



2015 ACE HARDWARE ANNUAL REPORT

“Our vision to be the best, most helpful hardware stores on the planet requires both a differentiated retail strategy and a world-class wholesale strategy.”

- John Venhuizen, President and CEO



A MESSAGE FROM THE PRESIDENT & CEO

Dear Ace Shareholders,

I'm honored to report that 2015 marked the best financial performance in Ace's history. We expect the team to operate this company as if they owned the place, for we believe that mindset is solid footing for good stewardship. We recognize that as shareholders, you have meaningful investments in your stores and in this company and our job is to improve the return you have in both.

To that end, I want to express my gratitude to the Ace team for delivering shareholders an impressive pre-tax return on equity of 33%.

CORPORATE PERFORMANCE

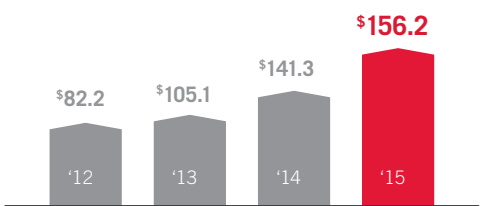
Our vision to be the best, most helpful hardware stores on the planet requires both a differentiated retail strategy and a world-class wholesale strategy. Generating profitable growth from these strategic efforts is primarily a function of our four growth pillars and the synergy we believe they create for the enterprise. While 2015 presented plenty of challenges and much for which we need continuous improvement, I'm pleased to report "best ever" sales and profit as a result of increases in each of our four growth pillars. On a consolidated basis, total revenue grew to \$5.05 billion, a 7.3% increase from last year. Excluding 2014's 53rd week and paint equipment for retailers, revenue increased 9.6%.

TOTAL REVENUE
(in billions)



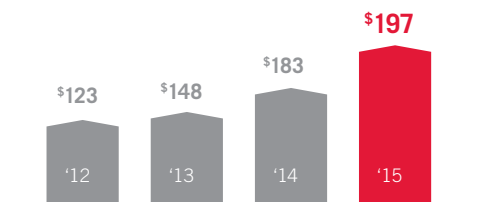
Consolidated net income increased 10% to \$156 million, fueled globally by 226 new stores and very strong domestic increases in retail same-store sales, up 4.6%. Same-store transactions increased 1.9%, the highest in 15 years and same-store retail gross profit grew 5.3%.

NET INCOME
(in millions)

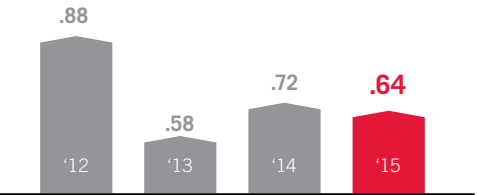


We will return an industry-leading dividend of \$146 million in cash, stock and notes. This comes in addition to the \$51 million in up-front dividends retailers received through lower cost of goods on STOP, Bulletin and LTL Plus merchandise. And with less debt and more equity, our sturdy balance sheet only improved.

TOTAL SHAREHOLDER RETURN
(in millions)



DEBT-TO-EQUITY RATIO



All four growth pillars are profitable and all increased revenue in 2015. A few highlights follow:

ACE RETAIL HOLDINGS

Total revenue for Westlake Ace increased 7.7%, while same-store sales grew 4.6%. Operating income (sans the one-time DC shutdown accounting) was \$12.3 million, a 13% increase from last year and more than double from just two years prior. I'm proud of the Westlake Ace team and believe the best is yet to come.

ACE INTERNATIONAL HOLDINGS

International revenue missed our budget, but grew 3% for the year. The bottom line benefitted from a one-time gain and exceeded budget with net income of \$8.8 million. The new management team is poised for further success.

ACE WHOLESALE HOLDINGS

Collectively, Emery-Waterhouse and Jensen Distribution grew revenue 6% to \$346 million, generated operating income of \$5.5 million and launched a new business we call Emery Jensen Distribution, establishing the largest national distribution network in the country.

In aggregate, the three non-cooperative growth pillars generated over \$19 million for Ace shareholders in 2015 above and beyond the profit they generated on their own P&Ls.

ACE HARDWARE DOMESTIC

In large measure, corporate success is entirely predicated on retail success. And last year, Ace retailers continued their impressive advance. Pinnacle retailers grew same-store sales 6.6% with average sales per square foot of \$239/ft. With little to no hubris, our local owners have successfully endured massive changes over the decades and have laced together quite the impressive run. Domestically, Ace retailers furthered their lead by delivering:

- Three years in a row of increased customer transactions
- Four years in a row of increased net new store growth
- Six years in a row of increased same-store sales
- Nine years in a row of being ranked highest in customer satisfaction by J.D. Power

In all of business, I'm not sure there is anything quite as special as the synergy that is created via the combination of two beautiful things: (i) the skill of locally embraced entrepreneurs and (ii) the scale of a globally trusted brand. May Ace always be the place for the best independent hardware retailers.

