



## PRESS RELEASE

### ACE HARDWARE REPORTS RECORD 2014 REVENUES, PROFITS AND PATRONAGE

- *Record fiscal 2014 revenues of \$4.7 billion, an increase of 13.2 percent from last year*
- *Record fiscal 2014 net income of \$140.9 million, an increase of 34.8 percent from last year*
- *Record accrued patronage to retailers of \$135.3 million, up 34.4 percent*
- *Follow-on acquisition of Jensen Distribution Services positions Ace Wholesale Holdings for rapid growth*

**Oak Brook, Ill. (February 25, 2015)** – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported total fiscal 2014 revenues of \$4.7 billion, an increase of \$546.3 million or 13.2 percent. Fiscal 2014 consisted of 53 weeks compared to 52 weeks in fiscal 2013. The 53<sup>rd</sup> week added approximately \$49.4 million in revenues. Excluding the 53<sup>rd</sup> week, revenues increased \$496.9 million or 12.0 percent as compared to fiscal 2013. Net income was \$140.9 million for fiscal 2014, an increase of \$36.4 million or 34.8 percent, from fiscal 2013.

Total revenues for the fourth quarter of 2014 were \$1.16 billion, an increase of \$139.2 million or 13.6 percent, from the fourth quarter of 2013 (an \$89.8 million, or 8.8 percent increase without the 53<sup>rd</sup> week). Net income was \$12.7 million for the fourth quarter of 2014, a decrease of \$10.7 million from the \$23.4 million in the fourth quarter of 2013. This decline was caused by a 1.4 percentage point drop in the wholesale gross profit margin rate that was primarily driven by increased store-level merchandise reset spending and additional markdowns to clear closeout inventory.

"My congratulations and thanks to the entire Ace team for delivering our best year ever, in the same year we celebrated our 90<sup>th</sup> anniversary," said John Venhuizen, President and CEO, Ace Hardware Corp. "Our founders would be delighted to see our patronage distribution to shareholders exceed \$135 million, an increase of 34 percent and a record for the company."

"Strong same-store-sales growth at retail coupled with 201 new domestic stores and our strategic wholesale acquisitions fueled the double-digit growth," continued Venhuizen.

The approximately 3,000 Ace retailers who share daily retail sales data enjoyed a strong quarter as well, with increased customer count and average transaction size driving a 4.7 percent same-store-sales increase for the fourth quarter of 2014. Same-store-sales at these stores were up 4.2 percent for all of fiscal 2014.

## **Revenues**

Consolidated revenues for fiscal 2014 totaled \$4.7 billion, an increase of \$546.3 million, or 13.2 percent, as compared to the prior year. Total wholesale revenues were \$4.47 billion, an increase of \$538.1 million, or 13.7 percent, as compared to the prior year. Increases were noted across all departments with electrical, paint & solvents, hand tools, plumbing, and lawn & garden power equipment showing the largest increases.

Wholesale merchandise revenues to comparable stores increased \$254.9 million in fiscal 2014. Wholesale merchandise revenues to new domestic stores activated in the 2013 and 2014 fiscal year periods contributed \$168.4 million in incremental revenues during the year, while wholesale merchandise revenues decreased \$38.0 million due to cancelled stores. Wholesale revenues from the Company's new Ace Wholesale Holdings ("AWH") subsidiary contributed \$150.2 million of the increase.

Retail revenues from Ace Retail Holdings ("ARH") were \$233.8 million for fiscal 2014. This is an increase of \$8.2 million or 3.6 percent from fiscal 2013. Same-store-sales at ARH's stores were up 4.1 percent, with increases in nearly all departments. Electrical, tools, cleaning and paint had the largest increases.

Consolidated revenues for the quarter ended January 3, 2015 totaled \$1.16 billion. Total wholesale revenues were \$1.11 billion, an increase of \$137.5 million, or 14.2 percent, as compared to the prior year fourth quarter. Increases were noted in virtually every department, with the electrical, power tools, and hand tools categories showing the largest increases.

Wholesale merchandise revenues to comparable stores increased \$65.5 million in the fourth quarter of 2014. Wholesale merchandise revenues to new domestic stores activated in the 2013 and 2014 fiscal year periods contributed \$36.7 million in incremental revenues during the quarter, while wholesale merchandise revenues decreased \$9.4 million due to stores that cancelled their membership in 2013 and 2014. Wholesale revenues from the Company's new AWH subsidiary contributed \$37.3 million of the increase.

