



PRESS RELEASE

ACE HARDWARE REPORTS FIRST QUARTER 2019 RESULTS

- *Record first quarter revenues of \$1.38 billion, an increase of 5.1 percent from last year*
- *First quarter net income of \$22.6 million, an increase of 89.9 percent from last year*
- *U.S. same-store-sales up 3.9 percent; Acehardware.com up 55 percent*
- *Acquired remaining 58 percent ownership of ACO Inc. (“ACO”), which operates 50 stores under the name of Great Lakes Ace Hardware located in Michigan and Ohio*

Oak Brook, Ill. (May 22, 2019) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record first quarter 2019 revenues of \$1.38 billion, an increase of \$66.4 million, or 5.1 percent, from the first quarter of 2018. Net income was \$22.6 million for the first quarter of 2019, an increase of \$10.7 million from the first quarter of 2018. The increase in net income was driven by revenue growth and the timing of vendor funds earned.

“Significant growth from new stores, including 47 in the first quarter, solid same-store-sales growth and a 55 percent surge in revenue from acehardware.com fueled our 5.1 percent revenue increase and 89.9 percent net income growth,” said John Venhuizen, President and CEO. “My sincere thanks and appreciation to our local owners and the entire Ace team for their hard and effective work.”

The 3.9 percent increase in retail same-store-sales during the first quarter of 2019 reported by the approximately 3,200 Ace retailers who share daily retail sales data was the result of a 3.0 percent increase in average ticket and a 0.9 percent increase in same-store transactions.

Revenues

Consolidated revenues for the quarter ended March 30, 2019 totaled \$1.38 billion. Total wholesale revenues were \$1.30 billion, an increase of \$50.0 million, or 4.0 percent, as compared to the prior year first quarter. Increases were noted across most departments with winter goods, grilling and power tools showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2018 through March 2019 contributed \$41.0 million of incremental revenues during the first quarter of 2019, while wholesale merchandise revenues decreased \$9.8 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$16.5 million for the quarter. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary had a \$1.1 million increase in wholesale revenue from the prior year, while the Ace Wholesale Holdings LLC (“AWH”) subsidiary contributed \$7.3 million of incremental wholesale revenue in the first quarter of 2019.

Total retail revenues for the quarter were \$79.5 million, an increase of \$16.4 million, or 26.0 percent, as compared to the prior year first quarter. Retail revenues from Ace Retail Holdings LLC (“ARH”) were \$73.3 million in the first quarter of 2019, an increase of \$16.3 million, or 28.6 percent, from the first quarter of 2018. This increase was the result of new retail stores added by the Westlake Ace Hardware (“Westlake”) retail chain since the first quarter of 2018 coupled with an 8.2 percent increase in comparable domestic stores of \$4.4 million. Westlake operated 124 stores at the end of the first quarter of 2019 compared to 116 stores at the end of the first quarter of 2018. The remaining increase in ARH revenues was the result of the acquisition of the remaining 58 percent of the outstanding stock of ACO Inc. (“ACO”) in March 2019, which now requires Ace to include ACO’s operating results in its statement of income. ACO operates 50 stores under the name of Great Lakes Ace Hardware and contributed \$6.1 million of revenue in the first quarter of 2019. Prior to the March 2019 purchase Ace owned 42 percent of ACO. Retail revenues from AEH were \$6.2 million in the first quarter of 2019 compared to \$6.1 million in the first quarter of 2018.

Ace added 41 new domestic stores in the first quarter of 2019 and cancelled 20 stores. The Company’s total domestic store count was 4,497 at the end of the first quarter of 2019 which was an increase of 79 stores from the first quarter of 2018. On a worldwide basis, Ace added 47 stores in the first quarter of 2019 and cancelled 22, bringing the worldwide store count to 5,278 at the end of the first quarter of 2019.