Of course, for Ace to be great it requires far more than just solid financial performance. Our aim is to make a distinctive impact in the neighborhoods we serve. Few in business do that better than the Ace team. In addition to countless acts of local benevolence, Ace raised over \$7 million for Children's Miracle Network, a 22% increase versus last year.

A look back offers much for which we can be encouraged. But I see no reason to pine for the past as our future is brimming with opportunity. We will continue to disproportionately invest in the strategic levees of *20/20 Vision* as the data overwhelmingly compels us to do so. If we resist our natural proclivities for credit, control or complacency and remain unified in purpose, disciplined in execution and embedded in service, I know our best days remain in front of us.

Thanks for making Ace the place with the Helpful Hardware Folks!



John Venhuizen
President & CEO

A MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear Fellow Ace Shareholders,

It was a great 2015 with many accomplishments!

We had record sales and profit, not only at Ace corporate, but many of us also had record years in our stores.

We also received a multitude of awards in 2015 that recognized everything from Ace's outstanding growth to the happiness of our employees. Here are some highlights from the past year that illustrate Ace's significance in the hardware and retail industry:

- Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores," nine years in a row, according to J.D. Power
- Ace ranked No. 2 on CareerBliss' list of "happiest retailers to work for in 2015"
- Ace ranked No. 24 on the National Retail Federation's *STORES Magazine's* Hot 100 List of the nation's fastest-growing retailers by year-over-year domestic sales growth
- Ace ranked No. 6 on the *Franchise Times* Top 200 List ranking of the fastest-growing franchise opportunities in the nation
- Ace was named "America's Favorite Home Improvement Store" by a Market Force study
- Ace Hardware ranked No. 3 in a customer survey by RetailCustomerExperience.com, outpacing all other home improvement stores

Our record sales and numerous awards aren't an accident — they're the result of a strategy that is working.

20/20 Vision is working. We are taking advantage of store model improvements, implementing projects to keep our stores fresh and up to date while also keeping existing stores in the Ace family. And, as a sure sign of a healthy company, we added 158 new stores domestically and 226 globally.

Our subsidiary businesses represent Ace's steady eye on future growth and opportunity and, in concert with 20/20 Vision, are important components of our overall strategy:

Ace Retail Holdings (Westlake) has not only grown sales, but operating income has increased 100 percent in two years.

Ace Wholesale Holdings (AWH) made solid progress during 2015 and we continue to realize significant cost savings for AWH customers and in our Ace stores.

Ace International Holdings (AIH) is making progress, granted at a slower pace than we would like to see. As we all know, it's a difficult time in much of the world, but our international business continues to make inroads.

The goal of all three of these companies is to defend and enhance our position with the competition, and to deliver an excellent long-term return on investment to our shareholders.

But, as our CEO John Venhuizen wrote in his letter, Ace is not content to focus solely on the bottom line; we realize we are a part of something much greater than ourselves, and that's the communities we serve. Something near and dear to many of us is our fundraising efforts around our main charity, Children's Miracle Network Hospitals. Through your passion, dedication and a healthy dose of competition, our stores' contribution increased 47%! Thank you all for your efforts; it's a proud accomplishment for all of us and our teams.

On behalf of the entire Board, thank you for a great 2015 and for being the best, most helpful hardware stores on the planet. Together, your Board of Directors, Ace leadership, and vendors will continue to work hard to honor our greatness as a company and ensure that you, our retailers, achieve the amazing promise and potential in each and every one of your stores.

