



## PRESS RELEASE

### ACE HARDWARE REPORTS FOURTH QUARTER AND FULL YEAR 2017 RESULTS

- *Record fourth quarter revenues of \$1.3 billion, an increase of 6.8 percent from last year*
- *U.S. same-store-sales up 3.1 percent during the quarter*
- *Record full year revenues of \$5.4 billion, an increase of 5.1 percent from last year*
- *U.S. same-store-sales up 3.6 percent for the year*
- *Fourth quarter and full-year profits down due to tax charge from new legislation and warehouse network reconfiguration costs*
- *Patronage dividends to retailers will exceed \$150 million for the second straight year*

**Oak Brook, Ill. (February 14, 2018)** – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported fourth quarter 2017 revenues of \$1.32 billion, an increase of \$84.0 million, or 6.8 percent, from the fourth quarter of 2016. Net income was \$14.2 million for the fourth quarter of 2017, a decrease of \$7.3 million from the fourth quarter of 2016. This decrease included a charge of \$4.1 million due to the new tax legislation enacted in 2017 as well as increased warehouse costs incurred as part of the warehouse network reconfiguration.

Net income for fiscal 2017 was \$147.4 million, a decrease of \$13.8 million, from fiscal 2016. This decrease was the result of a charge of \$4.1 million due to the new tax legislation enacted in 2017 as well as \$9.5 million of after-tax charges to reposition the warehouse and call center network to support future growth. Excluding these unbudgeted charges, the Company’s net income for fiscal 2017 exceeded its 2017 plan.

“New store growth, a 3.1 percent increase in same-store retail sales, along with revenues from our acquisition of The Grommet at the end of the last quarter, were the predominant drivers behind our strong 6.8 percent overall sales increase and record setting fourth quarter revenue,” said John Venhuizen, President and CEO. “I’m also encouraged to report that 2017 marked the fifth-straight year of increased customer transactions at retail, the sixth-straight year of net new store count growth, the eighth-straight year of increased same-store-sales, and the eleventh-straight year receiving the J.D. Power award for highest customer satisfaction. None of this would be possible without the hard work and dedication of the Ace owners, their employees, and the employees of Ace Hardware Corporation. My sincere thank you to all of them.”

The 3.1 percent increase in retail same-store-sales during the fourth quarter of 2017 reported by the approximately 3,000 Ace retailers who share daily retail sales data was the result of a 3.4 percent increase in average ticket.

## Revenues

### Fourth Quarter

Consolidated revenues for the quarter ended December 30, 2017 totaled \$1.32 billion. Total wholesale revenues were \$1.23 billion, an increase of \$59.0 million, or 5.1 percent, as compared to the prior year fourth quarter. Increases were noted across all departments with power tools and paint showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2016 through December 2017 contributed \$19.3 million of incremental revenues during the fourth quarter of 2017, while wholesale merchandise revenues decreased \$8.0 million due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$30.0 million for the quarter. The Company's Ace Hardware International Holdings, Ltd. ("AIH") subsidiary and Ace Wholesale Holdings LLC ("AWH") subsidiary collectively contributed \$2.8 million of incremental revenue in the fourth quarter of 2017.

Total retail revenues for the quarter were \$89.4 million, an increase of \$25.0 million, or 38.8 percent, as compared to the prior year fourth quarter. Retail revenues from Ace Retail Holdings ("ARH") were \$67.8 million in the fourth quarter of 2017. This was an increase of \$3.4 million, or 5.3 percent, from the fourth quarter of 2016. The increase was primarily the result of new retail stores added since the fourth quarter of 2016. Retail revenues from Ace Ecommerce Holdings LLC ("AEH"), which was formed in the third quarter of 2017 for the acquisition of The Daily Grommet Inc. ("The Grommet"), were \$21.6 million in the fourth quarter of 2017.

### Fiscal Year

Consolidated revenues for fiscal 2017 totaled \$5.4 billion, an increase of \$262.9 million, or 5.1 percent, as compared to the prior year. Total wholesale revenues were \$5.1 billion, an increase of \$228.0 million, or 4.7 percent, as compared to the prior year. Increases were noted across all departments with outdoor living, power tools and lawn and garden showing the largest gains.

