



PRESS RELEASE

ACE HARDWARE REPORTS THIRD QUARTER 2018 RESULTS

- *Record third quarter revenues of \$1.4 billion, an increase of 6.3 percent from last year*
- *U.S. same-store-sales up 1.8 percent during the quarter*
- *Third quarter net income down due to warehouse expansion costs and lower warehouse productivity*

Oak Brook, Ill. (November 28, 2018) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record third quarter 2018 revenues of \$1.43 billion, an increase of \$84.8 million, or 6.3 percent, from the third quarter of 2017. Net income was \$36.3 million for the third quarter of 2018, a decrease of \$17.5 million from the third quarter of 2017.

“Strong new store growth, increased same-store sales, and a 35 percent increase in acehardware.com revenues helped us realize a healthy 6.3 percent increase in revenues during the third quarter,” said John Venhuizen, President and CEO. “However, we are not immune to the pain of the tight labor market. Expanded product assortment, higher inventory and increased warehouse employee turnover drove expenses up and profits down for the quarter. I’d like to thank the entire Ace team for their heroic efforts to get products to our retailers that were affected by the devastation of hurricanes Florence and Michael.”

The 1.8 percent increase in retail same-store-sales during the third quarter of 2018 reported by the approximately 3,000 Ace retailers who share daily retail sales data was the result of a 3.0 percent increase in average ticket, partially offset by a 1.1 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended September 29, 2018 totaled \$1.43 billion. Total wholesale revenues were \$1.34 billion, an increase of \$64.4 million, or 5.0 percent, as compared to the prior year third quarter. Increases were noted across all departments with paint, electrical and holiday décor showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2017 through September 2018 contributed \$37.5 million of incremental revenues during the third quarter of 2018, while wholesale merchandise revenues decreased \$8.9 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$31.3 million for the quarter. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary had a \$4.0 million decline in wholesale revenue from the prior year, while Ace Wholesale Holdings LLC (“AWH”) subsidiary contributed \$3.3 million of incremental wholesale revenue in the third quarter of 2018.

Total retail revenues for the quarter were \$85.9 million, an increase of \$20.4 million, or 31.1 percent, as compared to the prior year third quarter. Retail revenues from Ace Retail Holdings LLC (“ARH”) were \$79.0 million in the third quarter of 2018. This was an increase of \$13.5 million, or 20.6 percent, from the third quarter of 2017. The increase was the result of new retail stores added since the third quarter of 2017. ARH operated 122 stores at the end of the third quarter of 2018 compared to 108 stores at the end of the third quarter of 2017. Retail revenues from Ace Ecommerce Holdings LLC (“AEH”), which was formed in the third quarter of 2017 for the acquisition of The Grommet on September 30, 2017, were \$6.9 million in the third quarter of 2018.

Ace added 50 new domestic stores in the third quarter of 2018 and cancelled 24 stores. The Company’s total domestic store count was 4,449 for the third quarter of 2018 which was an increase of 83 stores from the third quarter of 2017. On a worldwide basis, Ace added 75 stores in the third quarter of 2018 and cancelled 26, bringing the worldwide store count to 5,210 at the end of the third quarter of 2018.

Gross Profit

Wholesale gross profit for the three months ended September 29, 2018 was \$167.2 million, a decrease of \$1.2 million from the third quarter of 2017. This decrease was despite the 5.0 percent increase in wholesale revenues, as the wholesale gross margin percentage was 12.5 percent of wholesale revenues in the third quarter of 2018, down from 13.2 percent in the third quarter of 2017. The decrease in the wholesale gross margin percentage was primarily the result of higher receiving costs due to lower Retail Support Center (“RSC”) productivity as well as unfavorable inventory reserve adjustments and LIFO expense. The decrease in RSC productivity is the result of an expanded product assortment, higher inventory and increased employee turnover.

Retail gross profit for the three months ended September 29, 2018 was \$37.7 million, an increase of \$8.9 million from the third quarter of 2017. The retail gross margin percentage was 43.9 percent of retail revenues in the third quarter of 2018, a slight decrease from 44.0 percent in the third quarter of 2017. The decline in the retail gross margin percentage was primarily the result of the inclusion of lower margin revenues realized by The Grommet. 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 \$13.2 million, or 11.4 percent, from the third quarter of 2017. The increase includes higher payroll expenses from prior year to support higher revenues and lower RSC productivity due to high employee turnover, labor costs incurred to setup the new Fredericksburg RSC while shutting-down the Prince George RSC and higher advertising expenses. As a percentage of wholesale revenues, wholesale operating expenses increased to 9.6 percent of wholesale revenues for the third quarter of 2018 from 9.0 percent in the third quarter of 2017.

