and other intangible assets | 35.7 | 35.0 | 31.9 |
| Other assets | 87.2 | 85.6 | 76.0 |
| Total assets | <u>\$ 1,863.6</u> | <u>\$ 1,657.2</u> | <u>\$ 1,709.3</u> |
| Liabilities and Equity | | | |
| Current maturities of long-term debt | \$ 19.4 | \$ 41.5 | \$ 39.8 |
| Accounts payable | 799.0 | 601.6 | 666.5 |
| Patronage distributions payable in cash | 31.6 | 53.7 | 34.3 |
| Patronage refund certificates payable | 6.6 | 6.6 | - |
| Accrued expenses | 147.7 | 162.5 | 145.8 |
| Total current liabilities | 1,004.3 | 865.9 | 886.4 |
| Long-term debt | 282.4 | 242.2 | 290.1 |
| Patronage refund certificates payable | 42.2 | 32.3 | 38.2 |
| Other long-term liabilities | 56.8 | 67.0 | 65.8 |
| Total liabilities | 1,385.7 | 1,207.4 | 1,280.5 |
| Member Retailers' Equity: | | | |
| Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,739; 2,751 and 2,756 issued and outstanding, respectively | 2.7 | 2.8 | 2.8 |
| Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 3,847,785; 3,425,232 and 3,495,681 issued and outstanding, respectively | 384.8 | 342.5 | 349.6 |
| Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 300,284; 565,068 and 326,665 shares issuable, respectively | 30.0 | 56.5 | 32.7 |
| Contributed capital | 20.7 | 20.6 | 20.0 |
| Retained earnings | 26.0 | 15.5 | 13.1 |
| Accumulated other comprehensive income | 1.2 | 1.7 | 0.9 |
| Equity attributable to Ace member retailers | 465.4 | 439.6 | 419.1 |
| Equity attributable to noncontrolling interests | 12.5 | 10.2 | 9.7 |
| Total equity | 477.9 | 449.8 | 428.8 |
| Total liabilities and equity | <u>\$ 1,863.6</u> | <u>\$ 1,657.2</u> | <u>\$ 1,709.3</u> |

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

| | Six Months Ended | |
|---|--|---|
| | July 4, 2015 (26 Weeks) | June 28, 2014 (26 Weeks) |
| Operating Activities | | |
| Net income | \$ 89.8 | \$ 91.3 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 25.4 | 24.7 |
| Amortization of deferred gain on sale leaseback | - | (0.6) |
| Amortization of deferred financing costs | 0.5 | 0.5 |
| Loss on early extinguishment of debt | 2.2 | - |
| (Gain) loss on the disposal of assets, net | (0.1) | 0.4 |
| Provision for doubtful accounts | 2.5 | 2.4 |
| Other, net | - | 0.2 |
| Changes in operating assets and liabilities, exclusive of effect of acquisitions: | | |
| Receivables | (112.9) | (158.5) |
| Inventories | (110.5) | (103.7) |
| Other current assets | (1.7) | (15.5) |
| Other long-term assets | (0.8) | (16.1) |
| Accounts payable and accrued expenses | 182.3 | 135.3 |
| Other long-term liabilities | (10.6) | (0.3) |
| Deferred taxes | 0.3 | (0.2) |
| Net cash provided by (used in) operating activities | <u>66.4</u> | <u>(40.1)</u> |
| Investing Activities | | |
| Purchases of marketable securities | (4.4) | (8.4) |
| Proceeds from sale of marketable securities | 3.5 | 7.9 |
| Purchases of property and equipment | (16.8) | (19.6) |
| Cash paid for acquired businesses, net of cash acquired | (5.6) | (32.9) |
| Decrease in notes receivable, net | 0.8 | 1.5 |
| Other | 0.1 | 0.1 |
| Net cash used in investing activities | <u>(22.4)</u> | <u>(51.4)</u> |
| Financing Activities | | |
| Net borrowings under revolving lines of credit | 186.7 | 132.7 |
| Principal payments on long-term debt | (173.2) | (8.2) |
| Payments of deferred financing costs | (1.1) | - |
| Payments of cash portion of patronage distribution | (48.9) | (36.6) |
| Payments of patronage refund certificates | (0.1) | (0.1) |
| Proceeds from sale of noncontrolling interests | - | 0.9 |
| Repurchase of stock | (2.5) | - |
| Other | 0.6 | 0.6 |
| Net cash (used in) provided by financing activities | <u>(38.5)</u> | <u>89.3</u> |
| Increase (decrease) in cash and cash equivalents | 5.5 | (2.2) |
| Cash and cash equivalents at beginning of period | 29.8 | 17.9 |
| Cash and cash equivalents at end of period | <u>\$ 35.3</u> | <u>\$ 15.7</u> |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | <u>\$ 6.1</u> | <u>\$ 5.5</u> |
| Income taxes paid | <u>\$ 0.7</u> | <u>\$ 3.2</u> |