



PRESS RELEASE

ACE HARDWARE REPORTS FIRST QUARTER 2017 RESULTS

- *Revenues of \$1.2 billion, up slightly from the prior year*
- *Net income of \$28.3 million, an increase of 8.4 percent from last year*
- *Accrued patronage of \$34.7 million, an increase of 18.4 percent from last year*
- *Ace global store count surpasses 5,000*

Oak Brook, Ill. (May 17, 2017) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported first quarter 2017 revenues of \$1.2 billion, an increase of \$1.4 million or 0.1 percent from the first quarter of 2016. Net income was \$28.3 million for the first quarter 2017, an increase of \$2.2 million or 8.4 percent from the first quarter of 2016.

“I’m delighted to report an 8.4 percent increase in net income, a double digit jump in accrued patronage dividends for our owners and surpassing a global store count of 5,000 stores in the quarter,” said John Venhuizen, President and CEO. “While revenue improved, our increase fell short of our expectations. And despite the obvious temptation, I’ll resist pinning the blame on the less than favorable weather.”

The 0.2 percent decrease in retail same-store-sales during the first quarter of 2017 reported by the approximately 3,000 Ace retailers who share daily retail sales data was the result of decreased customer traffic.

Revenues

Consolidated revenues for the quarter ended April 1, 2017 totaled \$1.2 billion. Total wholesale revenues were \$1.19 billion, which were flat compared to the prior year first quarter. Wholesale merchandise revenues to new domestic stores activated from January 2016 through March 2017 contributed \$25.2 million in incremental revenues during the first quarter of 2017, while wholesale merchandise revenues decreased \$9.2 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores decreased \$27.1 million for the quarter. The Company’s Ace Wholesale Holdings LLC (“AWH”) subsidiary, Ace Hardware International Holdings, Ltd. (“AIH”) and service revenues each contributed \$3.7 million of incremental revenue in the first quarter of 2017.

Retail revenues from Ace Retail Holdings (“ARH”) were \$52.0 million in the first quarter of 2017. This was an increase of \$1.4 million, or 2.8 percent, from the first quarter of 2016. The increase was the result of new retail stores added since the first quarter of 2016. Same-store-sales decreased 3.0 percent compared to the first quarter of 2016 primarily due to decreased customer traffic.

Ace added 16 new domestic stores in first quarter of 2017 and cancelled 21 stores. This brought the Company's total domestic store count to 4,358 at the end of the first quarter of 2017, an increase of 56 stores from the first quarter of 2016. On a worldwide basis, Ace added 30 stores in the first quarter of 2017 and cancelled 21, bringing the worldwide store count to 5,003 at the end of the first quarter of 2017.

Gross Profit

Wholesale gross profit for the three months ended April 1, 2017 was \$146.2 million, an increase of \$12.9 million from the first quarter of 2016. The wholesale gross margin percentage was 12.3 percent of wholesale revenues in the first quarter of 2017, an increase from the first quarter of 2016 gross margin percentage of 11.2 percent. The increase in the wholesale gross margin percentage was primarily driven by an increase in vendor funds earned.

Retail gross profit for the three months ended April 1, 2017 was \$25.1 million, an increase of \$1.1 million from the first quarter of 2016. The retail gross margin percentage was 48.3 percent of retail revenues in the first quarter of 2017, up from 47.4 percent in the first quarter of 2016. The increase in the retail gross margin percentage was primarily the result of higher margin rates at new retail stores added since the first quarter of 2016. Retail gross profit is determined 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 \$9.2 million, or 8.7 percent, for the first quarter of 2017 as compared to the first quarter of 2016. The increase was primarily due to increased advertising expenses and higher payroll expense due to changes in Company benefit policies in the prior year. As a percentage of wholesale revenues, wholesale operating expenses increased to 9.7 percent of wholesale revenues in the first quarter of 2017 from 8.9 percent of wholesale revenues in the first quarter of 2016.

Retail operating expenses of \$25.6 million increased \$2.4 million, or 10.3 percent, from the first quarter of 2016. The increase was primarily due to expenses from new retail stores added since the first quarter of 2016. Retail operating expenses increased to 49.2 percent of retail revenues in the first quarter of 2017 from 45.8 percent in the first quarter of 2016, primarily due to increases in payroll and benefits and rent expense.

Balance Sheet

Receivables increased \$25.7 million from the first quarter of 2016 primarily as a result of higher trade receivables driven by an increase in bulletin and dropship sales with future dating.

Inventories increased \$28.7 million from the first quarter of 2016 primarily due to increased seasonal inventory build for higher anticipated sales, increased stores at ARH and seasonal carryover from slow winter sales.

Debt decreased \$17.2 million versus the first quarter of 2016 as a result of cash provided by the Company's operating activities during the past twelve months.

