



PRESS RELEASE

ACE HARDWARE REPORTS RECORD THIRD QUARTER 2014 SALES

- *Record third quarter revenues of \$1.13 billion, an increase of 9.1 percent from last year*
- *Third quarter net income of \$37.3 million, an increase of 8.4 percent from last year*
- *Members' equity up \$58.1 million from last year, outstanding debt up \$40.7 million*
- *Accrued patronage to retailers through nine-months tops \$120 million*

Oak Brook, Ill. (November 12, 2014) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative, today reported total revenues of \$1.13 billion for the third quarter of 2014, an increase of \$94.6 million or 9.1 percent, from the third quarter of 2013. Net income was \$37.3 million for the third quarter of 2014, an increase of \$2.9 million or 8.4 percent from the third quarter of 2013.

“My sincere thanks and congratulations to our retailers, their associates and the entire Ace team for a third consecutive quarter of record performance,” said John Venhuizen, Ace president and chief executive officer. “I’m delighted to report that our accrued patronage distribution is up 48 percent versus last year and through just nine months, already exceeds last year’s total dividend by \$22 million.”

“The Company’s growth continues to be broad, with more than half of the 23 merchandising categories realizing double-digit growth for the year,” continued Venhuizen. “Our top and bottom line performance for the entire year has been largely driven by wholesale efficiency, retail growth from our outstanding owners and a surge of 152 new domestic stores – more than half of which were competitor conversions.”

The approximately 3,000 Ace retailers who share daily retail POS data enjoyed a strong quarter as well, with increased customer count and average transaction size which contributed to a 3.7 percent same-store-sales increase. For the first nine months of 2014, same-store-sales at these stores were up 4.1 percent.

Revenues

Consolidated revenues for the three months ended September 27, 2014 totaled \$1.13 billion. Total wholesale revenues were \$1.07 billion, an increase of \$94.0 million, or 9.6 percent, as compared to the prior year third quarter. Increases were noted in virtually every department with the paint, electrical, and lawn and garden categories showing the largest increases.

Wholesale merchandise revenues to comparable stores increased \$17.4 million in the third quarter of 2014. Wholesale merchandise revenues to new domestic stores activated in the 2013 and 2014 fiscal year periods contributed \$43.2 million in incremental revenues during the quarter, while wholesale merchandise revenues decreased \$8.6 million due to stores that

cancelled their membership in 2013 and 2014. Wholesale revenues from the Company's new Ace Wholesale Holdings ("AWH") subsidiary contributed \$44.6 million of the increase.

Retail revenues from Ace Retail Holdings ("ARH") were \$55.1 million in the third quarter of 2014. This is an increase of \$0.6 million, or 1.1 percent, from the third quarter of 2013 which resulted from increases across many departments with paint, tools and electrical showing the largest increases. During the third quarter of 2014, same store sales at ARH were up 1.3 percent versus the prior year and are up 4.3 percent for the first nine months of 2014.

Ace added 48 new stores and cancelled 22 stores in the third quarter of 2014 for a net increase in store count of 26. This brought the company's total global store count to 4,903 at the end of the third quarter of 2014, an increase of 138 stores from the third quarter of 2013.

Gross Profit

Wholesale gross profit for the three months ended September 27, 2014, was \$138.9 million, an increase of \$14.1 million from the third quarter of 2013. Wholesale gross margin percentage was 12.9 percent of wholesale revenues in the third quarter of 2014, an increase from 2013's third quarter wholesale gross margin percentage of 12.7 percent. The increase in the wholesale gross margin percentage was primarily driven by an increase in income received from vendors.

Retail gross profit for the third quarter of 2014 was \$25.6 million, an increase of \$1.6 million from the third quarter of 2013. Retail gross margin percentage was 46.5 percent of retail revenues in the third quarter of 2014, up from 44.0 percent in the prior year quarter. The increase in the retail gross margin percentage was primarily the result of less promotional discounting.

Expenses

Wholesale operating expenses increased \$11.4 million, or 12.8 percent, for the three months ended September 27, 2014 as compared to the third quarter of 2013. The increase was primarily driven by additional operating expenses from the new AWH subsidiary, handling costs associated with the increased revenues, duplicate costs incurred in relocating two retail support centers and the timing of planned advertising expenditures. As a percentage of wholesale revenues, wholesale operating expenses increased from 9.1 percent of revenues in 2013 to 9.3 percent of revenues in 2014 due to AWH's higher cost structure and the duplicate costs incurred in relocating two retail support centers.

