



PRESS RELEASE

ACE HARDWARE REPORTS SECOND QUARTER 2018 RESULTS

- *Record second quarter revenues of \$1.6 billion, an increase of 6.4 percent from last year*
- *U.S. same-store-sales up 3.3 percent during the quarter*
- *Second quarter net income of \$54.8 million, an increase of 7.2 percent from last year*
- *Ace named “America’s favorite home improvement store,” for the second year in a row in Market Force Information® annual survey*

Oak Brook, Ill. (August 22, 2018) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record second quarter 2018 revenues of \$1.59 billion, an increase of \$95.5 million, or 6.4 percent, from the second quarter of 2017. Net income was \$54.8 million for the second quarter of 2018, an increase of 7.2 percent from the second quarter of 2017.

“We continued to see revenue growth across all of our business units in the second quarter, with the strongest results coming from our local owners in the domestic business which increased almost 6.0 percent,” said John Venhuizen, President and CEO. “And I’m delighted with our 7.2 percent net income growth despite the expense pressures from our material investments in both our wholesale infrastructure and our digital expansion. We successfully shipped our first order from our new 1.1 million square foot Fredericksburg retail support center on June 4th and launched our new hyper-localized Acehardware.com website on July 30th, which was up 34 percent in the second quarter.”

The 3.3 percent increase in retail same-store-sales during the second quarter of 2018 reported by the approximately 3,000 Ace retailers who share daily retail sales data was the result of a 4.1 percent increase in average ticket, partially offset by a 0.8 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended June 30, 2018 totaled \$1.59 billion. Total wholesale revenues were \$1.47 billion, an increase of \$68.1 million, or 4.9 percent, as compared to the prior year second quarter. Increases were noted across most departments with lawn and garden, outdoor living and electrical showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2017 through June 2018 contributed \$43.9 million of incremental revenues during the second quarter of 2018, while wholesale merchandise revenues decreased \$9.9 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$31.4 million for the quarter. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary and Ace Wholesale Holdings LLC (“AWH”) subsidiary collectively contributed \$3.4 million of incremental revenue in the second quarter of 2018.

Total retail revenues for the quarter were \$117.7 million, an increase of \$27.4 million, or 30.3 percent, as compared to the prior year second quarter. Retail revenues from Ace Retail Holdings LLC (“ARH”) were \$109.8 million in the second quarter of 2018. This was an increase of \$19.5 million, or 21.6 percent, from the second quarter of 2017. The increase was the result of new retail stores added since the second 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, were \$7.9 million in the second quarter of 2018.

Ace added 39 new domestic stores in the second quarter of 2018 and cancelled 34 stores. The Company’s total domestic store count was 4,423 for the second quarter of 2018 which was an increase of 66 stores from the second quarter of 2017. On a worldwide basis, Ace added 59 stores in the second quarter of 2018 and cancelled 35, bringing the worldwide store count to 5,161 at the end of the second quarter of 2018.

Gross Profit

Wholesale gross profit for the three months ended June 30, 2018 was \$179.7 million, an increase of \$5.8 million from the second quarter of 2017. The wholesale gross margin percentage was 12.2 percent of wholesale revenues in the second quarter of 2018, down slightly from 12.4 percent in the second quarter of 2017. The decrease in the wholesale gross margin percentage was the result of a reserve for recalled product and higher receiving costs; base product margin remained essentially flat.

Retail gross profit for the three months ended June 30, 2018 was \$49.4 million, an increase of \$10.0 million from the second quarter of 2017. The retail gross margin percentage was 42.0 percent of retail revenues in the second quarter of 2018, a decrease from 43.6 percent in the second 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 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 \$6.7 million, or 5.3 percent, from the second quarter of 2017. The increase includes higher payroll expenses from prior year driven by higher revenues and labor costs incurred to setup the new Fredericksburg retail support center. As a percentage of wholesale revenues, wholesale operating expenses remained flat at 9.1 percent of wholesale revenues for the second quarter of 2018 and 2017.