Wholesale merchandise revenues from new domestic stores were \$96.3 million in fiscal 2017. This increase was partially offset by a decrease in wholesale merchandise revenues of \$40.6 million due to domestic store cancellations. Wholesale merchandise revenues to comparable domestic stores increased \$98.0 million in fiscal 2017 compared to fiscal 2016. The Company's AIH subsidiary and AWH subsidiary collectively contributed \$47.7 million of incremental revenue in fiscal 2017.

Total retail revenues were \$297.2 million, an increase of \$34.9 million, or 13.3 percent, as compared to the prior year. Retail revenues from ARH were \$275.6 million during fiscal 2017, an increase of \$13.3 million or 5.1 percent. The increase was primarily the result of new retail stores added since January 2016. Retail revenues from AEH were \$21.6 million during fiscal 2017.

Ace added 152 new domestic stores in fiscal 2017 and cancelled 97 stores. This brought the Company's total domestic store count to 4,418 at the end of fiscal 2017, an increase of 55 stores from the end of fiscal 2016. On a worldwide basis, Ace added 236 stores in fiscal 2017 and cancelled 109, bringing the worldwide store count to 5,121 at the end of fiscal 2017.

## **Gross Profit**

### Fourth Quarter

Wholesale gross profit for the three months ended December 30, 2017 was \$135.8 million, an increase of \$1.8 million from the fourth quarter of 2016. The wholesale gross margin percentage was 11.1 percent of wholesale revenues in the fourth quarter of 2017, down from the fourth quarter of 2016 gross margin percentage of 11.5 percent. The decrease in the wholesale gross margin percentage was primarily driven by a favorable inventory adjustment in the fourth quarter of fiscal 2016 due to deflation that did not recur in fiscal 2017.

Retail gross profit for the three months ended December 30, 2017 was \$36.7 million, an increase of \$7.8 million from the fourth quarter of 2016. The retail gross margin percentage was 41.1 percent of retail revenues in the fourth quarter of 2017, a decrease from 44.9 percent in the fourth quarter of 2016. The decline in margin was primarily the result of the inclusion of lower margin revenues realized by AEH. 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.

### Fiscal Year

Wholesale gross profit for fiscal 2017 was \$624.3 million, an increase of \$29.3 million from fiscal 2016. The wholesale gross margin percentage was 12.3 percent of wholesale revenues in fiscal 2017, a slight increase from the fiscal 2016 gross margin percentage of 12.2 percent.

Retail gross profit for fiscal 2017 was \$130.0 million, an increase of \$12.2 million from fiscal 2016. The retail gross margin percentage was 43.7 percent of retail revenues in fiscal 2017, down from 44.9 percent in fiscal 2016. The decline in margin was primarily the result of the inclusion of lower margin revenues realized by AEH.

## **Expenses**

### Fourth Quarter

Wholesale operating expenses increased \$8.8 million, or 7.8 percent, from the fourth quarter of 2016. The increase includes higher payroll expenses from prior year changes to Company benefit policies, higher warehouse costs due to the network reconfiguration and a higher incentive accrual in 2017. As a percentage of wholesale revenues, wholesale operating expenses increased to 10.0 percent of wholesale revenues in the fourth quarter of 2017 from 9.7 percent of wholesale revenues in the fourth quarter of 2016.

Retail operating expenses increased \$9.4 million, or 38.2 percent, from the fourth quarter of 2016. This increase was primarily due to the inclusion of \$7.5 million of expenses incurred by AEH. The remaining increase was primarily due to expenses from new retail stores added by ARH since the fourth quarter of 2016. Retail operating expenses as a percentage of retail revenue decreased to 38.0 percent of retail revenues in the fourth quarter of 2017 from 38.2 percent in the fourth quarter of 2016.

### Fiscal Year

Wholesale operating expenses increased \$39.0 million, or 8.9 percent, in fiscal 2017 as compared to fiscal 2016. As a percentage of wholesale revenues, wholesale operating expenses increased to 9.4 percent in fiscal 2017 from 9.0 percent in fiscal 2016. The increase includes higher payroll expenses from prior year changes to Company benefit policies, a higher incentive accrual in 2017 and increased marketing and advertising expenses to support the Ace U.S. business.