Gross Profit

Wholesale gross profit for the three months ended March 30, 2019 was \$153.8 million, an increase of \$14.2 million from the first quarter of 2018. The wholesale gross margin percentage was 11.8 percent of wholesale revenues in the first quarter of 2019, up from 11.2 percent in the first quarter of 2018. The increase in the wholesale gross margin percentage was largely the result of the timing of vendor funds earned.

Retail gross profit for the three months ended March 30, 2019 was \$36.8 million, an increase of \$7.7 million from the first quarter of 2018. The retail gross margin percentage was 46.3 percent of retail revenues in the first quarter of 2019, a slight increase from 46.1 percent in the first quarter of 2018. 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.

Expenses

Wholesale operating expenses increased \$10.1 million, or 8.5 percent, from the first quarter of 2018. The increase is primarily due to higher payroll expenses resulting from increased headcount in our Retail Support Centers (“RSC”) to support increased retailer demand and lower RSC productivity due to continued employee turnover. As a percentage of wholesale revenues, wholesale operating expenses increased to 10.0 percent of wholesale revenues in the first quarter of 2019 from 9.5 percent of wholesale revenues in the first quarter of 2018.

Retail operating expenses increased \$3.5 million, or 10.2 percent, from the first quarter of 2018. This increase was primarily due to the inclusion of ACO operating expenses as a result of the acquisition of the remaining 58 percent of ACO in March 2019. Retail operating expenses as a percentage of retail revenue decreased to 47.7 percent of retail revenues in the first quarter of 2019 from 54.5 percent in the first quarter of 2018 primarily due to retail operating expense leverage resulting from Westlake's significant increase in sales and the timing of advertising expenditures.

Balance Sheet and Cash Flow

Receivables increased \$12.0 million from the first quarter of 2018 due to higher sales volumes.

Inventories increased \$48.8 million from the first quarter of 2018 primarily due to the inclusion of ACO retail inventory and the increase in the number of stores owned by Westlake.

Debt increased \$97.9 million versus the first quarter of 2018 as a result of capital expenditures, acquisitions and the working capital needed to support the planned growth in inventories and receivables.

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	
	March 30, 2019 (13 Weeks)	March 31, 2018 (13 Weeks)
Revenues:		
Wholesale revenues	\$ 1,299.0	\$ 1,249.0
Retail revenues	79.5	63.1
Total revenues	1,378.5	1,312.1
Cost of revenues:		
Wholesale cost of revenues	1,145.2	1,109.4
Retail cost of revenues	42.7	34.0
Total cost of revenues	1,187.9	1,143.4
Gross profit:		
Wholesale gross profit	153.8	139.6
Retail gross profit	36.8	29.1
Total gross profit	190.6	168.7
Wholesale operating expenses:		
Distribution operations expenses	42.6	38.4
Selling, general and administrative expenses	50.8	48.1
Retailer success and development expenses	35.9	32.7
Retail operating expenses	37.9	34.4
Total operating expenses	167.2	153.6
Operating income	23.4	15.1
Interest expense	(6.3)	(4.4)
Interest income	3.1	0.9
Other income, net	1.6	0.2
Income tax benefit	0.8	0.1
Net income	22.6	11.9
Less: net income attributable to noncontrolling interests	0.1	0.1
Net income attributable to Ace Hardware Corporation	\$ 22.5	\$ 11.8
Patronage distributions accrued	\$ 34.5	\$ 24.7
Patronage distributions accrued for third party retailers	\$ 32.9	\$ 23.3

