



PRESS RELEASE

ACE HARDWARE REPORTS FIRST QUARTER 2018 RESULTS

- *Record first quarter revenues of \$1.3 billion, an increase of 6.0 percent from last year*
- *U.S. same-store-sales up 2.2 percent during the quarter; Acehardware.com sales up 34.0 percent*
- *First quarter net income down due to ongoing warehouse reconfiguration costs and a reduction in vendor income earned*
- *Ace once again ranked number 1 in the retail category for customer experience in 2018 Temkin Experience ratings*

Oak Brook, Ill. (May 23, 2018) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record first quarter 2018 revenues of \$1.31 billion, an increase of \$73.9 million, or 6.0 percent, from the first quarter of 2017. Net income was \$11.9 million for the first quarter of 2018, a decrease of \$16.4 million from the first quarter of 2017.

“A 34 percent increase in sales from Acehardware.com coupled with new store growth from existing Ace retailers and renewed interest from competitor conversions fueled our record sales growth,” said John Venhuizen, President and CEO. “While first quarter profits are well below last year’s levels, most of this was expected. We invested heavily in the first quarter to get our new 1.1 million square foot Fredericksburg retail support center ready to open in June as well as to prepare for the insourcing and re-platforming of our new Acehardware.com website.”

The 2.2 percent increase in retail same-store-sales during the first quarter of 2018 reported by the approximately 3,000 Ace retailers who share daily retail sales data was the result of a 3.3 percent increase in average ticket, partially offset by 1.1 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended March 31, 2018 totaled \$1.31 billion. Total wholesale revenues were \$1.25 billion, an increase of \$62.8 million, or 5.3 percent, as compared to the prior year first quarter. Increases were noted across all departments with paint, electric and outdoor living showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2017 through March 2018 contributed \$37.8 million of incremental revenues during the first quarter of 2018, while wholesale merchandise revenues decreased \$8.8 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$25.0 million for the quarter. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary and Ace Wholesale Holdings LLC (“AWH”) subsidiary collectively contributed \$6.2 million of incremental revenue in the first quarter of 2018.

Total retail revenues for the quarter were \$63.1 million, an increase of \$11.1 million, or 21.3 percent, as compared to the prior year first quarter. Retail revenues from Ace Retail Holdings (“ARH”) were \$57.0 million in the first quarter of 2018. This was an increase of \$5.0 million, or 9.6 percent, from the first quarter of 2017. The increase was the result of new retail stores added since the first quarter of 2017. Retail revenues from Ace Ecommerce Holdings LLC, which was formed in the third quarter of 2017 for the acquisition of The Grommet, were \$6.1 million in the first quarter of 2018.

Ace added 28 new domestic stores in the first quarter of 2018 and cancelled 28 stores. Revenue gained from the new stores, however, was four times larger than the revenue lost from cancelled stores. The Company’s total domestic store count remained at 4,418 for the first quarter of 2018 which was an increase of 60 stores from the first quarter of 2017. On a worldwide basis, Ace added 44 stores in the first quarter of 2018 and cancelled 28, bringing the worldwide store count to 5,137 at the end of the first quarter of 2018.

Gross Profit

Wholesale gross profit for the three months ended March 31, 2018 was \$139.6 million, a decrease of \$6.6 million from the first quarter of 2017. The wholesale gross margin percentage was 11.2 percent of wholesale revenues in the first quarter of 2018, down from 12.3 percent in the first quarter of 2017. The decrease in the wholesale gross margin percentage was primarily driven by a reduction in vendor funds earned; base product margin remained essentially flat.

Retail gross profit for the three months ended March 31, 2018 was \$29.1 million, an increase of \$4.0 million from the first quarter of 2017. The retail gross margin percentage was 46.1 percent of retail revenues in the first quarter of 2018, a decrease from 48.3 percent in the first 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 \$4.7 million, or 4.1 percent, from the first 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 decreased to 9.5 percent of wholesale revenues in the first quarter of 2018 from 9.7 percent of wholesale revenues in the first quarter of 2017.

Retail operating expenses increased \$8.8 million, or 34.4 percent, from the first quarter of 2017. This increase was primarily 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 54.5 percent of retail revenues in the first quarter of 2018 from 49.2 percent in the first quarter of 2017, primarily driven by an increased operating expense rate incurred by The Grommet.

Balance Sheet and Cash Flow

Receivables increased \$21.8 million from the first quarter of 2017 primarily as a result of higher vendor receivables due to increased vendor agreements and purchases.

Inventories increased \$127.2 million from the first quarter of 2017 primarily due to intentional increases in seasonal inventory to support Ace retailers entering the busy spring selling season. The increase in inventory was largely offset by a \$114.5 million increase in accounts payable.

Debt increased \$75.1 million versus the first quarter of 2017 as a result of the funding of operating activities to support the growth in seasonal inventories and receivables.

Temkin Experience Ratings

Ace Hardware has once again earned top marks in the 2018 Temkin Experience Ratings, a cross-industry, open standard benchmark of customer experience. Out of 318 companies evaluated, across 20 industries, Ace Hardware tied for the top position and highest score for customer experience in the retail category, and ranked No. 7 overall across all industries.

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 65 countries. For more information on Ace, visit acehardware.com or the Company newsroom at newsroom.acehardware.com.

