



PRESS RELEASE

ACE HARDWARE REPORTS FOURTH QUARTER AND FULL YEAR 2018 RESULTS

- *Record fourth quarter revenues of \$1.4 billion, an increase of 5.7 percent from last year*
- *U.S. same-store-sales up 1.3 percent during the quarter and 2.3 percent for the year*
- *Fourth quarter net income of \$25.2 million, an increase of 77.5 percent from last year*
- *Record full year revenues of \$5.7 billion, an increase of 6.1 percent from last year*
- *Ace recognized as one of the “2018 Best and Brightest Companies to Work For in the Nation” by the National Association of Business Resources*

Oak Brook, Ill. (February 14, 2019) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record fourth quarter 2018 revenues of \$1.39 billion, an increase of \$74.4 million, or 5.7 percent, from the fourth quarter of 2017. Net income was \$25.2 million for the fourth quarter of 2018, an increase of \$11.0 million from the fourth quarter of 2017.

Full year revenues were a record \$5.7 billion, an increase of \$328.6 million, or 6.1 percent, from 2017 revenue. Net income for fiscal 2018 was \$128.2 million, a decrease of \$19.2 million, from fiscal 2017. This decrease was due to warehouse expansion costs, lower Retail Support Center (“RSC”) productivity, and increased marketing and advertising expenses. The Company also incurred increased intangible asset amortization related to the final accounting valuation for Ace Ecommerce Holdings LLC (“AEH”) which was formed in the third quarter of 2017 for the acquisition of The Grommet on September 30, 2017.

“Strong new store growth, increased same-store sales, and a 43 percent increase in acehardware.com revenues helped us realize a healthy 5.7 percent increase in revenues during the fourth quarter,” said John Venhuizen, President and CEO. “The 6.1 percent full year growth fueled our \$142 million dividend distribution to shareholders. While still meaningful, this is a reduction from last year driven by our expanded assortment, higher inventory and lower RSC productivity which drove expenses up and profit down for the year.”

The 1.3 percent increase in retail same-store-sales during the fourth quarter of 2018 reported by the approximately 3,000 Ace retailers who share daily retail sales data was the result of a 2.3 percent increase in average ticket, partially offset by a 1.0 percent decrease in same-store transactions. The 2.3 percent increase in retail same-store-sales for the full year was the result of a 3.3 percent in average ticket, partially offset by a 0.9 percent decrease in same-store transactions.

Revenues

Fourth Quarter

Consolidated revenues for the quarter ended December 29, 2018 totaled \$1.39 billion. Total wholesale revenues were \$1.28 billion, an increase of \$55.1 million, or 4.5 percent, as compared to the prior year fourth quarter. Increases were noted across most departments with power tools, outdoor living, and electrical showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2017 through December 2018 contributed \$35.1 million of incremental revenues during the fourth quarter of 2018, while wholesale merchandise revenues decreased \$9.3 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$23.7 million for the quarter. The Company's Ace Hardware International Holdings, Ltd. ("AIH") subsidiary had a \$6.7 million increase in wholesale revenue from the prior year, while the Ace Wholesale Holdings LLC ("AWH") subsidiary contributed \$2.7 million of incremental wholesale revenue in the fourth quarter of 2018.

Total retail revenues for the quarter were \$108.7 million, an increase of \$19.3 million, or 21.6 percent, as compared to the prior year fourth quarter. Retail revenues from Ace Retail Holdings LLC ("ARH") were \$83.9 million in the fourth quarter of 2018. This was an increase of \$16.1 million, or 23.7 percent, from the fourth quarter of 2017. The increase was the result of new retail stores added since the fourth quarter of 2017 as well as an increase in comparable domestic stores of \$4.6 million. ARH operated 123 stores at the end of the fourth quarter of 2018 compared to 108 stores at the end of the fourth quarter of 2017. Retail revenues from AEH were \$24.8 million in the fourth quarter of 2018. This was an increase of \$3.2 million, or 14.8 percent, from the fourth quarter of 2017.

Fiscal Year

Consolidated revenues for fiscal 2018 totaled \$5.7 billion, an increase of \$328.6 million, or 6.1 percent, as compared to the prior year. Total wholesale revenues were \$5.3 billion, an increase of \$250.4 million, or 4.9 percent, as compared to the prior year. Increases were noted across all departments with paint, grilling, power tools, lawn and garden and electrical showing the largest gains.