Retail operating expenses increased \$12.6 million, or 45.3 percent, from the third quarter of 2017. This increase was partially due to \$8.4 million of expenses from The Grommet, which was acquired on September 30, 2017. The Grommet's expenses include \$3.6 million to record a full year of amortization on intangible assets identified as part of the final purchase accounting valuation. The remaining increase was primarily due to expenses from new retail stores added by ARH since the third quarter of 2017. Retail operating expenses as a percentage of retail revenue increased to 47.0 percent of retail revenues in the third quarter of 2018 from 42.4 percent in the third quarter of 2017, resulting from the inclusion of operating expenses from The Grommet. Excluding the impact of The Grommet, retail operating expenses were 40.5 percent of retail revenues in the third quarter of 2018, down from 42.4 percent in 2017.

Balance Sheet and Cash Flow

Receivables increased \$15.9 million from the third quarter of 2017 primarily due to higher sales volumes.

Inventories increased \$167.7 million from the third quarter of 2017 primarily due to the intentional build-up of seasonal, hurricane-related and safety stock inventory to support Ace retailers as well as the initial purchases of inventory for the new Fredericksburg retail support center. The increase in inventory was partially offset by a \$70.0 million increase in accounts payable.

Debt increased \$121.9 million versus the third quarter of 2017 as a result of the funding of operating activities to support the 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 65 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
(Unaudited, in millions)

	Three Months Ended		Nine Months Ended	
	September 29, 2018 (13 Weeks)	September 30, 2017 (13 Weeks)	September 29, 2018 (39 Weeks)	September 30, 2017 (39 Weeks)
Revenues:				
Wholesale revenues	\$ 1,341.3	\$ 1,276.9	\$ 4,060.3	\$ 3,865.0
Retail revenues	85.9	65.5	266.7	207.8
Total revenues	<u>1,427.2</u>	<u>1,342.4</u>	<u>4,327.0</u>	<u>4,072.8</u>
Cost of revenues:				
Wholesale cost of revenues	1,174.1	1,108.5	3,573.8	3,376.5
Retail cost of revenues	48.2	36.7	150.5	114.5
Total cost of revenues	<u>1,222.3</u>	<u>1,145.2</u>	<u>3,724.3</u>	<u>3,491.0</u>
Gross profit:				
Wholesale gross profit	167.2	168.4	486.5	488.5
Retail gross profit	37.7	28.8	116.2	93.3
Total gross profit	<u>204.9</u>	<u>197.2</u>	<u>602.7</u>	<u>581.8</u>
Distribution operations expenses	43.9	39.1	125.1	109.9
Selling, general and administrative expenses	46.0	45.0	142.4	135.7
Retailer success and development expenses	38.6	31.2	114.2	111.5
Retail operating expenses	40.4	27.8	113.1	81.1
Warehouse facility closure costs	0.3	(0.5)	(0.1)	4.2
Total operating expenses	<u>169.2</u>	<u>142.6</u>	<u>494.7</u>	<u>442.4</u>
Operating income	35.7	54.6	108.0	139.4
Interest expense	(5.5)	(3.6)	(15.0)	(10.9)
Interest income	3.0	1.5	5.0	3.2
Other income, net	1.8	1.2	4.7	3.6
Income tax benefit (expense)	1.3	0.1	0.3	(2.1)
Net income	<u>36.3</u>	<u>53.8</u>	<u>103.0</u>	<u>133.2</u>
Less: net income attributable to noncontrolling interests	<u>-</u>	<u>0.2</u>	<u>0.4</u>	<u>0.6</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 36.3</u>	<u>\$ 53.6</u>	<u>\$ 102.6</u>	<u>\$ 132.6</u>
Patronage distributions accrued	<u>\$ 45.7</u>	<u>\$ 56.1</u>	<u>\$ 121.6</u>	<u>\$ 137.3</u>
Patronage distributions accrued for third party retailers	<u>\$ 43.9</u>	<u>\$ 54.8</u>	<u>\$ 116.4</u>	<u>\$ 133.7</u>