Retail operating expenses increased \$16.1 million, or 16.3 percent, in fiscal 2017 as compared to fiscal 2016. ARH's retail operating expenses of \$107.6 million increased \$8.6 million, or 8.7 percent, in fiscal 2017 as compared to fiscal 2016. The increase was primarily driven by expenses from new retail stores added in 2017. The remainder of the increase was due to the inclusion of \$7.5 million of retail operating expenses from AEH. Retail operating expenses as a percentage of retail revenue increased to 38.7 percent in fiscal 2017 from 37.7 percent in fiscal 2016.

During fiscal 2017, the Company recorded warehouse facility closure costs of \$4.0 million related to the future closing of certain warehouse and distribution facilities.

### **Balance Sheet and Cash Flow**

Receivables increased \$14.8 million from the prior year end primarily as a result of higher trade receivables driven by an increase in sales.

Inventories increased \$36.7 million from the prior year end primarily due to higher seasonal inventories, increased inventories at ARH from new store acquisitions, and inventory from The Grommet. The increase in inventory was more than offset by a \$55.3 million increase in accounts payable due to higher inventory levels and the timing of payments.

Strong cash flow from operating activities of \$204.2 million was more than sufficient to fund capital expenditures of \$64.6 million, cash paid for acquisitions of \$57.5 million and cash patronage payments to retailers of \$58.7 million. Long-term debt, net of cash, was essentially flat to the prior year.

## **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**  
(In millions)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>December 30, 2017 (13 Weeks)</u>	<u>December 31, 2016 (13 Weeks)</u>	<u>December 30, 2017 (52 Weeks)</u>	<u>December 31, 2016 (52 Weeks)</u>
Revenues:				
Wholesale revenues	\$ 1,226.2	\$ 1,167.2	\$ 5,091.2	\$ 4,863.2
Retail revenues	89.4	64.4	297.2	262.3
Total revenues	<u>1,315.6</u>	<u>1,231.6</u>	<u>5,388.4</u>	<u>5,125.5</u>
Cost of revenues:				
Wholesale cost of revenues	1,090.4	1,033.2	4,466.9	4,268.2
Retail cost of revenues	52.7	35.5	167.2	144.5
Total cost of revenues	<u>1,143.1</u>	<u>1,068.7</u>	<u>4,634.1</u>	<u>4,412.7</u>
Gross profit:				
Wholesale gross profit	135.8	134.0	624.3	595.0
Retail gross profit	36.7	28.9	130.0	117.8
Total gross profit	<u>172.5</u>	<u>162.9</u>	<u>754.3</u>	<u>712.8</u>
Distribution operations expenses	37.8	31.8	147.7	134.7
Selling, general and administrative expenses	46.5	43.2	182.2	167.1
Retailer success and development expenses	37.8	38.3	149.3	138.4
Retail operating expenses	34.0	24.6	115.1	99.0
Warehouse facility closure costs	(0.2)	2.5	4.0	3.3
Total operating expenses	<u>155.9</u>	<u>140.4</u>	<u>598.3</u>	<u>542.5</u>
Operating income	16.6	22.5	156.0	170.3
Interest expense	(3.7)	(3.2)	(14.6)	(12.8)
Interest income	1.1	0.9	4.3	3.4
Other income, net	2.8	1.4	6.4	5.7
Income tax expense	(2.6)	(0.1)	(4.7)	(5.4)
Net income	<u>14.2</u>	<u>21.5</u>	<u>147.4</u>	<u>161.2</u>
Less: net income attributable to noncontrolling interests	<u>0.2</u>	<u>-</u>	<u>0.8</u>	<u>0.3</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 14.0</u>	<u>\$ 21.5</u>	<u>\$ 146.6</u>	<u>\$ 160.9</u>
Patronage distributions accrued	<u>\$ 18.2</u>	<u>\$ 21.3</u>	<u>\$ 155.5</u>	<u>\$ 157.9</u>
Patronage distributions accrued for third party retailers	<u>\$ 16.9</u>	<u>\$ 19.1</u>	<u>\$ 150.6</u>	<u>\$ 152.8</u>

