



## PRESS RELEASE

### ACE HARDWARE REPORTS SECOND QUARTER 2017 RESULTS

- *Record revenues of \$1.5 billion, an increase of 4.6 percent from last year*
- *Net income, including one-time pre-tax charges of \$7.8 million for our warehouse reconfiguration to support growth, was \$51.1 million*
- *In 2017, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores, Eleven Years in a Row," according to J.D. Power*
- *Ace named "America's favorite home improvement store," in Market Force Information study*

**Oak Brook, Ill. (August 15, 2017)** – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported second quarter 2017 revenues of \$1.5 billion, an increase of \$66.0 million, or 4.6 percent, from the second quarter of 2016. Net income was \$51.1 million for the second quarter of 2017, a decrease of \$12.3 million from the second quarter of 2016. During the second quarter of 2017, the Company recorded \$7.8 million of one-time pre-tax charges primarily related to the future closure of certain warehouse and distribution facilities as part of a network reconfiguration to support future growth.

“We are pleased with the 3.2 percent same-store-sales increase that fueled our record revenue and second quarter increase of 4.6 percent,” said John Venhuizen, President and CEO. “And I couldn’t be more proud of our local Ace owners for being named ‘America’s favorite home improvement store,’ by Market Force Information and for ranking ‘highest in customer satisfaction,’ by J.D. Power for the eleventh consecutive year.”

The 3.2 percent increase in retail same-store-sales during the second quarter of 2017 reported by the approximately 3,000 Ace retailers who share daily retail sales data was primarily the result of the combination of more favorable weather and strong retail execution.

#### **Revenues**

Consolidated revenues for the quarter ended July 1, 2017 totaled \$1.5 billion. Total wholesale revenues were \$1.4 billion, an increase of \$63.1 million, or 4.7 percent, as compared to the prior year second quarter. Increases were noted across most departments with outdoor living, housewares, impulse and tools showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2016 through June 2017 contributed \$29.2 million of incremental revenues during the second quarter of 2017, while wholesale merchandise revenues decreased \$10.0 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$25.2 million for the quarter. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary and Ace Wholesale Holdings LLC (“AWH”) subsidiary collectively contributed \$16.3 million of incremental revenue in the second quarter of 2017.

Retail revenues from Ace Retail Holdings (“ARH”) were \$90.3 million in the second quarter of 2017. This was an increase of \$2.9 million, or 3.3 percent, from the second quarter of 2016. The increase was the result of new retail stores added since the second quarter of 2016.

Ace added 27 new domestic stores in the second quarter of 2017 and cancelled 28 stores. This brought the Company’s total domestic store count to 4,357 at the end of the second quarter of 2017, an increase of 42 stores from the second quarter of 2016. On a worldwide basis, Ace added 52 stores in the second quarter of 2017 and cancelled 31, bringing the worldwide store count to 5,024 at the end of the second quarter of 2017.

## **Gross Profit**

Wholesale gross profit for the three months ended July 1, 2017 was \$173.9 million, an increase of \$1.4 million from the second quarter of 2016. The wholesale gross margin percentage was 12.4 percent of wholesale revenues in the second quarter of 2017, a decrease from the second quarter of 2016 gross margin percentage of 12.9 percent. The decrease in the wholesale gross margin percentage was primarily driven by unfavorable gross profit rates and a \$3.1 million charge for anticipated inventory markdowns related to the future closure of certain warehouse facilities. Excluding the \$3.1 million charge, the wholesale gross margin percentage for the second quarter of 2017 was 12.6 percent.

Retail gross profit for the three months ended July 1, 2017 was \$39.4 million, an increase of \$1.1 million from the second quarter of 2016. The retail gross margin percentage was 43.6 percent of retail revenues in the second quarter of 2017, down slightly from 43.8 percent in the second 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 \$9.7 million, or 8.2 percent, for the second quarter of 2017 as compared to the second quarter of 2016. The increase was primarily due to higher payroll expenses from prior year changes to Company benefit policies and a higher incentive accrual in 2017. As a percentage of wholesale revenues, wholesale operating expenses increased to 9.1 percent of wholesale revenues in the second quarter of 2017 from 8.8 percent of wholesale revenues in the second quarter of 2016.

Retail operating expenses of \$27.7 million increased \$1.8 million, or 6.9 percent, from the second quarter of 2016. The increase was primarily due to expenses from new retail stores added since the second quarter of 2016. Retail operating expenses increased to 30.7 percent of retail revenues in the second quarter of 2017 from 29.6 percent in the second quarter of 2016, primarily due to increases in payroll and benefits, rent expense, store supplies expense and repairs and maintenance.