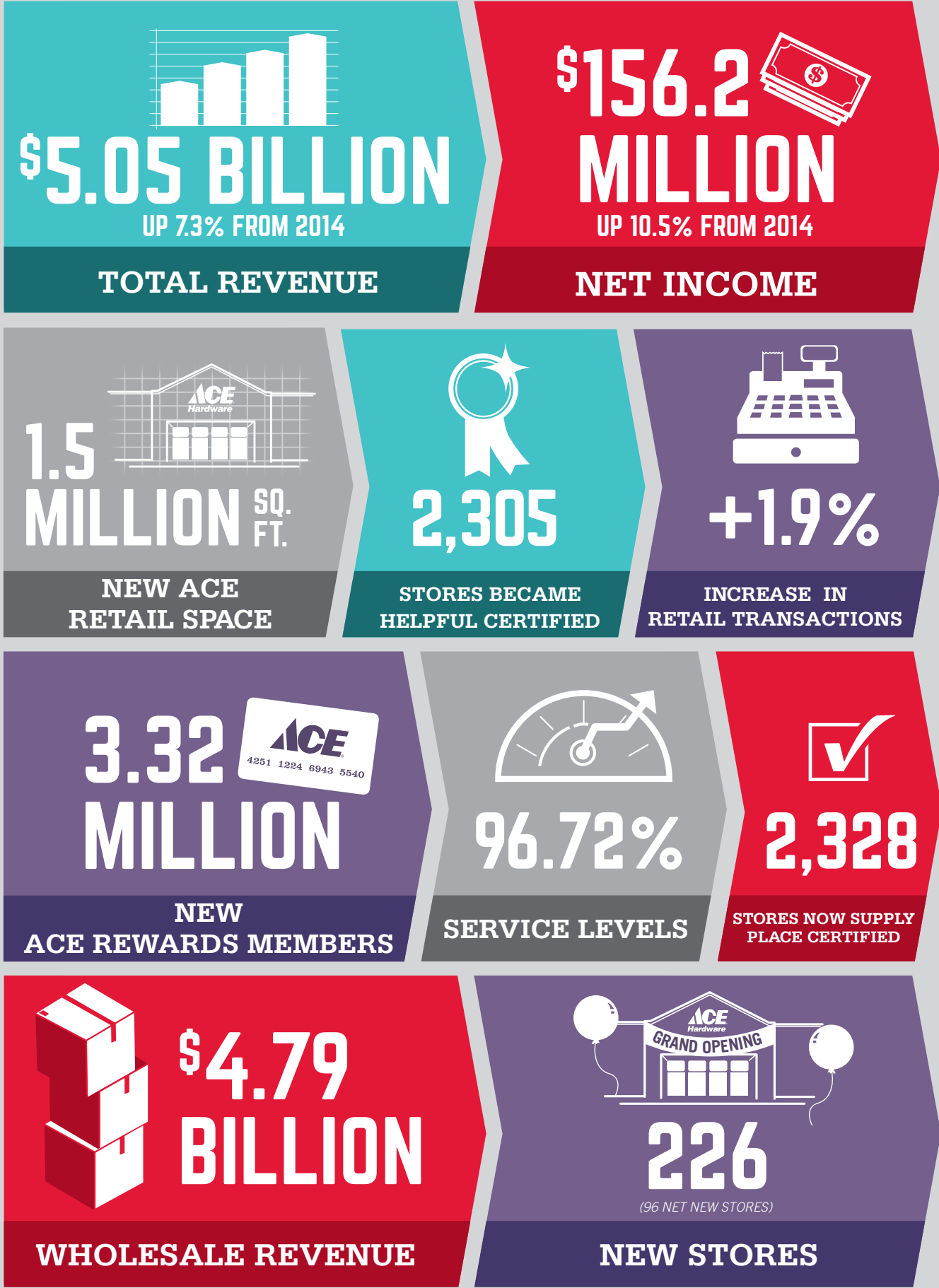
James W. Ackroyd



Jim Ackroyd
Chairman of the Board



2015^{IN} REVIEW





ACE SUBSIDIARIES CONTINUE TO GROW

The year 2015 was a period of exciting developments

and growth for our subsidiaries Ace Wholesale Holdings, Ace International Holdings and Ace Retail Holdings.

Ace Wholesale Holdings

Ace Wholesale Holdings focused on expanding its geographic footprint and customer base. By leveraging the best practices of both Emery-Waterhouse and Jensen, synchronizing the prices of thousands of SKUs, and winning business from customers currently served by other wholesalers, AWH has already started to achieve its many goals, including reduced cost of goods for Ace retailers.

“It was quite a year for AWH,” says Hoyoung Pak, President and General Manager of AIH. “We acquired Jensen at the beginning of the year, we grew our established businesses — Emery-Waterhouse and Jensen — by 6.3%, and we launched our newly formed division, Emery Jensen Distribution, to serve customers in the middle of the country. We have a strong foundation and leadership team to drive robust growth in 2016 and beyond.”

Ace International Holdings

Overseas, our merchandising teams at Ace continued to work with customers and manufacturers in different parts of the world to roll out assortments that are relevant to local consumers. “Doing the hard but necessary work of partnering with our customers to build regional customer-centric assortments is a big win for Ace,” says Jay Heubner, President and General Manager of AIH.

From a supply chain perspective, the network of Regional Distribution Centers located in China, Panama and the United Arab Emirates achieved a 30% sales increase and the Shanghai RDC was relocated to Ningbo to lower operating costs.

At the same time, the Ace brand has never had more global appeal. Licensees opened 68 new stores in 2015, bringing our total international store count to 579, operating in 60 countries. “The Ace brand is vibrant. People around the world see its value,” says Jay. “And they’re willing to invest to get it.”

Ace Retail Holdings

The only unique thing about the Westlake Ace chain, according to Tom Knox, President and

CEO, is that it’s not unique. “We have all the same challenges and opportunities as other Ace retailers,” he says.