Wholesale merchandise revenues from new domestic stores were \$154.4 million in fiscal 2018. This increase was partially offset by a decrease in wholesale merchandise revenues of \$40.9 million due to domestic store cancellations. Wholesale merchandise revenues to comparable domestic stores increased \$115.3 million in fiscal 2018 compared to fiscal 2017. The Company's AIH subsidiary and AWH subsidiary collectively contributed \$18.3 million of incremental revenue in fiscal 2018.

Total retail revenues were \$375.4 million, an increase of \$78.2 million, or 26.3 percent, as compared to the prior year. Retail revenues from ARH were \$329.7 million during fiscal 2018, an increase of \$54.1 million or 19.6 percent. The increase was the result of new retail stores added during 2018. Retail revenues from AEH, which was formed in the third quarter of 2017 for the acquisition of The Grommet on September 30, 2017, were \$45.7 million during fiscal 2018.

Ace added 174 new domestic stores in fiscal 2018 and cancelled 116 stores. This brought the Company's total domestic store count to 4,476 at the end of fiscal 2018, an increase of 58 stores from the end of fiscal 2017. On a worldwide basis, Ace added 257 stores in fiscal 2018 and cancelled 125, bringing the worldwide store count to 5,253 at the end of fiscal 2018.

Gross Profit

Fourth Quarter

Wholesale gross profit for the three months ended December 29, 2018 was \$147.7 million, an increase of \$11.9 million from the fourth quarter of 2017. The wholesale gross margin percentage was 11.5 percent of wholesale revenues in the fourth quarter of 2018, up from 11.1 percent in the fourth quarter of 2017. The increase in the wholesale gross margin percentage was primarily the result of an increase in vendor funds earned, partially offset by unfavorable inventory reserve adjustments and LIFO expense.

Retail gross profit for the three months ended December 29, 2018 was \$44.7 million, an increase of \$8.0 million from the fourth quarter of 2017. The retail gross margin percentage was 41.1 percent of retail revenues in the fourth quarter of 2018 and 2017. 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.

Fiscal Year

Wholesale gross profit for fiscal 2018 was \$634.2 million, an increase of \$9.9 million from fiscal 2017. The wholesale gross margin percentage was 11.9 percent of wholesale revenues in fiscal 2018, a decrease from the fiscal 2017 gross margin percentage of 12.3 percent. This decrease in the wholesale gross margin percentage was primarily the result of higher receiving costs due to lower RSC productivity as well as unfavorable inventory reserve adjustments and LIFO expense. These decreases were partially offset by an increase in vendor funds earned.

Retail gross profit for fiscal 2018 was \$160.9 million, an increase of \$30.9 million from fiscal 2017. The retail gross margin percentage was 42.9 percent of retail revenues in fiscal 2018, down from 43.7 percent in fiscal 2017. The decline in margin was primarily the result of the inclusion of lower margin revenues realized by The Grommet for all of 2018 versus only in the fourth quarter of 2017.

Expenses

Fourth Quarter

Wholesale operating expenses increased \$6.6 million, or 5.4 percent, from the fourth quarter of 2017. The increase is primarily due to higher marketing and advertising expenses and higher payroll expenses due to lower RSC productivity as a result of continued higher employee turnover. As a percentage of wholesale revenues, wholesale operating expenses remained at 10.0 percent of wholesale revenues in the fourth quarter of 2018 and 2017.

Retail operating expenses increased \$9.0 million, or 26.5 percent, from the fourth quarter of 2017. This increase was primarily due to expenses from new retail stores added by ARH as well as additional marketing and fulfillment expenses incurred by AEH. Retail operating expenses as a percentage of retail revenue increased to 39.6 percent of retail revenues in the fourth quarter of 2018 from 38.0 percent in the fourth quarter of 2017.

Fiscal Year

Wholesale operating expenses increased \$31.2 million, or 6.5 percent, in fiscal 2018 as compared to fiscal 2017. As a percentage of wholesale revenues, wholesale operating expenses increased to 9.6 percent in fiscal 2018 from 9.4 percent in fiscal 2017. The increase includes higher payroll expenses from prior year to support higher revenues, lower RSC productivity and higher inventory adjustments due to high employee turnover and increased labor costs incurred to setup the new Fredericksburg RSC while shutting-down the Prince George RSC. In addition, marketing and advertising expenses increased from the prior year.