Retail revenues from ARH were \$55.3 million in the fourth quarter of 2014. This is an increase of \$1.7 million, or 3.2 percent, from the fourth quarter of 2013. Same-store-sales were up 3.3 percent versus the prior year with electrical, cleaning, tools, and paint showing the largest increases.

Ace added 201 new domestic stores in fiscal 2014 and cancelled 121 stores for a net increase in store count of 80. This brought the company's total domestic store count to 4,251 at the end of 2014.

## **Gross Profit**

Wholesale gross profit for fiscal 2014 was \$546.4 million, an increase of \$68.0 million from fiscal 2013. The wholesale gross margin percentage was 12.2 percent of wholesale revenues in fiscal 2014, showing no change from fiscal 2013.

Retail gross profit was \$105.8 million in fiscal 2014, an increase of \$7.3 million from fiscal 2013. The retail gross margin percentage was 45.3 percent of retail revenues in fiscal 2014, up

from 43.7 percent in the prior year. The increase in the retail gross margin percentage was primarily the result of lower promotional discounting.

## **Expenses**

Wholesale operating expenses increased \$41.8 million, or 11.4 percent, for fiscal 2014 as compared to fiscal 2013. The increase was primarily driven by higher employee benefit and salary expenses, higher advertising expenses due to planned incremental promotional spending, and higher warehouse wages driven by the increase in sales volume and the addition of new warehouse facilities as well as additional operating expenses from the new AWH subsidiary. As a percentage of wholesale revenues, wholesale operating expenses decreased from 9.3 percent of revenues in 2013 to 9.1 percent of revenues in 2014.

Retail operating expenses of \$91.5 million increased \$0.9 million, or 1.0 percent, in fiscal 2014 as compared to fiscal 2013. Retail operating expenses as a percent of retail revenues decreased from 40.2 percent of revenues in fiscal 2013 to 39.1 percent of revenues in fiscal 2014 primarily due to more efficient advertising spending.

## **Balance Sheet**

Receivables increased \$45.9 million from December 28, 2013. AWH's acquisition of Emery-Waterhouse in the first quarter of 2014 and Jensen Distribution Services in the fourth quarter of 2014 contributed \$12.3 million and \$17.3 million, respectively, towards the increase. Sales growth and extended dating programs for retailers accounted for the remainder.

Inventories increased \$187.4 million from December 28, 2013 driven in part by AWH's acquisition of Emery-Waterhouse in the first quarter of 2014 and Jensen Distribution Services in the fourth quarter of 2014. These acquisitions contributed \$32.5 million and \$26.6 million, respectively, towards the increase in inventory. The remaining increase was required to support higher sales revenues, increased seasonal build and the Company's intentional inventory build-up to maintain customer fill-rates during the U.S. west coast import disruption. The increase in inventories was partially funded by a \$109.9 million increase in accounts payable.

As a result of these factors and consistent with the Company's operating plan to make investments in retail stores, grow the paint business through its significant investment in The Paint Studio initiative and increase our wholesale distribution network, the Company's outstanding debt increased \$81.7 million versus December 28, 2013 as a result of additional borrowings on its revolving credit facilities.

The Company has accrued patronage distributions of \$135.3 million for fiscal 2014, which exceeds the accrued patronage distributions for fiscal 2013 by \$34.6 million or 34.4 percent.

## **Jensen**

The acquisition of Jensen Distribution Services at the end of fiscal 2014 is forecasted to add an additional \$150 million of go-forward revenue. Combined with Emery-Waterhouse, this makes AWH an over \$300 million sales organization. The acquisition of these two premier companies in 2014 provides a platform for AWH to rapidly expand its footprint by leveraging existing Ace Retail Support Centers to become a national force.

## **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 2014, Ace ranked “Highest in Customer Satisfaction with Home Improvement Retail Stores, Eight Years in a Row,” according to J.D. Power. With more than 4,800 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 currently operate 17 distribution centers in the U.S. and also have distribution capabilities in Shanghai, China; Panama City, Panama; and Dubai, United Arab Emirates. Its retailers' stores are located in all 50 states, the District of Columbia and approximately 60 countries. For more information on Ace, visit [www.acehardware.com](http://www.acehardware.com).