For 2015, Westlake reported same-store sales growth of 4.6% and achieved over \$250 million in total sales, a record for the chain. Customer counts were up 1.3%, the average ticket increased by 67¢, and the chain’s Ace Rewards scan rate increased by 5%. In addition, they had great success with The Supply Place, generating more than \$15 million in B2B sales.

The chain also acquired five new stores and opened one new store, growing to a total of 91. Westlake continues to assess further opportunities to grow its chain in the years to come.

Different Paths Lead to a Shared Destination

While Ace Wholesale Holdings, Ace International Holdings and Ace Retail Holdings have their own unique missions and travel their own paths, ultimately these three key business units are working together for the same goal: helping Ace retailers grow and prosper, now and in the future.

RETAIL SUPPORT CENTERS BOOST GROWTH BY MAXIMIZING EFFICIENCY

When people think of Ace, the first thing they think of

is “helpful.” That helpful ideal extends to the support we give our retailers. In order to be the most helpful wholesaler, it’s crucial that we have the most responsive supply chain to meet retailer requirements.

Our Retail Support Centers have grown at an incredible rate over the years as we’ve experienced higher and higher volumes. This phenomenal growth has led us to constantly evaluate our RSCs, with an emphasis on how to best utilize their capacity and technology. In 2015, we enhanced our network planning and design tools, which will help us determine the best places to expand current facilities and build new facilities in the future. We’ll also be able to use these tools to pinpoint and prevent capacity issues, maximize existing space and improve inventory turnover.

Impressive new facilities,
cutting-edge technology,
and highly effective programs
helped deliver phenomenal
growth in 2015.

Ace opened two new RSCs in late 2014 and by early 2015, they were both fully operational. The new Wilmer, Texas, facility is now thriving in its role as an additional link in our supply chain. The new West Jefferson, Ohio, RSC covers territory previously served by our Toledo RSC, allowing us to reduce our costs while delivering higher, more efficient levels of service. In addition, we broke ground on the expansion of our RSC in Wilton, N.Y., that will take the square footage from 800,000 to 1.2 million when it’s complete.

Inside our RSCs, we implemented a hybrid picking system that brought together the best aspects of voice picking technology and scanning product UPCs. This combination of technology provides fast fulfillment of orders while maintaining high-quality delivery to retail. At the same time, we also introduced a new behavior-based program to heighten awareness of safe workplace practices and help ensure employees get home safely at the end of each day.

Impressive new facilities, cutting-edge technology, and highly effective programs helped deliver phenomenal growth in 2015. For 2016 and beyond, we’ll be putting these assets to work with a continued focus on proven core processes to drive supply chain performance to even greater heights.



LIGHTING THE WAY FOR A PROFITABLE FUTURE

Demand for LED bulbs is growing, and Ace has a dual strategy to stay ahead of the curve

For close to a hundred years after their invention, light bulbs were simply light bulbs; nothing about them changed. But the last few years have seen the market turned upside down as regulatory requirements and technological advances have taken this category in an entirely new direction. As a result, we're responding to these challenges with everything we've got. In 2015, we rolled out the latest strategies to "own" LED on both the consumer and B2B side of the business.

LED Bulbs for Consumers

In addition to being one of the biggest sales-producing categories for Ace stores, light bulbs are also one of the most profitable, so we knew it was vitally important to maintain the right product mix as we

gradually eliminated the standard bulbs customers had been buying for years. When we started this transition in 2012, Ace's LED bulb assortment consisted of eight SKUs and made up only 2% of light bulb sale dollars. This figure has grown steadily since then, rising to an astonishing 40% in 2015, when we rolled out our updated planogram with 140 LED SKUs and reset more than 3,000 stores. For customers, this update offers a level of convenience and variety that most big boxes lack and will continue to grow Ace's market share. We backed 2015's new assortment with competitive pricing, aggressive advertising, and dedicated end caps so stores could have a permanent home for LED.

These initiatives put Ace much further down the path than many of our competitors, but there's more to be done to solidify Ace's position as *the* destination for LED lighting and keep us out front in the category. "Ace is on a journey with this category and we're not at the destination yet. There is so much more to come," says John Essmann, Department Merchandise Manager for Electrical and Plumbing.

LED for Business

In 2015, we continued our large-scale planning effort, strategizing and developing tools to set the stage for a full launch of the LED for Business program in 2016. The strategy is based on a switch, sell and expand approach that captures immediate growth opportunities and builds sales annuities with existing business customers to continue growth. It starts by switching Ace stores to

LED lighting, saving retailers money through reduced lighting expenses and utility rebates. Once a retailer has completed their store's retrofit, they're armed with the tools and experience they need to sell LED retrofits to their small business neighbors and help them save money. This opens the door to sell them products to maintain their businesses and expand the relationship.