Retail operating expenses increased \$41.0 million, or 35.6 percent, in fiscal 2018 as compared to fiscal 2017. ARH's retail operating expenses of \$120.3 million increased \$19.6 million, or 19.4 percent, in fiscal 2018 as compared to fiscal 2017. The increase was driven by expenses from new retail stores added in 2018. The remainder of the increase was due to the inclusion of retail operating expenses from AEH for a full twelve months which was an increase of \$21.4 million. Included in AEH's 2018 operating expenses was \$4.5 million of amortization of intangible assets identified as part of the final accounting valuation. Retail operating expenses as a percentage of retail revenue increased to 41.6 percent in fiscal 2018 from 38.7 percent in fiscal 2017.

During fiscal 2018, the Company recorded a \$0.1 million charge for warehouse facility closure costs to update its estimates from fiscal 2017. During fiscal 2017, the Company recorded warehouse facility closure costs of \$4.0 million related to the future closing of certain warehouse and distribution facilities.

Balance Sheet and Cash Flow

Receivables increased \$18.7 million from the prior year end due to higher sales volumes.

Inventories increased \$154.3 million from the prior year end primarily due to the intentional build-up of seasonal and safety stock inventory to support Ace retailers. The increase in inventory was partially offset by a \$63.9 million increase in accounts payable.

Debt increased \$105.7 million versus the prior year end as a result of capital expenditures and the funding of operating activities to support the planned growth in inventories and receivables.

Recognition

The National Association for Business Resources named Ace Hardware Corporation as one of the "Best and Brightest Companies to Work For in the Nation". Ace was named one of the top 101 highest-scoring companies in the country.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with more than 5,200 locally owned and operated hardware stores in approximately 70 countries. Headquartered in Oak Brook, Ill., Ace and its subsidiaries operate an expansive network of distribution centers in the U.S. and have distribution capabilities in Ningbo, China; Colon, Panama; and Dubai, United Arab Emirates. Since 1924, Ace has become a part of local communities around the world and known as the place with the helpful hardware folks. For more information, visit acehardware.com or newsroom.acehardware.com.

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ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in millions)

	Three Months Ended		Twelve Months Ended	
	December 29, 2018 (13 Weeks)	December 30, 2017 (13 Weeks)	December 29, 2018 (52 Weeks)	December 30, 2017 (52 Weeks)
Revenues:				
Wholesale revenues	\$ 1,281.3	\$ 1,226.2	\$ 5,341.6	\$ 5,091.2
Retail revenues	108.7	89.4	375.4	297.2
Total revenues	<u>1,390.0</u>	<u>1,315.6</u>	<u>5,717.0</u>	<u>5,388.4</u>
Cost of revenues:				
Wholesale cost of revenues	1,133.6	1,090.4	4,707.4	4,466.9
Retail cost of revenues	64.0	52.7	214.5	167.2
Total cost of revenues	<u>1,197.6</u>	<u>1,143.1</u>	<u>4,921.9</u>	<u>4,634.1</u>
Gross profit:				
Wholesale gross profit	147.7	135.8	634.2	624.3
Retail gross profit	44.7	36.7	160.9	130.0
Total gross profit	<u>192.4</u>	<u>172.5</u>	<u>795.1</u>	<u>754.3</u>
Distribution operations expenses	38.5	37.8	163.6	147.7
Selling, general and administrative expenses	45.3	46.5	187.7	182.2
Retailer success and development expenses	44.9	37.8	159.1	149.3
Retail operating expenses	43.0	34.0	156.1	115.1
Warehouse facility closure costs	0.2	(0.2)	0.1	4.0
Total operating expenses	<u>171.9</u>	<u>155.9</u>	<u>666.6</u>	<u>598.3</u>
Operating income	20.5	16.6	128.5	156.0
Interest expense	(5.4)	(3.7)	(20.4)	(14.6)
Interest income	4.6	1.1	9.6	4.3
Other income, net	3.3	2.8	8.0	6.4
Income tax benefit (expense)	2.2	(2.6)	2.5	(4.7)
Net income	25.2	14.2	128.2	147.4
Less: net income attributable to noncontrolling interests	0.1	0.2	0.5	0.8
Net income attributable to Ace Hardware Corporation	<u>\$ 25.1</u>	<u>\$ 14.0</u>	<u>\$ 127.7</u>	<u>\$ 146.6</u>
Patronage distributions accrued	<u>\$ 20.2</u>	<u>\$ 18.2</u>	<u>\$ 141.8</u>	<u>\$ 155.5</u>
Patronage distributions accrued for third party retailers	<u>\$ 19.0</u>	<u>\$ 16.9</u>	<u>\$ 135.4</u>	<u>\$ 150.6</u>