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

	Three Months Ended	
	March 31,	April 1,
	2018	2017
	(13 Weeks)	(13 Weeks)
Revenues:		
Wholesale revenues	\$ 1,249.0	\$ 1,186.2
Retail revenues	63.1	52.0
Total revenues	1,312.1	1,238.2
Cost of revenues:		
Wholesale cost of revenues	1,109.4	1,040.0
Retail cost of revenues	34.0	26.9
Total cost of revenues	1,143.4	1,066.9
Gross profit:		
Wholesale gross profit	139.6	146.2
Retail gross profit	29.1	25.1
Total gross profit	168.7	171.3
Distribution operations expenses	38.4	33.4
Selling, general and administrative expenses	48.1	46.9
Retailer success and development expenses	32.7	34.2
Retail operating expenses	34.4	25.6
Total operating expenses	153.6	140.1
Operating income	15.1	31.2
Interest expense	(4.4)	(3.5)
Interest income	0.9	0.8
Other income, net	0.2	1.0
Income tax benefit (expense)	0.1	(1.2)
Net income	11.9	28.3
Less: net income attributable to noncontrolling interests	0.1	0.2
Net income attributable to Ace Hardware Corporation	\$ 11.8	\$ 28.1
Patronage distributions accrued	\$ 24.7	\$ 34.7
Patronage distributions accrued for third party retailers	\$ 23.3	\$ 33.5

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

	March 31, 2018	December 30, 2017	April 1, 2017
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 24.0	\$ 23.0	\$ 19.4
Marketable securities	50.4	51.1	50.3
Receivables, net of allowance for doubtful accounts of \$8.3, \$5.8 and \$7.6, respectively	570.3	415.7	548.5
Inventories	973.1	777.5	845.9
Prepaid expenses and other current assets	44.4	41.5	39.9
Total current assets	1,662.2	1,308.8	1,504.0
Property and equipment, net	361.6	356.6	339.2
Notes receivable, net of allowance for doubtful accounts of \$3.4, \$5.4 and \$7.0, respectively	10.1	8.4	11.5
Goodwill and other intangible assets	96.4	90.7	35.6
Other assets	90.1	93.3	91.6
Total assets	<u>\$ 2,220.4</u>	<u>\$ 1,857.8</u>	<u>\$ 1,981.9</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 67.4	\$ 49.0	\$ 49.3
Accounts payable	932.8	685.0	818.3
Patronage distributions payable in cash	71.0	61.5	75.8
Patronage refund certificates payable	5.7	5.7	6.9
Accrued expenses	142.2	170.7	131.1
Total current liabilities	1,219.1	971.9	1,081.4
Long-term debt	291.4	173.0	234.4
Patronage refund certificates payable	86.9	82.5	66.9
Other long-term liabilities	75.4	69.5	64.8
Total liabilities	1,672.8	1,296.9	1,447.5
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,713; 2,722 and 2,728 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,317,646; 4,412,989 and 4,070,046 issued and outstanding, respectively	431.8	441.3	407.0
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 563,189; 488,858 and 637,508 shares issuable, respectively	56.3	48.9	63.8
Contributed capital	18.3	18.3	18.1
Retained earnings	20.8	33.2	31.7
Accumulated other comprehensive income	4.3	3.5	1.5
Equity attributable to Ace member retailers	534.2	547.9	524.8
Equity attributable to noncontrolling interests	13.4	13.0	9.6
Total equity	547.6	560.9	534.4
Total liabilities and equity	<u>\$ 2,220.4</u>	<u>\$ 1,857.8</u>	<u>\$ 1,981.9</u>

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

	Three Months Ended	
	March 31, 2018 (13 Weeks)	April 1, 2017 (13 Weeks)
Operating Activities		
Net income	\$ 11.9	\$ 28.3
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12.2	12.6
Amortization of deferred financing costs	0.1	0.1
Loss on the disposal of assets, net	0.1	0.1
Provision for doubtful accounts	0.6	0.1
Other, net	0.2	0.1
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(164.8)	(151.6)
Inventories	(190.2)	(105.1)
Other current assets	(2.9)	2.5
Other long-term assets	3.6	1.0
Accounts payable and accrued expenses	224.9	163.8
Other long-term liabilities	6.5	1.9
Net cash used in operating activities	<u>(97.8)</u>	<u>(46.2)</u>
Investing Activities		
Purchases of marketable securities	(3.3)	(2.0)
Proceeds from sale of marketable securities	2.8	1.9
Purchases of property and equipment	(16.4)	(13.2)
Cash paid for acquired business, net of cash received	(11.0)	-
Increase in notes receivable, net	(1.9)	(2.3)
Net cash used in investing activities	<u>(29.8)</u>	<u>(15.6)</u>
Financing Activities		
Net borrowings under revolving lines of credit	137.6	66.4
Principal payments on long-term debt	(2.8)	(2.1)
Payments of patronage refund certificates	(6.4)	-
Repurchase of stock	(0.1)	(0.2)
Other, net	0.3	0.3
Net cash provided by financing activities	<u>128.6</u>	<u>64.4</u>
Increase in cash and cash equivalents	1.0	2.6
Cash and cash equivalents at beginning of period	23.0	16.8
Cash and cash equivalents at end of period	<u>\$ 24.0</u>	<u>\$ 19.4</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 5.9</u>	<u>\$ 3.7</u>
Income taxes paid	<u>\$ 0.4</u>	<u>\$ 0.5</u>