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. With more than 5,000 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 operate an expansive network of distribution centers in the U.S. and also have distribution capabilities in Ningbo, China; Colon, Panama; and Dubai, United Arab Emirates. Its retailers' stores are located in all 50 states, the District of Columbia and approximately 55 countries. For more information on Ace, visit www.acehardware.com or visit our newsroom at newsroom.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
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in millions)

	Three Months Ended	
	April 1, 2017 (13 Weeks)	April 2, 2016 (13 Weeks)
Revenues:		
Wholesale revenues	\$ 1,186.2	\$ 1,186.2
Retail revenues	52.0	50.6
Total revenues	<u>1,238.2</u>	<u>1,236.8</u>
Cost of revenues:		
Wholesale cost of revenues	1,040.0	1,052.9
Retail cost of revenues	26.9	26.6
Total cost of revenues	<u>1,066.9</u>	<u>1,079.5</u>
Gross profit:		
Wholesale gross profit	146.2	133.3
Retail gross profit	25.1	24.0
Total gross profit	<u>171.3</u>	<u>157.3</u>
Distribution operations expenses	33.4	33.4
Selling, general and administrative expenses	46.9	42.9
Retailer success and development expenses	34.2	29.0
Retail operating expenses	25.6	23.2
Total operating expenses	<u>140.1</u>	<u>128.5</u>
Operating income	31.2	28.8
Interest expense	(3.5)	(3.4)
Interest income	0.8	0.8
Other income, net	1.0	1.3
Income tax expense	(1.2)	(1.4)
Net income	<u>28.3</u>	<u>26.1</u>
Less: net income attributable to noncontrolling interests	0.2	0.1
Net income attributable to Ace Hardware Corporation	<u>\$ 28.1</u>	<u>\$ 26.0</u>
Patronage distributions accrued	<u>\$ 34.7</u>	<u>\$ 29.3</u>
Patronage distributions accrued for third party retailers	<u>\$ 33.5</u>	<u>\$ 28.3</u>

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

	April 1, 2017	December 31, 2016	April 2, 2016
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 19.4	\$ 16.8	\$ 23.1
Marketable securities	50.3	49.1	47.5
Receivables, net of allowance for doubtful accounts of \$7.6, \$6.9 and \$8.7, respectively	548.5	400.9	522.8
Inventories	845.9	740.8	817.2
Prepaid expenses and other current assets	39.9	42.4	44.2
Total current assets	1,504.0	1,250.0	1,454.8
Property and equipment, net	339.2	340.0	315.9
Notes receivable, net of allowance for doubtful accounts of \$7.0, \$7.7 and \$7.8, respectively	11.5	9.4	12.2
Goodwill and other intangible assets	35.6	35.8	35.1
Other assets	91.6	93.5	97.4
Total assets	<u>\$ 1,981.9</u>	<u>\$ 1,728.7</u>	<u>\$ 1,915.4</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 49.3	\$ 36.4	\$ 38.3
Accounts payable	818.3	629.7	790.8
Patronage distributions payable in cash	75.8	62.2	68.9
Patronage refund certificates payable	6.9	6.9	8.6
Accrued expenses	131.1	157.6	139.7
Total current liabilities	1,081.4	892.8	1,046.3
Long-term debt	234.4	178.4	262.6
Patronage refund certificates payable	66.9	60.9	44.6
Other long-term liabilities	64.8	63.3	64.0
Total liabilities	<u>1,447.5</u>	<u>1,195.4</u>	<u>1,417.5</u>
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,728; 2,726 and 2,725 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,070,046; 4,132,170 and 3,699,088 issued and outstanding, respectively	407.0	413.2	369.9
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 637,508; 523,158 and 676,702 shares issuable, respectively	63.8	52.3	67.7
Contributed capital	18.1	18.2	20.7
Retained earnings	31.7	37.2	26.1
Accumulated other comprehensive income (loss)	1.5	0.5	(1.4)
Equity attributable to Ace member retailers	524.8	524.1	485.7
Equity attributable to noncontrolling interests	9.6	9.2	12.2
Total equity	<u>534.4</u>	<u>533.3</u>	<u>497.9</u>
Total liabilities and equity	<u>\$ 1,981.9</u>	<u>\$ 1,728.7</u>	<u>\$ 1,915.4</u>

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

	Three Months Ended	
	April 1, 2017 (13 Weeks)	April 2, 2016 (13 Weeks)
Operating Activities		
Net income	\$ 28.3	\$ 26.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12.6	12.6
Amortization of deferred financing costs	0.1	0.1
Loss on the disposal of assets, net	0.1	-
Provision for doubtful accounts	0.1	0.1
Other, net	0.1	0.1
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(151.6)	(154.0)
Inventories	(105.1)	(102.7)
Other current assets	2.5	0.9
Other long-term assets	1.0	2.8
Accounts payable and accrued expenses	163.8	207.8
Other long-term liabilities	1.9	2.1
Deferred taxes	-	(0.8)
Net cash used in operating activities	<u>(46.2)</u>	<u>(4.9)</u>
Investing Activities		
Purchases of marketable securities	(2.0)	(0.7)
Proceeds from sale of marketable securities	1.9	0.7
Purchases of property and equipment	(13.2)	(12.7)
(Increase) decrease in notes receivable, net	(2.3)	0.5
Net cash used in investing activities	<u>(15.6)</u>	<u>(12.2)</u>
Financing Activities		
Net borrowings under revolving lines of credit	66.4	30.6
Principal payments on long-term debt	(2.1)	(1.8)
Repurchase of stock	(0.2)	(0.2)
Other, net	0.3	0.3
Net cash provided by financing activities	<u>64.4</u>	<u>28.9</u>
Increase in cash and cash equivalents	2.6	11.8
Cash and cash equivalents at beginning of period	16.8	11.3
Cash and cash equivalents at end of period	<u>\$ 19.4</u>	<u>\$ 23.1</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 3.7</u>	<u>\$ 3.9</u>
Income taxes paid	<u>\$ 0.5</u>	<u>\$ 0.3</u>