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

	December 29, 2018	December 30, 2017
Assets		
Cash and cash equivalents	\$ 25.6	\$ 23.0
Marketable securities	50.4	51.1
Receivables, net of allowance for doubtful accounts of \$6.7 and \$5.8, respectively	434.4	415.7
Inventories	931.8	777.5
Prepaid expenses and other current assets	50.4	41.5
Total current assets	<u>1,492.6</u>	<u>1,308.8</u>
Property and equipment, net	368.6	356.6
Notes receivable, net of allowance for doubtful accounts of \$2.8 and \$5.4, respectively	11.8	8.4
Goodwill and other intangible assets	94.2	90.7
Other assets	91.3	93.3
Total assets	<u><u>\$ 2,058.5</u></u>	<u><u>\$ 1,857.8</u></u>
Liabilities and Equity		
Current maturities of long-term debt	\$ 60.6	\$ 49.0
Accounts payable	748.9	685.0
Patronage distributions payable in cash	55.0	61.5
Patronage refund certificates payable	10.2	5.7
Accrued expenses	173.6	170.7
Total current liabilities	<u>1,048.3</u>	<u>971.9</u>
Long-term debt	267.1	173.0
Patronage refund certificates payable	95.6	82.5
Other long-term liabilities	79.7	69.5
Total liabilities	<u>1,490.7</u>	<u>1,296.9</u>
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,719 and 2,722 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,648,554 and 4,412,989 issued and outstanding, respectively	464.8	441.3
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 439,591 and 488,858 shares issuable, respectively	44.0	48.9
Contributed capital	18.5	18.3
Retained earnings	24.8	33.2
Accumulated other comprehensive income (loss)	(1.2)	3.5
Equity attributable to Ace member retailers	<u>553.6</u>	<u>547.9</u>
Equity attributable to noncontrolling interests	14.2	13.0
Total equity	<u>567.8</u>	<u>560.9</u>
Total liabilities and equity	<u><u>\$ 2,058.5</u></u>	<u><u>\$ 1,857.8</u></u>

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

	Twelve Months Ended	
	December 29, 2018 (52 Weeks)	December 30, 2017 (52 Weeks)
Operating Activities		
Net income	\$ 128.2	\$ 147.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55.7	48.4
Amortization of deferred financing costs	0.5	0.5
Gain on the disposal of assets, net	(4.9)	(0.6)
Credit for doubtful accounts	(0.3)	(0.8)
Warehouse facility closure costs	-	0.2
Other, net	1.1	0.4
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(45.2)	(31.3)
Inventories	(144.6)	(26.3)
Other current assets	(8.9)	1.3
Other long-term assets	6.7	(0.3)
Accounts payable and accrued expenses	66.6	55.1
Other long-term liabilities	10.9	8.3
Deferred taxes	(2.1)	1.9
Net cash provided by operating activities	<u>63.7</u>	<u>204.2</u>
Investing Activities		
Purchases of marketable securities	(27.8)	(4.3)
Proceeds from sale of marketable securities	25.4	5.4
Purchases of property and equipment	(61.1)	(64.6)
Cash paid for acquired businesses, net of cash received	(18.5)	(57.5)
Increase in notes receivable, net	(5.8)	(7.3)
Other, net	(1.1)	(3.5)
Net cash used in investing activities	<u>(88.9)</u>	<u>(131.8)</u>
Financing Activities		
Net borrowings under revolving lines of credit	104.8	2.6
Principal payments on long-term debt	(11.0)	(9.2)
Payments of cash portion of patronage distribution	(58.0)	(58.7)
Payments of patronage refund certificates	(6.4)	-
Repurchase of stock	(2.5)	(1.7)
Purchase of noncontrolling interests	(0.2)	(0.1)
Other, net	1.1	0.9
Net cash provided by (used in) financing activities	<u>27.8</u>	<u>(66.2)</u>
Increase in cash and cash equivalents	2.6	6.2
Cash and cash equivalents at beginning of period	23.0	16.8
Cash and cash equivalents at end of period	<u>\$ 25.6</u>	<u>\$ 23.0</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 17.7</u>	<u>\$ 11.0</u>
Income taxes paid	<u>\$ 2.1</u>	<u>\$ 1.7</u>