Retail operating expenses of \$23.4 million increased \$0.5 million, or 2.2 percent, in the third quarter of 2014 as compared to the third quarter of 2013. Retail operating expenses as a percent of retail revenues increased from 42.0 percent of revenues in the third quarter of 2013 to 42.5 percent of revenues in the third quarter of 2014 due to higher depreciation.

Balance Sheet

Receivables increased \$79.4 million from the third quarter of 2013 as a result of increased revenues, a \$55.2 million increase in deferred dating programs for retailers and AWH's acquisition of Emery-Waterhouse in the first quarter of 2014, which contributed \$18.5 million towards the increase.

Inventories increased \$93.3 million from the third quarter of 2013 to support the higher sales revenues and as a result of the acquisition of Emery-Waterhouse in the first quarter of 2014, which contributed \$25.9 million towards the increase. The Company also added Valspar-branded inventories to all of its Retail Support Centers. The increase in inventories was partially funded by a \$56.2 million increase in accounts payable.

As a result of these factors and consistent with the Company's operating plan to make investments in retail stores and grow the paint business, the Company's outstanding debt increased \$40.7 million versus the third quarter of 2013 through borrowings on its revolving credit facility.

The Company has accrued patronage dividends of \$122.9 million for the first nine months of 2014 which exceeds the accrued patronage dividends for the first nine months of 2013 by \$40 million or 48 percent, and exceeds the amount paid for full year 2013 by approximately \$22 million.

About Ace Hardware

For 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 2014, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores, Eight Years in a Row," according to J.D. Power. With more than 4,900 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 14 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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Contacts:

Shareholders'/Investors' Inquiries:

William Guzik, Executive Vice President, Chief Financial Officer & Chief Risk Officer
630-990-3325, guzik@acehardware.com

Media Inquiries:

Kate Kirkpatrick, Corporate Communications & Media Relations Manager
630-990-1478, kkirk@acehardware.com

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

	Three Months Ended		Nine Months Ended	
	September 27, 2014 (13 Weeks)	September 28, 2013 (13 Weeks)	September 27, 2014 (39 Weeks)	September 28, 2013 (39 Weeks)
Revenues:				
Wholesale revenues	\$ 1,073.8	\$ 979.8	\$ 3,360.4	\$ 2,959.8
Retail revenues	55.1	54.5	178.5	172.0
Total revenues	<u>1,128.9</u>	<u>1,034.3</u>	<u>3,538.9</u>	<u>3,131.8</u>
Cost of revenues:				
Wholesale cost of revenues	934.9	855.0	2,927.0	2,594.0
Retail cost of revenues	29.5	30.5	96.9	96.9
Total cost of revenues	<u>964.4</u>	<u>885.5</u>	<u>3,023.9</u>	<u>2,690.9</u>
Gross profit:				
Wholesale gross profit	138.9	124.8	433.4	365.8
Retail gross profit	25.6	24.0	81.6	75.1
Total gross profit	<u>164.5</u>	<u>148.8</u>	<u>515.0</u>	<u>440.9</u>
Distribution operations expenses	29.4	24.5	86.6	74.3
Selling, general and administrative expenses	37.9	34.6	113.4	103.6
Retailer success and development expenses	33.0	29.8	105.9	98.8
Retail operating expenses	23.4	22.9	69.8	68.8
Retail support center closure costs	-	-	-	6.2
Total operating expenses	<u>123.7</u>	<u>111.8</u>	<u>375.7</u>	<u>351.7</u>
Operating income	40.8	37.0	139.3	89.2
Interest expense	(3.2)	(3.2)	(9.8)	(11.0)
Interest income	0.8	0.8	2.5	2.5
Other income, net	1.4	2.1	4.6	5.9
Income tax expense	<u>(2.5)</u>	<u>(2.1)</u>	<u>(8.0)</u>	<u>(5.0)</u>
Net income	37.3	34.6	128.6	81.6
Less: net income attributable to noncontrolling interests	-	0.2	0.4	0.5
Net income attributable to Ace Hardware Corporation	<u>\$ 37.3</u>	<u>\$ 34.4</u>	<u>\$ 128.2</u>	<u>\$ 81.1</u>
Accrued patronage distributions	<u>\$ 37.5</u>	<u>\$ 35.5</u>	<u>\$ 122.9</u>	<u>\$ 82.9</u>
Accrued patronage distributions to third party retailers	<u>\$ 36.8</u>	<u>\$ 35.0</u>	<u>\$ 121.0</u>	<u>\$ 81.3</u>