In 2015, we performed savings estimates for more than 1,000 Ace stores. Retailers were thrilled to discover they could save thousands on their lighting expenses. They were equally excited to convert their stores into LED showrooms, making them valuable marketing tools to help them sell retrofits to local businesses and establish long-term B2B relationships. We made the actual sales process as simple as possible, with standardized procedures that result in a near

turnkey approach, and a savings calculator app that allows our retailers to wow potential customers with the incredible savings available to them.

To support the program, Ace provided district managers with in-depth training on both LED technology and the sales process, plus tools to coach and support retailers selling LED for Business. "The training and investment that Ace has made has the potential to pay huge dividends for years to come," says Bruce Rohm, Corporate Manager of Business to Business. "There is no better way to extend Helpful to our small business neighbors than helping them reduce operating costs with lower lighting bills. It helps build a solid foundation of trust that will open up additional growth opportunities for our retailers."

"Ace is on a journey with this category and we're not at the destination yet. There is so much more to come!"

- John Essmann
Department Merchandise
Manager for Electrical and Plumbing

B2B SALES SHINE EVEN BRIGHTER WITH THE LED RETROFIT PROGRAM



NOBLESVILLE ACE HARDWARE Noblesville, Ind.



Be the
Supply
Place

Pat and Alison Deary were looking for a way to grow

their B2B sales when they headed to the Ace convention in fall 2015. While they were there, they learned about Ace's new LED retrofit program and it was as if a light bulb had gone on over their heads. "I said, 'Wow, this is big,'" recalls Pat. Noblesville Ace was already Supply Place certified, with a thriving B2B business, and the Dearys saw the fantastic sales opportunity the LED retrofit program presented their existing B2B customers.

Pat and Alison started their strategy by converting their own store to LED so they could utilize it as a showroom for the program. It was a sales tool that had the added advantage of saving them \$4,800 a year on their own utility bills. With all the support available from Ace, the Dearys were able to create a custom sales package to bring to each potential customer and used Ace's energy savings calculation tool to figure out the savings the customer could expect. "People are so interested in hearing about the energy savings and the money they're wasting with standard bulbs," says Alison.

The Dearys first brought the proposal to one of their longtime B2B customers. They crunched the numbers and discovered the customer would save \$2,489 in the first year with the rebate, and \$900 each year after, on an investment of \$4,800. Needless to say, the Dearys closed the deal. "It was our first sale, and we cleared a profit of around \$2,000 with an investment of 10 to 15 hours of our time," says Alison. "It's a great return."

**"There have to be hundreds
of opportunities for us."**

The overall potential for sales in their area is huge. "There have to be hundreds of opportunities for us," says Pat. "We're talking to our local hospital, and there's all their other buildings, the doctors' offices and clinics." They have other proposals in the works with local B2B customers.

The Dearys are proud to be one of the pioneering retailers for the program. "It's so exciting," says Alison. "We can't go anywhere now without counting the bulbs they have. Every business is an opportunity." Pat agrees. "We were at a Christmas party, and while everyone was having a good time, I was

figuring out how many bulbs I could replace for them," he laughs.

Not only has the LED retrofit proven to be lucrative on its own, but it's also driving up the store's Supply Place sales as a whole. "It gives us a foot in the door. Our B2B sales have been up about 21% so far this year over last year," says Alison. "We haven't seen anything this exciting cross our path for a really long time."



Ace Hardware received the highest numerical score among retail stores in the proprietary J.D. Power 2007–2015 Home Improvement Retail Store StudiesSM. 2015 study based on responses from 2,994 consumers measuring six stores and opinions of consumers who purchased a home improvement product or service within the previous 12 months. Proprietary study results are based on experiences and perceptions of consumers surveyed January–February 2015. Your experiences may vary. Visit jdpower.com



HELPING CUSTOMERS IN ABSOLUTELY EVERYTHING THEY DO



HOMETOWN ACE HARDWARE Gloucester, Mass.



Fulfill
the Helpful
Promise

The path to success is clear for Hometown Ace Hardware

in Gloucester, Mass., thanks to its adoption of Ace's 20/20 Vision growth strategy. Store owner Jay Smith describes it as the guide to running his business.

Jay and store managers Michelle Grant and Robin Gaston make the most of every resource Ace offers to guarantee customer satisfaction, achieve growth targets and work towards Pinnacle status. Hometown Ace customizes training for each employee using online Ace LearningPlace courses. The store is also Helpful 201 certified. "The process has really paid off," says Michelle. "Our employees have a better understanding of what they're supposed to be doing, and that has been huge in terms of making them a success."

Michelle and Robin make a point of leading by example. "We're happy to jump on a register, whatever is required at the moment, whatever it takes to help the customer," says Robin. "Our employees see Michelle and I are doing exactly what we've asked them to do, and they pick it up." Jay is quick to agree. "Our managers really walk the walk and talk the talk," he says. "They're right here on the floor doing what's expected of everybody else."

The team keeps the store merchandised with the latest resets and has a 77% Discovery Acceptance rate. "We always want to keep our inventory current so the store doesn't start looking old," says Robin. "We'll see what our customers are looking for in terms of resets too."