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**ACE HARDWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In millions)

|   | Three Months Ended               |                                    | Years Ended                      |                                    |
|---|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
|   | January 3,<br>2015<br>(14 Weeks) | December 28,<br>2013<br>(13 Weeks) | January 3,<br>2015<br>(53 Weeks) | December 28,<br>2013<br>(52 Weeks) |
| Revenues:   |                                  |                                    |                                  |                                    |
| Wholesale revenues  | \$ 1,106.3                       | \$ 968.8                           | \$ 4,466.7                       | \$ 3,928.6                         |
| Retail revenues   | 55.3                             | 53.6                               | 233.8                            | 225.6                              |
| Total revenues  | 1,161.6                          | 1,022.4                            | 4,700.5                          | 4,154.2                            |
| Cost of revenues:   |                                  |                                    |                                  |                                    |
| Wholesale cost of revenues                                | 993.3                            | 856.2                              | 3,920.3                          | 3,450.2                            |
| Retail cost of revenues                                   | 31.1                             | 30.2                               | 128.0                            | 127.1                              |
| Total cost of revenues                                    | 1,024.4                          | 886.4                              | 4,048.3                          | 3,577.3                            |
| Gross profit:   |                                  |                                    |                                  |                                    |
| Wholesale gross profit                                    | 113.0                            | 112.6                              | 546.4                            | 478.4                              |
| Retail gross profit                                       | 24.2                             | 23.4                               | 105.8                            | 98.5                               |
| Total gross profit  | 137.2                            | 136.0                              | 652.2                            | 576.9                              |
| Distribution operations expenses                          | 32.6                             | 25.7                               | 119.2                            | 100.0                              |
| Selling, general and administrative expenses              | 40.7                             | 38.7                               | 154.1                            | 142.3                              |
| Retailer success and development expenses                 | 29.2                             | 25.5                               | 135.1                            | 124.3                              |
| Retail operating expenses                                 | 21.7                             | 21.8                               | 91.5                             | 90.6                               |
| Warehouse facility closure costs                          | 0.7                              | -                                  | 0.7                              | 6.2                                |
| Total operating expenses                                  | 124.9                            | 111.7                              | 500.6                            | 463.4                              |
| Operating income  | 12.3                             | 24.3                               | 151.6                            | 113.5                              |
| Interest expense  | (3.3)                            | (3.1)                              | (13.1)                           | (14.1)                             |
| Interest income   | 0.5                              | 1.4                                | 3.0                              | 3.9                                |
| Other income, net   | 1.5                              | 0.4                                | 6.1                              | 6.3                                |
| Income tax benefit (expense)                              | 1.7                              | 0.5                                | (6.3)                            | (4.5)                              |
| Net income  | 12.7                             | 23.5                               | 141.3                            | 105.1                              |
| Less: net income attributable to noncontrolling interests | -                                | 0.1                                | 0.4                              | 0.6                                |
| Net income attributable to Ace Hardware Corporation       | \$ 12.7                          | \$ 23.4                            | \$ 140.9                         | \$ 104.5                           |
| Accrued patronage distributions                           | \$ 12.4                          | \$ 17.8                            | \$ 135.3                         | \$ 100.7                           |
| Accrued patronage distributions to third party retailers  | \$ 10.7                          | \$ 16.9                            | \$ 131.7                         | \$ 98.2                            |

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

|   | <b>January 3,<br/>2015</b> | <b>December 28,<br/>2013</b> |
|---|----------------------------|------------------------------|
| <b>Assets</b>   |                            |                              |
| Cash and cash equivalents   | \$ 29.8                    | \$ 17.9                      |
| Marketable securities   | 42.2                       | 53.8                         |
| Receivables, net of allowance for doubtful accounts of \$6.5 and \$9.3, respectively  | 381.8                      | 335.9                        |
| Inventories   | 692.9                      | 505.5                        |
| Prepaid expenses and other current assets   | 54.7                       | 41.8                         |
| Total current assets  | 1,201.4                    | 954.9                        |
| Property and equipment, net   | 323.0                      | 324.7                        |
| Notes receivable, net of allowance for doubtful accounts of \$10.9 and \$11.4, respectively   | 12.2                       | 21.2                         |
| Goodwill and other intangible assets  | 35.0                       | 24.1                         |
| Other assets  | 85.6                       | 63.6                         |
| Total assets  | \$ 1,657.2                 | \$ 1,388.5                   |
| <b>Liabilities and Equity</b>   |                            |                              |
| Current maturities of long-term debt  | \$ 41.5                    | \$ 23.4                      |
| Accounts payable  | 601.6                      | 491.7                        |
| Patronage distributions payable in cash   | 53.7                       | 39.9                         |
| Patronage refund certificates payable   | 6.6                        | -                            |
| Accrued expenses  | 162.5                      | 165.9                        |
| Total current liabilities   | 865.9                      | 720.9                        |
| Long-term debt  | 242.2                      | 178.6                        |
| Patronage refund certificates payable   | 32.3                       | 28.4                         |
| Other long-term liabilities   | 67.0                       | 66.3                         |
| Total liabilities   | 1,207.4                    | 994.2                        |
| <b>Member Retailers' Equity:</b>  |                            |                              |
| Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,751 and 2,764 issued and outstanding, respectively                        | 2.8                        | 2.8                          |
| Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 3,425,232 and 3,156,908 issued and outstanding, respectively            | 342.5                      | 315.7                        |
| Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 565,068 and 408,684 shares issuable, respectively | 56.5                       | 40.9                         |
| Contributed capital   | 20.6                       | 20.0                         |
| Retained earnings   | 15.5                       | 6.3                          |
| Accumulated other comprehensive income  | 1.7                        | 0.3                          |
| Equity attributable to Ace member retailers   | 439.6                      | 386.0                        |
| Equity attributable to noncontrolling interests   | 10.2                       | 8.3                          |
| Total equity  | 449.8                      | 394.3                        |
| Total liabilities and equity  | \$ 1,657.2                 | \$ 1,388.5                   |