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

	<b>December 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 23.0	\$ 16.8
Marketable securities	51.1	49.1
Receivables, net of allowance for doubtful accounts of \$5.8 and \$6.9, respectively	415.7	400.9
Inventories	777.5	740.8
Prepaid expenses and other current assets	41.5	42.4
Total current assets	1,308.8	1,250.0
Property and equipment, net	356.6	340.0
Notes receivable, net of allowance for doubtful accounts of \$5.4 and \$7.7, respectively	8.4	9.4
Goodwill and other intangible assets	90.7	35.8
Other assets	93.3	93.5
Total assets	\$ 1,857.8	\$ 1,728.7
<b>Liabilities and Equity</b>		
Current maturities of long-term debt	\$ 49.0	\$ 36.4
Accounts payable	685.0	629.7
Patronage distributions payable in cash	61.5	62.2
Patronage refund certificates payable	5.7	6.9
Accrued expenses	170.7	157.6
Total current liabilities	971.9	892.8
Long-term debt	173.0	178.4
Patronage refund certificates payable	82.5	60.9
Other long-term liabilities	69.5	63.3
Total liabilities	1,296.9	1,195.4
Member Retailers' Equity:		
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,722 and 2,726 issued and outstanding, respectively	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,412,989 and 4,132,170 issued and outstanding, respectively	441.3	413.2
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 488,858 and 523,158 shares issuable, respectively	48.9	52.3
Contributed capital	18.3	18.2
Retained earnings	33.2	37.2
Accumulated other comprehensive income	3.5	0.5
Equity attributable to Ace member retailers	547.9	524.1
Equity attributable to noncontrolling interests	13.0	9.2
Total equity	560.9	533.3
Total liabilities and equity	\$ 1,857.8	\$ 1,728.7

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

	<b>Twelve Months Ended</b>	
	<b>December 30, 2017 (52 Weeks)</b>	<b>December 31, 2016 (52 Weeks)</b>
<b>Operating Activities</b>		
Net income	\$ 147.4	\$ 161.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48.4	51.1
Amortization of deferred financing costs	0.5	0.5
Gain on the disposal of assets, net	(0.6)	(0.1)
Bad debt income	(0.8)	(0.8)
Warehouse facility closure costs	0.2	0.1
Other, net	0.4	(0.3)
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(31.3)	(43.7)
Inventories	(26.3)	(23.8)
Other current assets	1.3	2.7
Other long-term assets	(0.3)	2.4
Accounts payable and accrued expenses	55.1	61.8
Other long-term liabilities	8.3	4.9
Deferred taxes	1.9	1.2
Net cash provided by operating activities	<u>204.2</u>	<u>217.2</u>
<b>Investing Activities</b>		
Purchases of marketable securities	(4.3)	(6.5)
Proceeds from sale of marketable securities	5.4	5.1
Purchases of property and equipment	(64.6)	(70.8)
Cash paid for acquired businesses, net of cash acquired	(57.5)	(4.2)
Increase in notes receivable, net	(7.3)	(1.3)
Other, net	(3.5)	0.1
Net cash used in investing activities	<u>(131.8)</u>	<u>(77.6)</u>
<b>Financing Activities</b>		
Net borrowings (payments) under revolving lines of credit	2.6	(56.4)
Principal payments on long-term debt	(9.2)	(8.1)
Payments of cash portion of patronage distribution	(58.7)	(53.7)
Payments of patronage refund certificates	-	(9.9)
Repurchase of stock	(1.7)	(1.7)
Purchase of noncontrolling interests	(0.1)	(5.2)
Other, net	0.9	0.9
Net cash used in financing activities	<u>(66.2)</u>	<u>(134.1)</u>
Increase in cash and cash equivalents	6.2	5.5
Cash and cash equivalents at beginning of period	16.8	11.3
Cash and cash equivalents at end of period	<u>\$ 23.0</u>	<u>\$ 16.8</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 11.0</u>	<u>\$ 10.5</u>
Income taxes paid	<u>\$ 1.7</u>	<u>\$ 3.7</u>