

## PRESS RELEASE

#### ACE HARDWARE REPORTS RECORD SECOND QUARTER 2014 SALES AND PROFITS

- Record revenues of \$1.33 billion, an increase of 13.4 percent from last year
- Record net income of \$66.5 million, an increase of 57.2 percent from last year
- Launch of Paint Studio Drives Record May Retail Sales
- Consumers ranked Ace "Highest in Customer Satisfaction" for the eighth consecutive year according to J.D. Power & Associates

**Oak Brook, Ill. (August 13, 2014)** – Ace Hardware Corporation ("Ace" or the "Company"), the largest retailer-owned hardware cooperative, today reported total revenues of \$1.33 billion for the second quarter of 2014, an increase of \$157.0 million or 13.4 percent, from the second quarter of 2013. Net income was \$66.5 million for the second quarter of 2014, an increase of \$24.2 million or 57.2 percent from the second quarter of 2013.

"Companies our size and age do not grow double digits by accident," said John Venhuizen, Ace president and chief executive officer. "It's only through a thousand points of disciplined execution from great people that results like this occur."

"It's a privilege to work with such a dedicated and effective team," continued Venhuizen. "For 90 years now, we've taken a stand for the small, mostly family-run businesses who duke it out every day with many of the biggest, most well-funded companies on Earth. Our exceptional small business owners have once again generated record financial results by consistently delivering award winning service to their neighbors."

The 3,100 Ace retailers who transmit daily retail POS data enjoyed a strong quarter as well, with increased customer count and average transaction size which contributed to a 3.6 percent same-store-sales increase. For the first half of 2014, same-store-sales at these stores are up 4.2 percent.

#### Revenues

Consolidated revenues for the three months ended June 28, 2014 totaled \$1.33 billion, an increase of \$157.0 million, or 13.4 percent, as compared to the prior year quarter. Total wholesale revenues were \$1.25 billion, an increase of \$155.0 million, or 14.1 percent, as compared to the prior year quarter. Increases were noted in virtually every department with the paint, electrical, and lawn and garden categories showing the largest increases. The Company has remodeled and re-equipped over 3,300 stores as part of the new Paint Studio initiative which contributed meaningfully to second quarter wholesale revenues and record retail sales in May.

Wholesale merchandise revenues to comparable stores increased \$64.3 million in the second quarter of 2014. Wholesale merchandise revenues to new domestic stores activated in the 2013 and 2014 fiscal year periods contributed \$50.7 million in incremental revenues during the quarter, while wholesale merchandise revenues decreased \$9.5 million due to stores that

cancelled their membership in 2013 and 2014. Wholesale revenues from the Company's new Ace Wholesale Holdings ("AWH") subsidiary contributed \$47.5 million of the increase.

Retail revenues from Ace Retail Holdings ("ARH") were \$79.7 million in the second quarter of 2014. This is an increase of \$2.0 million, or 2.6 percent, from the second quarter of 2013 which resulted from increases across nearly all departments with lawn and garden and tools showing the largest increases. During the second quarter of 2014, same store sales at ARH were up 3.5 percent versus the prior year and are up 5.7 percent for the first half of 2014.

Ace added 43 new stores and cancelled 44 stores in the second quarter of 2014 for a net decrease in store count of 1. This brought the company's total global store count to 4,877 at the end of the second quarter of 2014, an increase of 136 stores from the second quarter of 2013.

#### **Gross Profit**

Wholesale gross profit for the three months ended June 28, 2014, was \$175.4 million, an increase of \$33.9 million from the second quarter of 2013. Wholesale gross margin percentage was 14.0 percent of wholesale revenues in the second quarter of 2014, an increase from 2013's second quarter wholesale gross margin percentage of 12.9 percent. The increase in the wholesale gross margin percentage was primarily driven by improved cash discounts and an increase in income received from vendors.

Retail gross profit for the second quarter of 2014 was \$35.3 million, an increase of \$2.4 million from the second quarter of 2013. Retail gross margin percentage was 44.3 percent of retail revenues in the second quarter of 2014, up from 42.3 percent in the prior year quarter. The increase in the retail gross margin percentage was primarily the result of a larger percentage of ARH's retail sales being product that was purchased at Ace's wholesale cost following the acquisition of Westlake Ace Hardware retail locations in December 2012.

#### **Expenses**

Wholesale operating expenses increased \$16.1 million, or 16.3 percent, for the three months ended June 28, 2014 as compared to the second quarter of 2013. The increase was primarily driven by additional operating expenses from the new AWH subsidiary and the timing of planned advertising expenditures. As a percentage of wholesale revenues, wholesale operating expenses increased from 8.9 percent of revenues in 2013 to 9.2 percent of revenues in 2014.