**ACE HARDWARE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

|   | <b>Years Ended</b>                        |   |
|---|---|---|
|   | <b>January 3,<br/>2015<br/>(53 Weeks)</b> | <b>December 28,<br/>2013<br/>(52 Weeks)</b> |
| <b>Operating Activities</b>   |   |   |
| Net income  | \$ 141.3                                  | \$ 105.1                                    |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |   |
| Depreciation and amortization   | 50.3                                      | 45.6  |
| Amortization of deferred gain on sale leaseback                                   | (1.1)                                     | (1.1)                                       |
| Amortization of deferred financing costs  | 1.1                                       | 1.2   |
| Loss on the disposal of assets, net   | 1.5                                       | -   |
| Provision for doubtful accounts   | 1.1                                       | 3.4   |
| Warehouse facility closure costs  | 0.7                                       | 6.2   |
| Other, net  | 0.2                                       | 0.5   |
| Changes in operating assets and liabilities, exclusive of effect of acquisitions: |   |   |
| Receivables   | (34.8)                                    | (53.6)                                      |
| Inventories   | (133.1)                                   | 52.2  |
| Other current assets  | (15.0)                                    | 6.2   |
| Other long-term assets  | (20.9)                                    | (1.1)                                       |
| Accounts payable and accrued expenses   | 66.5                                      | 2.0   |
| Other long-term liabilities   | 1.9                                       | (0.5)                                       |
| Deferred taxes  | (0.8)                                     | 1.9   |
| Net cash provided by operating activities   | <u>58.9</u>                               | <u>168.0</u>                                |
| <b>Investing Activities</b>   |   |   |
| Purchases of marketable securities  | (15.9)                                    | (27.1)                                      |
| Proceeds from sale of marketable securities                                       | 28.5                                      | 27.6  |
| Purchases of property and equipment   | (41.1)                                    | (45.0)                                      |
| Cash paid for acquired businesses, net of cash acquired                           | (63.2)                                    | -   |
| Decrease in notes receivable, net   | 2.0                                       | 2.9   |
| Other   | 0.5                                       | 0.2   |
| Net cash used in investing activities   | <u>(89.2)</u>                             | <u>(41.4)</u>                               |
| <b>Financing Activities</b>   |   |   |
| Net borrowings (payments) under revolving lines of credit                         | 99.9                                      | (78.6)                                      |
| Principal payments on long-term debt  | (24.1)                                    | (16.3)                                      |
| Payments of cash portion of patronage distribution                                | (36.6)                                    | (27.1)                                      |
| Payments of deferred financing charges  | -   | (0.7)                                       |
| Payments of patronage refund certificates   | (0.2)                                     | (0.1)                                       |
| Proceeds from sale of noncontrolling interests                                    | 2.0                                       | 0.1   |
| Other   | 1.2                                       | 0.9   |
| Net cash provided by (used in) financing activities                               | <u>42.2</u>                               | <u>(121.8)</u>                              |
| Increase in cash and cash equivalents   | 11.9                                      | 4.8   |
| Cash and cash equivalents at beginning of period                                  | 17.9                                      | 13.1  |
| Cash and cash equivalents at end of period  | <u>\$ 29.8</u>                            | <u>\$ 17.9</u>                              |
| Supplemental disclosure of cash flow information:                                 |   |   |
| Interest paid   | <u>\$ 12.3</u>                            | <u>\$ 11.3</u>                              |
| Income taxes paid   | <u>\$ 6.2</u>                             | <u>\$ 1.4</u>                               |