The Company recorded \$4.7 million of warehouse facility closure expenses in the second quarter of 2017 primarily for post-employment benefits resulting from the future closing of certain warehouse and distribution facilities.

## **Balance Sheet**

Receivables increased \$52.2 million from the second quarter of 2016 primarily as a result of higher trade receivables driven by an increase in warehouse, bulletin and dropship sales.

Inventories increased \$8.9 million from the second quarter of 2016 primarily due to higher inventories at AWH to provide improved service levels as well as additional retail stores acquired by ARH.

Debt increased \$35.8 million versus the second quarter of 2016 primarily as a result of the purchase of property and equipment and the timing of payments to vendors and receipts from retailers related to extended dating programs.

## **Awards and Recognition**

For the 11<sup>th</sup> year in a row, Ace Hardware received the highest numerical score among retail stores in the proprietary J.D. Power 2017 Home Improvement Retail Store Study\*. The study was based on responses from 2,751 consumers measuring six stores and opinions of consumers who purchased a home improvement product or service within the previous 12 months.

A new study conducted by Market Force Information®, a worldwide leader in customer experience management, once again named Ace Hardware “America’s favorite home improvement store.” Ace Hardware received the same prestigious ranking in 2015 – the last time this survey was conducted for the home improvement retail sector.

## **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. In 2017, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores, Eleven Years in a Row," according to J.D. Power. 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 [acehardware.com](http://acehardware.com) or the Company newsroom at [newsroom.acehardware.com](http://newsroom.acehardware.com).

\* Proprietary J.D. Power 2017 Home Improvement Retail Stores Study results are based on experiences and perceptions of consumers surveyed February-March 2017. Your experiences may vary. Visit [jdpower.com](http://jdpower.com).

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 1, 2017 (13 Weeks)</u>	<u>July 2, 2016 (13 Weeks)</u>	<u>July 1, 2017 (26 Weeks)</u>	<u>July 2, 2016 (26 Weeks)</u>
Revenues:				
Wholesale revenues	\$ 1,401.9	\$ 1,338.8	\$ 2,588.1	\$ 2,525.0
Retail revenues	90.3	87.4	142.3	138.0
Total revenues	<u>1,492.2</u>	<u>1,426.2</u>	<u>2,730.4</u>	<u>2,663.0</u>
Cost of revenues:				
Wholesale cost of revenues	1,228.0	1,166.3	2,268.0	2,219.2
Retail cost of revenues	50.9	49.1	77.8	75.7
Total cost of revenues	<u>1,278.9</u>	<u>1,215.4</u>	<u>2,345.8</u>	<u>2,294.9</u>
Gross profit:				
Wholesale gross profit	173.9	172.5	320.1	305.8
Retail gross profit	39.4	38.3	64.5	62.3
Total gross profit	<u>213.3</u>	<u>210.8</u>	<u>384.6</u>	<u>368.1</u>
Distribution operations expenses	37.4	34.2	70.8	67.6
Selling, general and administrative expenses	43.8	41.0	90.7	83.9
Retailer success and development expenses	46.1	42.4	80.3	71.4
Retail operating expenses	27.7	25.9	53.3	49.1
Warehouse facility closure costs	4.7	-	4.7	-
Total operating expenses	<u>159.7</u>	<u>143.5</u>	<u>299.8</u>	<u>272.0</u>
Operating income	53.6	67.3	84.8	96.1
Interest expense	(3.8)	(3.2)	(7.3)	(6.6)
Interest income	0.9	0.9	1.7	1.7
Other income, net	1.4	1.8	2.4	3.1
Income tax expense	(1.0)	(3.4)	(2.2)	(4.8)
Net income	<u>51.1</u>	<u>63.4</u>	<u>79.4</u>	<u>89.5</u>
Less: net income attributable to noncontrolling interests	<u>0.2</u>	<u>0.2</u>	<u>0.4</u>	<u>0.3</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 50.9</u>	<u>\$ 63.2</u>	<u>\$ 79.0</u>	<u>\$ 89.2</u>
Patronage distributions accrued	<u>\$ 46.5</u>	<u>\$ 54.9</u>	<u>\$ 81.2</u>	<u>\$ 84.2</u>
Patronage distributions accrued for third party retailers	<u>\$ 45.4</u>	<u>\$ 53.9</u>	<u>\$ 78.9</u>	<u>\$ 82.2</u>