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

	September 29, 2018	December 30, 2017	September 30, 2017
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 22.6	\$ 23.0	\$ 19.7
Marketable securities	46.7	51.1	50.1
Receivables, net of allowance for doubtful accounts of \$6.3, \$5.8 and \$7.9, respectively	479.3	415.7	463.4
Inventories	984.1	777.5	816.4
Prepaid expenses and other current assets	47.3	41.5	45.1
Total current assets	1,580.0	1,308.8	1,394.7
Property and equipment, net	368.6	356.6	341.4
Notes receivable, net of allowance for doubtful accounts of \$2.8, \$5.4 and \$5.3, respectively	13.2	8.4	10.4
Goodwill and other intangible assets	95.3	90.7	90.6
Other assets	89.8	93.3	87.7
Total assets	<u>\$ 2,146.9</u>	<u>\$ 1,857.8</u>	<u>\$ 1,924.8</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 55.3	\$ 49.0	\$ 50.1
Accounts payable	820.4	685.0	750.4
Patronage distributions payable in cash	47.9	61.5	54.6
Patronage refund certificates payable	5.7	5.7	6.9
Accrued expenses	167.3	170.7	158.5
Total current liabilities	1,096.6	971.9	1,020.5
Long-term debt	302.5	173.0	185.8
Patronage refund certificates payable	106.3	82.5	85.0
Other long-term liabilities	80.1	69.5	70.2
Total liabilities	<u>1,585.5</u>	<u>1,296.9</u>	<u>1,361.5</u>
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,718; 2,722 and 2,712 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,690,749; 4,412,989 and 4,462,081 issued and outstanding, respectively	469.1	441.3	446.2
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 349,192; 488,858 and 450,968 shares issuable, respectively	34.9	48.9	45.1
Contributed capital	18.5	18.3	18.2
Retained earnings	18.6	33.2	36.0
Accumulated other comprehensive income	3.7	3.5	2.3
Equity attributable to Ace member retailers	547.5	547.9	550.5
Equity attributable to noncontrolling interests	13.9	13.0	12.8
Total equity	<u>561.4</u>	<u>560.9</u>	<u>563.3</u>
Total liabilities and equity	<u>\$ 2,146.9</u>	<u>\$ 1,857.8</u>	<u>\$ 1,924.8</u>

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

	Nine Months Ended	
	September 29, 2018 (39 Weeks)	September 30, 2017 (39 Weeks)
Operating Activities		
Net income	\$ 103.0	\$ 133.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38.1	36.3
Amortization of deferred financing costs	0.4	0.4
Loss on the disposal of assets, net	(2.0)	(0.5)
Credit for doubtful accounts	(1.6)	(0.9)
Other, net	0.8	0.3
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(86.5)	(78.4)
Inventories	(197.0)	(65.2)
Other current assets	(5.7)	(2.3)
Other long-term assets	9.5	5.1
Accounts payable and accrued expenses	137.6	109.9
Other long-term liabilities	11.3	8.0
Deferred taxes	(0.1)	-
Net cash provided by operating activities	<u>7.8</u>	<u>145.9</u>
Investing Activities		
Purchases of marketable securities	(6.4)	(3.6)
Proceeds from sale of marketable securities	10.0	5.0
Purchases of property and equipment	(48.8)	(37.6)
Cash paid for acquired businesses, net of cash received	(18.5)	(52.5)
Increase in notes receivable, net	(3.6)	(5.1)
Other, net	(1.2)	(1.0)
Net cash used in investing activities	<u>(68.5)</u>	<u>(94.8)</u>
Financing Activities		
Net borrowings under revolving lines of credit	133.3	16.9
Principal payments on long-term debt	(7.3)	(6.0)
Payments of cash portion of patronage distribution	(58.0)	(58.7)
Payments of patronage refund certificates	(6.4)	-
Repurchase of stock	(2.1)	(1.0)
Purchase of noncontrolling interests	(0.1)	(0.1)
Other, net	0.9	0.7
Net cash provided by (used in) financing activities	<u>60.3</u>	<u>(48.2)</u>
(Decrease) increase in cash and cash equivalents	(0.4)	2.9
Cash and cash equivalents at beginning of period	23.0	16.8
Cash and cash equivalents at end of period	<u>\$ 22.6</u>	<u>\$ 19.7</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 13.4</u>	<u>\$ 8.8</u>
Income taxes paid	<u>\$ 1.7</u>	<u>\$ 1.3</u>