



PRESS RELEASE

ACE HARDWARE REPORTS RECORD FIRST QUARTER 2016 REVENUES

- *Record first quarter revenues of \$1.2 billion, an increase of 4.3 percent from last year*
- *First quarter net income of \$26.1 million, a \$3.8 million decrease from last year, but 12.0 percent ahead of plan*

Oak Brook, Ill. (May 18, 2016) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported first quarter 2016 revenues of \$1.2 billion, an increase of \$50.7 million or 4.3 percent from the first quarter of 2015. Net income was \$26.1 million for the first quarter of 2016. This decrease of \$3.8 million from the first quarter of 2015 was a planned reduction due to the timing of promotions.

"Our first quarter was marked by modest revenue growth compared to the 10 percent increase in the first quarter of 2015," said John Venhuizen, President and CEO. "Nevertheless, all four of our pillars of growth are ahead of plan including Ace Hardware Domestic, Ace Hardware International Holdings, Ace Retail Holdings and Ace Wholesale Holdings."

The 2.2 percent increase in retail same-store-sales reported by the approximately 3,000 Ace retailers who share daily retail sales data was primarily the result of a 2.9 percent increase in average transaction size.

Revenues

Consolidated revenues for the quarter ended April 2, 2016 totaled \$1.2 billion. Total wholesale revenues were \$1.19 billion, an increase of \$46.4 million, or 4.1 percent, as compared to the prior year first quarter. Increases were noted across many departments with outdoor living, electrical and tools showing the largest gains.

Wholesale merchandise revenues to comparable stores increased \$15.4 million in the first quarter of 2016. Wholesale merchandise revenues to new domestic stores activated from January 2015 through March 2016 contributed \$31.5 million in incremental revenues during the quarter, while wholesale merchandise revenues decreased \$11.3 million due to stores that cancelled their membership. The Company's Ace Wholesale Holdings LLC (“AWH”) subsidiary contributed \$10.0 million of incremental revenue in the first quarter of 2016, which was an increase of 12.8 percent from the prior year.

Retail revenues from Ace Retail Holdings (“ARH”) were \$50.6 million in the first quarter of 2016. This was an increase of \$4.3 million, or 9.3 percent, from the first quarter of 2015. Same-store-sales increased 4.4 percent compared to the first quarter of 2015 with the largest increases in lawn and garden, electrical and outdoor living.

Ace added 24 new domestic stores in the first quarter of 2016 and cancelled 33 stores. This brought the Company's total domestic store count to 4,302 at the end of the first quarter of 2016, an increase of 50 stores from the first quarter of 2015.

Gross Profit

Wholesale gross profit for the three months ended April 2, 2016 was \$133.3 million, a decrease of \$4.8 million from the first three months of 2015. The wholesale gross margin percentage was 11.2 percent of wholesale revenues in the first quarter of 2016, a decrease from 2015's first quarter gross margin percentage of 12.1 percent. The decrease in the wholesale gross margin percentage was expected and budgeted due to the timing of promotional events and income received from vendors.

Retail gross profit for the first quarter of 2016 was \$24.0 million, an increase of \$1.7 million from the first quarter of 2015. The retail gross margin percentage was 47.4 percent of retail revenues in the first quarter of 2016, down from 48.2 percent in the prior year first quarter. The decrease in the retail gross margin percentage was primarily the result of product mix and clearance discounts. 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 \$0.3 million, or 0.3 percent, for first quarter of 2016 as compared to the first quarter of 2015. The increase was primarily driven by higher AWH expenses to support increased revenues and new business initiatives. As a percentage of wholesale revenues, wholesale operating expenses decreased from 9.2 percent of wholesale revenues in the first quarter of 2015 to 8.9 percent of wholesale revenues in the first quarter of 2016.

Retail operating expenses of \$23.2 million increased \$1.2 million, or 5.5 percent, in the first quarter of 2016 as compared to the first quarter of 2015. The increase was primarily due to the acquisition of five retail stores during the second quarter of 2015 and the opening of a new retail store in the third quarter of 2015. Retail operating expenses as a percent of retail revenues decreased to 45.8 percent of retail revenues in the first quarter of 2016 from 47.5 percent in first quarter of 2015.

In the first quarter of 2015, the Company recorded a charge of \$1.5 million related to the settlement of the withdrawal liability for the multi-employer pension fund that covers the former union employees at the closed Retail Support Center in Toledo, Ohio.

Balance Sheet

Inventories increased \$28.1 million from the first quarter of 2015 driven by an increase in outdoor living merchandise to support higher sales volumes in that category. ARH inventory increased \$6.3 million compared to the prior year due to retail store acquisitions in the second and third quarters of 2015.

Accounts payable increased \$20.2 million from the first quarter of 2015 primarily as a result of increased inventory and the timing of vendor payments.

Debt decreased \$61.3 million versus the first quarter of 2015 as a result of an increase in cash provided by the Company's operating activities during the past twelve months.

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 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.