Retail operating expenses increased \$10.6 million, or 38.3 percent, from the second quarter of 2017. This increase was partially due to \$5.0 million of expenses from The Grommet, which was acquired in the third quarter of 2017. The remaining increase was primarily due to expenses from new retail stores added by ARH since the first quarter of 2017. Retail operating expenses as a percentage of retail revenue increased to 32.5 percent of retail revenues in the second quarter of 2018 from 30.7 percent in the second quarter of 2017, resulting from the inclusion of operating expenses from The Grommet. Excluding the impact of The Grommet, retail operating expenses were 30.3 percent of retail revenues in the second quarter of 2018, down from 30.7 percent in 2017.

Balance Sheet and Cash Flow

Receivables increased \$31.9 million from the second quarter of 2017 primarily due to higher sales volumes.

Inventories increased \$194.4 million from the second quarter of 2017 primarily due to intentional build-up of seasonal 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 largely offset by a \$171.3 million increase in accounts payable.

Debt increased \$117.1 million versus the second quarter of 2017 as a result of the funding of operating activities to support the growth in seasonal inventories and receivables.

Recognition

Market Force Information[®], a worldwide leader in customer experience management, named Ace Hardware “America’s favorite home improvement store” for the second year in a row in the home improvement category of its annual survey.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with more than 5,100 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.

###

Contacts:

Shareholders’/Investors’ Inquiries:

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

Media Inquiries:

Jessica Rau, Manager, Media Relations

630-990-3600, media@acehardware.com

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2018 (13 Weeks)</u>	<u>July 1, 2017 (13 Weeks)</u>	<u>June 30, 2018 (26 Weeks)</u>	<u>July 1, 2017 (26 Weeks)</u>
Revenues:				
Wholesale revenues	\$ 1,470.0	\$ 1,401.9	\$ 2,719.0	\$ 2,588.1
Retail revenues	117.7	90.3	180.8	142.3
Total revenues	<u>1,587.7</u>	<u>1,492.2</u>	<u>2,899.8</u>	<u>2,730.4</u>
Cost of revenues:				
Wholesale cost of revenues	1,290.3	1,228.0	2,399.7	2,268.0
Retail cost of revenues	68.3	50.9	102.3	77.8
Total cost of revenues	<u>1,358.6</u>	<u>1,278.9</u>	<u>2,502.0</u>	<u>2,345.8</u>
Gross profit:				
Wholesale gross profit	179.7	173.9	319.3	320.1
Retail gross profit	49.4	39.4	78.5	64.5
Total gross profit	<u>229.1</u>	<u>213.3</u>	<u>397.8</u>	<u>384.6</u>
Distribution operations expenses	42.8	37.4	81.2	70.8
Selling, general and administrative expenses	48.3	43.8	96.4	90.7
Retailer success and development expenses	42.9	46.1	75.6	80.3
Retail operating expenses	38.3	27.7	72.7	53.3
Warehouse facility closure costs	(0.4)	4.7	(0.4)	4.7
Total operating expenses	<u>171.9</u>	<u>159.7</u>	<u>325.5</u>	<u>299.8</u>
Operating income	57.2	53.6	72.3	84.8
Interest expense	(5.1)	(3.8)	(9.5)	(7.3)
Interest income	1.1	0.9	2.0	1.7
Other income, net	2.7	1.4	2.9	2.4
Income tax expense	<u>(1.1)</u>	<u>(1.0)</u>	<u>(1.0)</u>	<u>(2.2)</u>
Net income	54.8	51.1	66.7	79.4
Less: net income attributable to noncontrolling interests	<u>0.3</u>	<u>0.2</u>	<u>0.4</u>	<u>0.4</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 54.5</u>	<u>\$ 50.9</u>	<u>\$ 66.3</u>	<u>\$ 79.0</u>
Patronage distributions accrued	<u>\$ 51.2</u>	<u>\$ 46.5</u>	<u>\$ 75.9</u>	<u>\$ 81.2</u>
Patronage distributions accrued for third party retailers	<u>\$ 49.2</u>	<u>\$ 45.4</u>	<u>\$ 72.5</u>	<u>\$ 78.9</u>