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

	<b>July 1, 2017</b>	<b>December 31, 2016</b>	<b>July 2, 2016</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 17.8	\$ 16.8	\$ 19.1
Marketable securities	51.4	49.1	47.5
Receivables, net of allowance for doubtful accounts of \$7.3, \$6.9 and \$8.2, respectively	492.7	400.9	440.5
Inventories	783.6	740.8	774.7
Prepaid expenses and other current assets	38.4	42.4	46.2
Total current assets	1,383.9	1,250.0	1,328.0
Property and equipment, net	339.3	340.0	321.5
Notes receivable, net of allowance for doubtful accounts of \$6.5, \$7.7 and \$8.0, respectively	11.8	9.4	13.7
Goodwill and other intangible assets	35.5	35.8	35.0
Other assets	88.4	93.5	98.1
Total assets	<u>\$ 1,858.9</u>	<u>\$ 1,728.7</u>	<u>\$ 1,796.3</u>
<b>Liabilities and Equity</b>			
Current maturities of long-term debt	\$ 31.3	\$ 36.4	\$ 19.7
Accounts payable	767.0	629.7	786.5
Patronage distributions payable in cash	32.0	62.2	33.7
Patronage refund certificates payable	6.9	6.9	8.5
Accrued expenses	142.3	157.6	146.7
Total current liabilities	979.5	892.8	995.1
Long-term debt	186.4	178.4	162.2
Patronage refund certificates payable	74.5	60.9	55.4
Other long-term liabilities	69.2	63.3	65.6
Total liabilities	1,309.6	1,195.4	1,278.3
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,723, 2,726 and 2,714 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,519,944, 4,132,170 and 4,204,885 issued and outstanding, respectively	452.0	413.2	420.5
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 270,616, 523,158 and 293,685 shares issuable, respectively	27.1	52.3	29.4
Contributed capital	18.2	18.2	20.2
Retained earnings	37.3	37.2	35.4
Accumulated other comprehensive income (loss)	2.2	0.5	(2.0)
Equity attributable to Ace member retailers	539.5	524.1	506.2
Equity attributable to noncontrolling interests	9.8	9.2	11.8
Total equity	549.3	533.3	518.0
Total liabilities and equity	<u>\$ 1,858.9</u>	<u>\$ 1,728.7</u>	<u>\$ 1,796.3</u>

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

	<b>Six Months Ended</b>	
	<b>July 1, 2017 (26 Weeks)</b>	<b>July 2, 2016 (26 Weeks)</b>
<b>Operating Activities</b>		
Net income	\$ 79.4	\$ 89.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24.6	25.3
Amortization of deferred financing costs	0.2	0.2
Loss (gain) on the disposal of assets, net	0.2	(0.1)
Bad debt income	(0.6)	(0.3)
Other, net	0.3	0.1
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(105.3)	(83.0)
Inventories	(42.8)	(59.7)
Other current assets	3.9	(1.1)
Other long-term assets	3.4	1.0
Accounts payable and accrued expenses	123.3	210.5
Other long-term liabilities	6.5	2.6
Deferred taxes	0.1	0.3
Net cash provided by operating activities	<u>93.2</u>	<u>185.3</u>
<b>Investing Activities</b>		
Purchases of marketable securities	(2.6)	(2.3)
Proceeds from sale of marketable securities	2.4	2.7
Purchases of property and equipment	(25.0)	(30.5)
Cash paid for acquired businesses, net of cash acquired	-	(0.6)
(Increase) decrease in notes receivable, net	(3.8)	1.1
Net cash used in investing activities	<u>(29.0)</u>	<u>(29.6)</u>
<b>Financing Activities</b>		
Net payments under revolving lines of credit	(0.6)	(88.9)
Principal payments on long-term debt	(3.9)	(3.7)
Payments of cash portion of patronage distribution	(58.7)	(53.7)
Payments of patronage refund certificates	-	(0.2)
Repurchase of stock	(0.5)	(0.7)
Purchase of noncontrolling interests	-	(1.2)
Other, net	0.5	0.5
Net cash used in financing activities	<u>(63.2)</u>	<u>(147.9)</u>
Increase in cash and cash equivalents	1.0	7.8
Cash and cash equivalents at beginning of period	16.8	11.3
Cash and cash equivalents at end of period	<u>\$ 17.8</u>	<u>\$ 19.1</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 6.1</u>	<u>\$ 6.2</u>
Income taxes paid	<u>\$ 0.9</u>	<u>\$ 0.6</u>