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

	Three Months Ended	
	April 2, 2016 (13 Weeks)	April 4, 2015 (13 Weeks)
Revenues:		
Wholesale revenues	\$ 1,186.2	\$ 1,139.8
Retail revenues	50.6	46.3
Total revenues	1,236.8	1,186.1
Cost of revenues:		
Wholesale cost of revenues	1,052.9	1,001.7
Retail cost of revenues	26.6	24.0
Total cost of revenues	1,079.5	1,025.7
Gross profit:		
Wholesale gross profit	133.3	138.1
Retail gross profit	24.0	22.3
Total gross profit	157.3	160.4
Distribution operations expenses	33.4	31.0
Selling, general and administrative expenses	42.9	43.3
Retailer success and development expenses	29.0	30.7
Retail operating expenses	23.2	22.0
Warehouse facility closure costs	-	1.5
Total operating expenses	128.5	128.5
Operating income	28.8	31.9
Interest expense	(3.4)	(3.5)
Interest income	0.8	0.8
Other income, net	1.3	2.2
Income tax expense	(1.4)	(1.5)
Net income	26.1	29.9
Less: net income attributable to noncontrolling interests	0.1	-
Net income attributable to Ace Hardware Corporation	\$ 26.0	\$ 29.9
Patronage distributions accrued	\$ 29.3	\$ 34.5
Patronage distributions accrued for third party retailers	\$ 28.3	\$ 33.7

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

	April, 2 2016	January 2, 2016	April 4, 2015
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 23.1	\$ 11.3	\$ 23.5
Marketable securities	47.5	47.1	43.2
Receivables, net of allowance for doubtful accounts of \$8.7, \$8.3 and \$7.8, respectively	522.8	375.3	525.0
Inventories	817.2	714.5	789.1
Prepaid expenses and other current assets	44.2	45.1	60.1
Total current assets	1,454.8	1,193.3	1,440.9
Property and equipment, net	315.9	318.1	319.4
Notes receivable, net of allowance for doubtful accounts of \$7.8, \$8.7 and \$10.1, respectively	12.2	11.8	14.9
Goodwill and other intangible assets	35.1	35.3	34.6
Other assets	97.4	98.7	85.5
Total assets	<u>\$ 1,915.4</u>	<u>\$ 1,657.2</u>	<u>\$ 1,895.3</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 38.3	\$ 27.2	\$ 54.7
Accounts payable	790.8	552.5	770.6
Patronage distributions payable in cash	68.9	57.5	67.5
Patronage refund certificates payable	8.6	8.6	6.6
Accrued expenses	139.7	172.9	137.4
Total current liabilities	1,046.3	818.7	1,036.8
Long-term debt	262.6	242.2	307.5
Patronage refund certificates payable	44.6	41.3	35.0
Other long-term liabilities	64.0	58.9	62.9
Total liabilities	1,417.5	1,161.1	1,442.2
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,725; 2,734 and 2,742 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 3,699,088; 3,756,627 and 3,350,935 issued and outstanding, respectively	369.9	375.7	335.1
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 676,702; 564,155 and 710,123 shares issuable, respectively	67.7	56.4	71.0
Contributed capital	20.7	20.7	20.8
Retained earnings	26.1	28.4	11.7
Accumulated other comprehensive (loss) income	(1.4)	0.2	1.6
Equity attributable to Ace member retailers	485.7	484.1	442.9
Equity attributable to noncontrolling interests	12.2	12.0	10.2
Total equity	497.9	496.1	453.1
Total liabilities and equity	<u>\$ 1,915.4</u>	<u>\$ 1,657.2</u>	<u>\$ 1,895.3</u>

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

	Three Months Ended	
	April 2, 2016 (13 Weeks)	April 4, 2015 (13 Weeks)
Operating Activities		
Net income	\$ 26.1	\$ 29.9
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12.6	12.9
Amortization of deferred financing costs	0.1	0.3
Gain on the disposal of assets, net	-	(0.1)
Provision for doubtful accounts	0.1	2.4
Warehouse facility closure costs	-	1.5
Other, net	0.1	0.1
Changes in operating assets and liabilities, exclusive of effect of acquisitions:		
Receivables	(154.0)	(154.0)
Inventories	(102.7)	(96.2)
Other current assets	0.9	(5.7)
Other long-term assets	2.8	(0.8)
Accounts payable and accrued expenses	207.8	143.3
Other long-term liabilities	2.1	(6.1)
Deferred taxes	(0.8)	1.0
Net cash used in operating activities	<u>(4.9)</u>	<u>(71.5)</u>
Investing Activities		
Purchases of marketable securities	(0.7)	(2.1)
Proceeds from sale of marketable securities	0.7	1.6
Purchases of property and equipment	(12.7)	(8.3)
Decrease in notes receivable, net	0.5	0.7
Net cash used in investing activities	<u>(12.2)</u>	<u>(8.1)</u>
Financing Activities		
Net borrowings under revolving lines of credit	30.6	81.4
Principal payments on long-term debt	(1.8)	(6.4)
Payments of patronage refund certificates	-	(0.1)
Repurchase of stock	(0.2)	(1.9)
Other	0.3	0.3
Net cash provided by financing activities	<u>28.9</u>	<u>73.3</u>
Increase (decrease) in cash and cash equivalents	11.8	(6.3)
Cash and cash equivalents at beginning of period	11.3	29.8
Cash and cash equivalents at end of period	<u>\$ 23.1</u>	<u>\$ 23.5</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 3.9</u>	<u>\$ 2.4</u>
Income taxes paid	<u>\$ 0.3</u>	<u>\$ 0.4</u>