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

	June 30, 2018	December 30, 2017	July 1, 2017
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 22.7	\$ 23.0	\$ 17.8
Marketable securities	50.7	51.1	51.4
Receivables, net of allowance for doubtful accounts of \$7.3, \$5.8 and \$7.3, respectively	524.6	415.7	492.7
Inventories	978.0	777.5	783.6
Prepaid expenses and other current assets	44.0	41.5	38.4
Total current assets	1,620.0	1,308.8	1,383.9
Property and equipment, net	370.9	356.6	339.3
Notes receivable, net of allowance for doubtful accounts of \$3.5, \$5.4 and \$6.5, respectively	12.1	8.4	11.8
Goodwill and other intangible assets	99.2	90.7	35.5
Other assets	84.2	93.3	88.4
Total assets	\$ 2,186.4	\$ 1,857.8	\$ 1,858.9
Liabilities and Equity			
Current maturities of long-term debt	\$ 46.2	\$ 49.0	\$ 31.3
Accounts payable	938.3	685.0	767.0
Patronage distributions payable in cash	29.8	61.5	32.0
Patronage refund certificates payable	5.7	5.7	6.9
Accrued expenses	141.7	170.7	142.3
Total current liabilities	1,161.7	971.9	979.5
Long-term debt	288.6	173.0	186.4
Patronage refund certificates payable	96.7	82.5	74.5
Other long-term liabilities	78.5	69.5	69.2
Total liabilities	1,625.5	1,296.9	1,309.6
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,710; 2,722 and 2,723 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,728,387; 4,412,989 and 4,519,944 issued and outstanding, respectively	472.8	441.3	452.0
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 223,122; 488,858 and 270,616 shares issuable, respectively	22.3	48.9	27.1
Contributed capital	18.4	18.3	18.2
Retained earnings	26.2	33.2	37.3
Accumulated other comprehensive income	4.7	3.5	2.2
Equity attributable to Ace member retailers	547.1	547.9	539.5
Equity attributable to noncontrolling interests	13.8	13.0	9.8
Total equity	560.9	560.9	549.3
Total liabilities and equity	\$ 2,186.4	\$ 1,857.8	\$ 1,858.9

ACE HARDWARE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended	
	June 30, 2018 (26 Weeks)	July 1, 2017 (26 Weeks)
Operating Activities		
Net income	\$ 66.7	\$ 79.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25.0	24.6
Amortization of deferred financing costs	0.2	0.2
Loss on the disposal of assets, net	0.1	0.2
Credit for doubtful accounts	-	(0.6)
Other, net	0.5	0.3
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(129.1)	(105.3)
Inventories	(190.8)	(42.8)
Other current assets	(2.5)	3.9
Other long-term assets	9.3	3.4
Accounts payable and accrued expenses	228.1	123.3
Other long-term liabilities	9.6	6.5
Deferred taxes	0.3	0.1
Net cash provided by operating activities	<u>17.4</u>	<u>93.2</u>
Investing Activities		
Purchases of marketable securities	(5.7)	(2.6)
Proceeds from sale of marketable securities	4.8	2.4
Purchases of property and equipment	(36.3)	(25.0)
Cash paid for acquired businesses, net of cash received	(18.5)	-
Increase in notes receivable, net	(2.8)	(3.8)
Net cash used in investing activities	<u>(58.5)</u>	<u>(29.0)</u>
Financing Activities		
Net borrowings (payments) under revolving lines of credit	111.0	(0.6)
Principal payments on long-term debt	(5.0)	(3.9)
Payments of cash portion of patronage distribution	(58.0)	(58.7)
Payments of patronage refund certificates	(6.4)	-
Repurchase of stock	(1.3)	(0.5)
Other, net	0.5	0.5
Net cash provided by (used in) financing activities	<u>40.8</u>	<u>(63.2)</u>
(Decrease) increase in cash and cash equivalents	(0.3)	1.0
Cash and cash equivalents at beginning of period	23.0	16.8
Cash and cash equivalents at end of period	<u>\$ 22.7</u>	<u>\$ 17.8</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 9.5</u>	<u>\$ 6.1</u>
Income taxes paid	<u>\$ 0.9</u>	<u>\$ 0.9</u>