Retail operating expenses of \$23.8 million increased \$0.3 million, or 1.3 percent, in the second quarter of 2014 as compared to the second quarter of 2013. However, retail operating expenses as a percent of retail revenues decreased from 30.2 percent of revenues in the second quarter of 2013 to 29.9 percent of revenues in the second quarter of 2014.

Interest expense declined \$0.2 million, or 5.4 percent, in the second quarter of 2014 as compared to the second quarter of 2013. The decrease was a result of lower interest rates.

Income tax expense increased \$1.3 million in the second quarter of 2014 primarily as a result of higher non-patronage sourced income mainly from ARH and AWH.

#### **Balance Sheet**

Receivables increased \$115.9 million from the second quarter of 2013 as a result of increased revenues and AWH's acquisition of Emery-Waterhouse in the first quarter of 2014, which contributed \$24.5 million towards the increase. In addition, the Company offered additional retailer datings programs versus the prior year second quarter, which were largely driven by the Grand Opening of the Paint Studio in May.

Inventories increased \$72.5 million from the second quarter of 2013 to support the higher sales revenues and as a result of the acquisition of Emery-Waterhouse in the first quarter of 2014, which contributed \$29.1 million towards the increase. The Company also added Valsparbranded inventories to all of its Retail Support Centers. The increase in inventories was partially funded by a \$33.2 million increase in accounts payable.

As a result of these factors and consistent with the Company's operating plan to make investments in our retail stores and grow the paint business, the Company's outstanding debt increased \$91.4 million versus the second quarter of 2013 through borrowings on its revolving credit facility. In addition, the investments made by the Company since the second quarter of 2013 have also led to an increase in equity of \$60.6 million.

### About Ace Hardware

For 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 over 4,875 hardware stores locally owned and operated across the globe, Ace is the largest retailer-owned hardware cooperative. Headquartered in Oak Brook, Ill., Ace and its subsidiaries currently operate 14 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.

###

#### Contacts:

Shareholders'/Investors' Inquiries: William Guzik, Executive Vice President, Chief Financial Officer & Chief Risk Officer 630-990-3325, <a href="mailto:guzik@acehardware.com">guzik@acehardware.com</a>

#### Media Inquiries:

Kate Kirkpatrick, Corporate Communications & Media Relations Manager 630-990-1478, <a href="mailto:kkirk@acehardware.com">kkirk@acehardware.com</a>

# ACE HARDWARE CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, in millions)

	<b>Three Months Ended</b>		Six Months Ended	
	June 28,	June 29,	June 28,	June 29,
	2014	2013	2014	2013
	(13 Weeks)	(13 Weeks)	(26 Weeks)	(26 Weeks)
Revenues:				
Wholesale revenues	\$ 1,251.6	\$ 1,096.6	\$ 2,286.6	\$ 1,980.0
Retail revenues	79.7	77.7	123.4	117.5
Total revenues	1,331.3	1,174.3	2,410.0	2,097.5
Cost of revenues:				
Wholesale cost of revenues	1,076.2	955.1	1,992.1	1,739.0
Retail cost of revenues	44.4	44.8	67.4	66.4
Total cost of revenues	1,120.6	999.9	2,059.5	1,805.4
Gross profit:				
Wholesale gross profit	175.4	141.5	294.5	241.0
Retail gross profit	35.3	32.9	56.0	51.1
Total gross profit	210.7	174.4	350.5	292.1
Distribution operations expenses	30.3	25.7	57.2	49.8
Selling, general and administrative expenses	38.6	33.4	75.5	69.0
Retailer success and development expenses	46.0	39.7	72.9	69.0
Retail operating expenses	23.8	23.5	46.4	45.9
Retail support center closure costs		6.2		6.2
Total operating expenses	138.7	128.5	252.0	239.9
Operating income	72.0	45.9	98.5	52.2
Interest expense	(3.5)	(3.7)	(6.6)	(7.8)
Interest income	0.9	0.8	1.7	1.7
Other income, net	1.4	2.1	3.2	3.8
Income tax expense	(3.9)	(2.6)	(5.5)	(2.9)
Net income	66.9	42.5	91.3	47.0
Less: net income attributable to noncontrolling interests	0.4	0.2	0.4	0.3
Net income attributable to Ace Hardware Corporation	\$ 66.5	\$ 42.3	\$ 90.9	\$ 46.7
Accrued patronage distributions	\$ 56.5	\$ 37.2	\$ 85.4	\$ 47.4
Accrued patronage distributions to third party retailers	\$ 55.9	\$ 36.6	\$ 84.2	\$ 46.3