"We're happy to jump on a register, whatever is required at the moment, whatever it takes to help the customer."

Another part of the Helpful Promise, according to Jay, is being involved in the community. The store participates in community events, like entering a float in the local Fourth of July parade, which has the added benefit of creating a valuable marketing opportunity. "Last year, we gave out \$5 coupons," says Jay. "This year it was 4,000 Ace paint T-shirts. It's a great use of advertising dollars." Hometown Ace also supports CMN Hospitals, gives out Christmas trees to needy families, and sponsors many local organizations.

Following their customized growth plan through 20/20 Vision has paid off nicely for Jay's store. "We've always got to evolve," says Jay. As a result, business has boomed, and

customers love the store, its merchandise and its fun vibe. "I'll be out somewhere and someone will come up and say 'I went to your store and it was so nice, everyone was so helpful. You've got great people,'" says Jay. "I hear that all the time. It's wonderful."





SPICEWOOD ACE HARDWARE AND BREED & CO.

Spicewood and
Austin, Texas



Invest
in the
Brand

OPTIMIZING INVENTORY AND BEST PRACTICES LEADS TO SUCCESS

Dave Barker was wrapping up a successful career as

a divisional vice president for a value retail chain. As retirement loomed, Dave and his wife, Mahin, decided they wanted to put everything they had learned over the course of their careers into a business of their own. This desire brought them to Ace.

Ace was more than ready to do business, and soon Ace and the Barkers found an opportunity that seemed just right, close to the Barker's home in Spicewood, Texas, outside of Austin. In late 2013, they opened Spicewood Ace Hardware.

**“When you invest in people,
they invest in you.”**

Dave has helped drive sales by taking advantage of all the initiatives Ace has to offer. He takes Ace Rewards particularly seriously. Cashiers at Spicewood Ace ask every customer for their Ace Rewards card — even Dave and Mahin. This has resulted in Spicewood collecting more than 1,500 email addresses for Ace Rewards, and brought their scan rate up to an impressive mid-50% range.

Training has also played an important part in Dave's game plan. Dave and Mahin started with an Ace business coach, then ran the store themselves, open to close, for the first three months so Dave could teach his employees exactly how things should be done.

This hands-on training was augmented by the resources Dave and his team found on ACENET, which they describe as “incredible.”

The Spicewood store proved to be a big success, but Dave's proudest moment was yet to come. Breed & Co., a beloved Austin institution and local seller of premium housewares, lawn and garden, and hardware, was coming up for sale. Already part of the Ace organization as an independently branded retailer, the founders wanted to keep their stores in the Ace family. Their district manager immediately thought of Dave and decided Breed & Co. would be a perfect fit. When the Breed family saw Spicewood Ace and met Dave and Mahin, they gave the deal their blessing. The Barkers started off by resetting the downtown Breed & Co. store at night so the store could continue to serve the community during the day, and despite the construction, the store reported no loss in sales, which have gone on to grow considerably.

For Dave, it all comes back to building and maintaining relationships, within the community and with his employees, and relying on the support he gets from Ace. He hires the right people and develops them through the right Ace training. “When you invest in people,” says Dave, “they invest in you.”



INVESTING IN THE COMMUNITY PAYS DIVIDENDS FOR NEWBERG ACE



NEWBERG ACE HARDWARE

Newberg, Ore.



Enrich
the
Assortment

Tucked away in small-town Oregon, Newberg Ace has

little local competition — no big boxes, no other hardware stores, just a farm and ranch store run by another co-op. Owners Mark and Betty Vergets saw this as a unique opportunity to grow their business and better serve the community they call home.

The Vergets' store was 10,000 square feet and it was "bursting at the seams," according to Mark. It was performing well, but Mark and Betty, always looking to the future, saw the potential for growing their business as the community grew. To do that, they needed to expand, and that's where Ace came in.

Working hand-in-hand with Ace, the Vergets doubled the size of their store to 22,000 square feet. They brought in a home decor section "that rivals anything else in this area of

Oregon," plus upscale housewares and Western clothing to appeal to female shoppers. The expansion made plenty of room for updated product assortments for hot-selling categories like plumbing, cleaning supplies, and paint. "We're all starting to understand the importance of doing resets," says Mark. He's grateful for the guidance he and Betty received in this aspect of the business, for as he freely admits, "Ace knows more than we do." The store also brought in an Amy Howard paint assortment, trained the staff to sell it and conducted workshops for customers to teach them how to use it.

Ace's Helpful 101 and 201 training programs have proved to be a valuable tool for Newberg Ace as well. "We use 101 as a pre-employment test," says Mark. Potential employees have to score 80% or better to be considered for the job. "We can teach skills, but you can't teach people to want to be helpful," says Betty.