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

	March 30, 2019	December 29, 2018	March 31, 2018
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 31.0	\$ 25.6	\$ 24.0
Marketable securities	52.9	50.4	50.4
Receivables, net of allowance for doubtful accounts of \$7.4, \$6.7 and \$8.3, respectively	582.3	434.4	570.3
Inventories	1,021.9	931.8	973.1
Prepaid expenses and other current assets	52.3	50.4	44.4
Total current assets	1,740.4	1,492.6	1,662.2
Property and equipment, net	374.2	368.6	361.6
Notes receivable, net of allowance for doubtful accounts of \$2.4, \$2.8 and \$3.4, respectively	17.5	11.8	10.1
Goodwill and other intangible assets	98.2	94.2	96.4
Other assets	90.4	91.3	90.1
Total assets	<u>\$ 2,320.7</u>	<u>\$ 2,058.5</u>	<u>\$ 2,220.4</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 79.9	\$ 60.6	\$ 67.4
Accounts payable	908.2	748.9	932.8
Patronage distributions payable in cash	68.1	55.0	71.0
Patronage refund certificates payable	10.1	10.2	5.7
Accrued expenses	135.9	173.6	142.2
Total current liabilities	1,202.2	1,048.3	1,219.1
Long-term debt	376.8	267.1	291.4
Patronage refund certificates payable	101.2	95.6	86.9
Other long-term liabilities	81.3	79.7	75.4
Total liabilities	1,761.5	1,490.7	1,672.8
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,718, 2,719 and 2,713 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,558,530, 4,648,554 and 4,317,646 issued and outstanding, respectively	455.8	464.8	431.8
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 540,809, 439,591 and 563,189 shares issuable, respectively	54.2	44.0	56.3
Contributed capital	18.4	18.5	18.3
Retained earnings	12.9	24.8	20.8
Accumulated other comprehensive income (loss)	0.5	(1.2)	4.3
Equity attributable to Ace member retailers	544.5	553.6	534.2
Equity attributable to noncontrolling interests	14.7	14.2	13.4
Total equity	559.2	567.8	547.6
Total liabilities and equity	<u>\$ 2,320.7</u>	<u>\$ 2,058.5</u>	<u>\$ 2,220.4</u>

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

	Three Months Ended	
	March 30, 2019 (13 Weeks)	March 31, 2018 (13 Weeks)
Operating Activities		
Net income	\$ 22.6	\$ 11.9
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14.6	12.2
Amortization of deferred financing costs	0.1	0.1
(Gain) Loss on the disposal of assets, net	(0.1)	0.1
Provision for doubtful accounts	0.6	0.6
Other, net	(1.0)	0.2
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(155.4)	(164.8)
Inventories	(60.0)	(190.2)
Other current assets	(1.3)	(2.9)
Other long-term assets	(2.5)	3.6
Accounts payable and accrued expenses	109.3	224.9
Other long-term liabilities	1.6	6.5
Deferred taxes	(1.7)	-
Net cash used in operating activities	<u>(73.2)</u>	<u>(97.8)</u>
Investing Activities		
Purchases of marketable securities	(3.6)	(3.3)
Proceeds from sale of marketable securities	3.7	2.8
Purchases of property and equipment	(12.1)	(16.4)
Cash paid for acquired businesses, net of cash received	(16.2)	(11.0)
Increase in notes receivable, net	(3.9)	(1.9)
Other, net	0.7	-
Net cash used in investing activities	<u>(31.4)</u>	<u>(29.8)</u>
Financing Activities		
Net borrowings under revolving lines of credit	120.2	137.6
Principal payments on long-term debt	(3.4)	(2.8)
Payments of debt issuance costs	(1.3)	-
Payments of patronage refund certificates	(5.3)	(6.4)
Repurchase of stock	(0.4)	(0.1)
Purchase of noncontrolling interests	(0.1)	-
Other, net	0.3	0.3
Net cash provided by financing activities	<u>110.0</u>	<u>128.6</u>
Increase in cash and cash equivalents	5.4	1.0
Cash and cash equivalents at beginning of period	25.6	23.0
Cash and cash equivalents at end of period	<u>\$ 31.0</u>	<u>\$ 24.0</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 8.0</u>	<u>\$ 5.9</u>
Income taxes paid	<u>\$ 0.4</u>	<u>\$ 0.4</u>