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

	September 27, 2014	December 28, 2013	September 28, 2013
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 12.7	\$ 17.9	\$ 19.0
Marketable securities	55.8	53.8	54.8
Receivables, net of allowance for doubtful accounts of \$7.9, \$9.3 and \$9.4, respectively	407.6	335.9	328.2
Inventories	645.7	505.5	552.4
Prepaid expenses and other current assets	57.9	41.8	37.2
Total current assets	1,179.7	954.9	991.6
Property and equipment, net	321.7	324.7	318.6
Notes receivable, net of allowance for doubtful accounts of \$11.0, \$11.4 and \$13.3, respectively	17.4	21.2	25.1
Goodwill and other intangible assets	31.8	24.1	23.9
Other assets	78.2	63.6	61.3
Total assets	<u>\$ 1,628.8</u>	<u>\$ 1,388.5</u>	<u>\$ 1,420.5</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 47.5	\$ 23.4	\$ 39.7
Accounts payable	574.7	491.7	518.5
Patronage distributions payable in cash	49.4	39.9	33.5
Accrued expenses	164.6	165.9	142.4
Total current liabilities	836.2	720.9	734.1
Long-term debt	242.8	178.6	209.9
Patronage refund certificates payable	43.4	28.4	26.9
Other long-term liabilities	63.9	66.3	67.2
Total liabilities	1,186.3	994.2	1,038.1
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,769; 2,764 and 2,758 issued and outstanding, respectively	2.8	2.8	2.8
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 3,478,045; 3,156,908 and 3,177,918 issued and outstanding, respectively	347.8	315.7	317.8
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 463,972; 408,684 and 340,682 shares issuable, respectively	46.4	40.9	34.1
Contributed capital	20.7	20.0	19.8
Retained earnings	13.6	6.3	-
Accumulated other comprehensive income (loss)	1.2	0.3	(0.1)
Equity attributable to Ace member retailers	432.5	386.0	374.4
Equity attributable to noncontrolling interests	10.0	8.3	8.0
Total equity	442.5	394.3	382.4
Total liabilities and equity	<u>\$ 1,628.8</u>	<u>\$ 1,388.5</u>	<u>\$ 1,420.5</u>

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

	Nine Months Ended	
	September 27, 2014 (39 Weeks)	September 28, 2013 (39 Weeks)
Operating Activities		
Net income	\$ 128.6	\$ 81.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37.3	33.9
Amortization of deferred gain on sale leaseback	(0.9)	(0.9)
Amortization of deferred financing costs	0.8	0.9
Loss on the disposal of assets, net	0.4	-
Provision for doubtful accounts	1.9	2.1
Retail support center closure costs	-	6.2
Other, net	-	0.2
Changes in operating assets and liabilities, exclusive of effect of acquisition:		
Receivables	(79.3)	(45.0)
Inventories	(112.5)	5.3
Other current assets	(11.7)	6.7
Other long-term assets	(13.1)	5.4
Accounts payable and accrued expenses	62.5	10.3
Other long-term liabilities	(1.3)	(0.4)
Deferred taxes	(7.1)	2.5
Net cash provided by operating activities	<u>5.6</u>	<u>108.8</u>
Investing Activities		
Purchases of marketable securities	(11.6)	(9.5)
Proceeds from sale of marketable securities	10.6	8.5
Purchases of property and equipment	(29.8)	(31.5)
Cash paid for acquired business, net of cash acquired	(32.5)	-
Decrease in notes receivable, net	2.1	2.2
Other	0.2	0.1
Net cash used in investing activities	<u>(61.0)</u>	<u>(30.2)</u>
Financing Activities		
Net borrowings (payments) under revolving lines of credit	96.5	(33.3)
Principal payments on long-term debt	(12.3)	(12.2)
Payments of cash portion of patronage distribution	(36.6)	(27.1)
Payments of deferred financing charges	-	(0.7)
Payments of patronage refund certificates	(0.2)	(0.1)
Proceeds from sale of noncontrolling interests	1.9	0.1
Other	0.9	0.6
Net cash provided by (used in) financing activities	<u>50.2</u>	<u>(72.7)</u>
(Decrease) increase in cash and cash equivalents	(5.2)	5.9
Cash and cash equivalents at beginning of period	17.9	13.1
Cash and cash equivalents at end of period	<u>\$ 12.7</u>	<u>\$ 19.0</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 8.0</u>	<u>\$ 9.7</u>
Income taxes paid	<u>\$ 5.8</u>	<u>\$ 1.2</u>