And it's helping the community that remains the primary driving force for Newberg Ace. Besides meeting their customers' needs, "we give back to the community," says Mark. Betty works with the local chamber of commerce and assists with community events. The store sponsors baseball teams, supports charitable organizations, and has donated paint and plumbing products to Habitat for Humanity, along with under-sink and toilet repair items, faucets, switches, and light fixtures.

"The benefits this community focus has provided for our business simply can't be counted."

The community, in turn, supports Newberg Ace, resulting in strong sales that culminated in an increase of 31.9% for 2015. "The benefits this community focus has provided for our business simply can't be counted," Mark says. Working together with Ace helped make it all possible.





CBS HOME EXPRESS

Coushatta, La.



Invest
in the
Brand

SEEKING OUT UNFULFILLED NICHE LEADS TO GROWTH

When CBS Home Express owners John and Terry Paul

bought their Ace-branded lumberyard in 2004, they realized its huge potential and made it their mission to reinvent their new business.

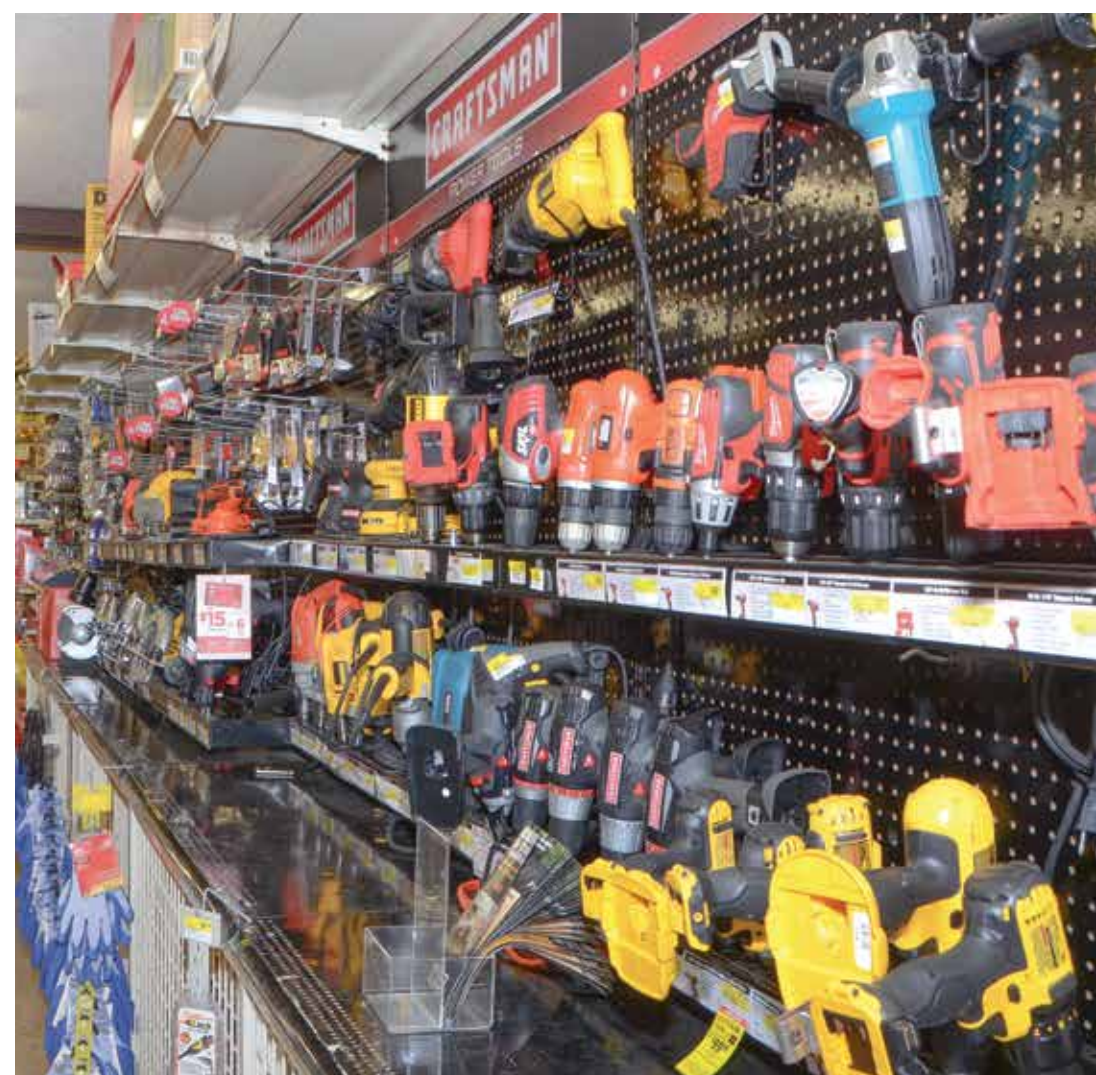
They knocked out the wall that separated the store from the small warehouse attached to it, expanding square footage to 15,000 so John could stock larger quantities for his business customers. Then, they updated product. John relies on Ace for the right mix of merchandise and always stocks the latest resets, including key categories like plumbing, paint, electrical, appliances and Craftsman. "I can get the right product mixes and not be out a lot of money trying to figure it out on my own," says John.