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

	June 28, 2014	December 28, 2013	June 29, 2013
Assets	(Unaudited)	(Audited)	(Unaudited)
Cash and cash equivalents	\$ 15.7	\$ 17.9	\$ 17.7
Marketable securities Receivables, net of allowance for doubtful accounts of \$10.0, \$9.3 and \$8.6,	55.4	53.8	53.7
respectively	487.3	335.9	371.4
Inventories	636.7	505.5	564.2
Prepaid expenses and other current assets	61.2	41.8	42.9
Total current assets	1,256.3	954.9	1,049.9
Property and equipment, net	324.1	324.7	318.1
Notes receivable, net of allowance for doubtful accounts of \$10.0, \$11.4 and			
\$13.6, respectively	21.0	21.2	27.4
Goodwill and other intangible assets	31.9	24.1	24.0
Other assets	76.0	63.6	60.0
Total assets	\$ 1,709.3	\$ 1,388.5	\$ 1,479.4
Liabilities and Equity			
Current maturities of long-term debt	\$ 39.8	\$ 23.4	\$ 37.9
Accounts payable	666.5	491.7	633.3
Patronage distributions payable in cash	34.3	39.9	18.9
Accrued expenses	145.8	165.9	126.5
Total current liabilities Long-term debt	886.4 290.1	720.9 178.6	816.6 200.6
Patronage refund certificates payable	38.2	28.4	26.3
Other long-term liabilities	65.8	66.3	67.7
Total liabilities	1,280.5	994.2	1,111.2
Member Retailers' Equity: Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,756; 2,764 and 2,754 issued and outstanding, respectively Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 3,495,681; 3,156,908 and 3,201,392 issued and outstanding,	2.8	2.8	2.8
respectively Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 326,665; 408,684 and 173,179 shares issuable,	349.6	315.7	320.1
respectively	32.7	40.9	17.3
Contributed capital	20.0	20.0	19.8
Retained earnings	13.1 0.9	6.3 0.3	0.6
Accumulated other comprehensive income (loss)		<del></del>	(0.2)
Equity attributable to Ace member retailers	419.1	386.0	360.4
Equity attributable to noncontrolling interests	9.7	8.3	7.8
Total equity	428.8	394.3	368.2
Total liabilities and equity	\$ 1,709.3	\$ 1,388.5	\$ 1,479.4

# ACE HARDWARE CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

(Unaudited, in millions)	Six Mon	ths Ended	
	June 28,	June 29,	
	2014	2013	
	(26 Weeks)	(26 Weeks)	
Operating Activities			
Net income	\$ 91.3	\$ 47.0	
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	24.7	22.6	
Amortization of deferred gain on sale leaseback	(0.6)	(0.6)	
Amortization of deferred financing costs	0.5	0.6	
Loss on the disposal of assets, net	0.4	-	
Provision for doubtful accounts	2.4	1.3	
Retail support center closure costs	-	6.2	
Other, net	0.2	0.2	
Changes in operating assets and liabilities, exclusive of effect of acquisition:			
Receivables	(158.5)	(85.2)	
Inventories	(103.7)	(6.5)	
Other current assets	(15.5)	2.0	
Other long-term assets	(16.1)	5.6	
Accounts payable and accrued expenses	135.3	109.7	
Other long-term liabilities	(0.3)	0.1	
Deferred taxes	(0.2)	2.5	
Net cash (used in) provided by operating activities	(40.1)	105.5	
Investing Activities			
Purchases of marketable securities	(8.4)	(7.5)	
Proceeds from sale of marketable securities	7.9	6.8	
Purchases of property and equipment	(19.6)	(20.0)	
Cash paid for acquired business, net of cash acquired	(32.9)	-	
Decrease in notes receivable, net	1.5	1.5	
Other	0.1	0.1	
Net cash used in investing activities	(51.4)	(19.1)	
Financing Activities			
Net borrowings (payments) under revolving lines of credit	132.7	(44.4)	
Principal payments on long-term debt	(8.2)	(10.6)	
Payments of cash portion of patronage distribution	(36.6)	(27.1)	
Payments of patronage refund certificates	(0.1)	(0.1)	
Proceeds from sale of noncontrolling interests	0.9	0.1	
Other	0.6	0.3	
Net cash provided by (used in) financing activities	89.3	(81.8)	
(Decrease) increase in cash and cash equivalents	(2.2)	4.6	
Cash and cash equivalents at beginning of period	17.9	13.1	
Cash and cash equivalents at end of period	\$ 15.7	\$ 17.7	
Supplemental disclosure of cash flow information:	<u> </u>		
Interest paid	\$ 5.2	\$ 7.3	
Income taxes paid	\$ 3.2	\$ 1.1	
meonie tanes paid	ψ 3.2	ψ 1.1	