"We are the go-to place."

Next, John and Terry brought in Ace Rewards to grow their already considerable business with local contractors. "Terry really pushes it," John says, and the result is an impressive 65% scan rate. Commercial customers love the program, because along with a discount for their business, their purchases generate rewards they can use personally. "They get something back that they can spend on themselves and they're very excited about it," John says.

Being located in small-town Coushatta, La., John realized he was going to have to go the extra mile to grow his business. So, he went out and identified underserved niches. "When I bought the store, pool supplies sold \$1,700 that year. So I got the pool test system through O-Ace-sis, an Ace vendor that spent time training my employees. We started testing and the next year we sold \$25,000 in pool chemicals." John also started stocking supplies for the local oil field and area farmers. When a local pharmacy with a popular gift department closed, John jumped in to fill the void. "We went to the gift mart at the Ace show and ended up making a large gift section in the middle of our store," he says. "Now we're getting a lot of female shoppers too." The Pauls brought in plants from Ace's live goods program and used underutilized outdoor space to display generators, patio sets, fountains and outdoor decor.

Tapping in to the potential of the Ace brand and its programs, products and services has been one of the primary forces driving John and Terry's success. With Ace's support, they transformed their store into an essential part of the community, tripling sales from \$1.7 million annually to \$4.8 million in the process. In Coushatta, "We are the go-to place," says John.



ACE



TEAMING UP WITH THE RIGHT PARTNER MAKES A BIG DIFFERENCE



GREER'S ACE HARDWARE

Mobile, Ala.
Quitman, Miss.



Fulfill
the Helpful
Promise

Jack and Robert Greer were looking for a way to grow their 100-year-old regional chain of grocery stores, Greer's, and teaming up with Ace seemed like the right solution. They liked what they saw at Ace, and were impressed by the support offered to retailers. Most of all, Ace's culture of Helpful dovetailed nicely with Greer's philosophy of always putting customers first.

A partnership was struck, and together they settled on a Greer's in Mobile, Ala., where they created a dedicated Ace department in the center of the store. "Ace came up with a plan, we integrated it into our supermarket, and it's done well," says Jack.

The centrally located department funnels grocery customers through the hardware aisles and helps integrate complementary grocery departments with their Ace counterparts. Merchandising teams from both sides work

together to create product lineups. "There are so many dual merchandising opportunities," says Jack. Ace's pricing keeps the store competitive with big boxes. "Ace is now another great department that enhances what we already carried," says Jack. "And it's a high-gross department at that, compared to groceries."

Thrilled by this success, Robert and Jack decided to take things up a notch with the next store. One of their smaller locations had a vacant retail space next door, and they decided this time their best option would be to expand their store and give Ace even more room. They tore down the wall between the two spaces and created an open floor plan so customers could easily shop both grocery and hardware.

To get employees familiar with their new department, Greer's once again relied on Ace for support. They sent key staff members to

Ace's corporate headquarters, for training on strategies and systems, and made sure store staff got online training through Helpful 101 and 201, a practice they continue.

The results speak for themselves. Sales are up, and customers love the convenience of having an Ace Hardware right in their favorite grocery store. "It's a key point of difference from our competitors," says Jack, "and it gives us the edge against other grocery stores."

Robert and Jack have big plans for Greer's future with Ace. They'll be opening a third Ace at their new Bay Minette, Ala., store in the spring of 2016 and intend to bring Ace into even more of their stores. They also plan on further developing their fledgling B2B business by supplying local organizations with Ace merchandise. "We're excited," says Jack. "The Ace people are great, their culture's great and it makes a great fit with ours. That pretty much sums it up."

"Ace came up with a plan, we integrated it into our supermarket, and it's done well."



EXCELLING AT CUSTOMER SERVICE SERVES THEIR BUSINESS WELL



HAYNES ACE HARDWARE Conway, Ark.



Fulfill
the Helpful
Promise

Todd Haynes, owner of Haynes Ace Hardware in

Conway, Ark., built his business on a simple foundation: delivering the very best customer service he can, at a level no one else can match. “What sets us apart from the competition is that we do everything we can to treat customers like valued guests and make them a part of our family,” he says.

To guarantee this happens, store manager Mary Pollock immediately puts new hires through Helpful 101 and 201 training. “We teach our employees that the priority of helping the customer is number one,” she says. Mary then keeps the employees’ knowledge up to date by making sure someone is always taking advantage of the online training Ace provides.

This idea of constantly updating knowledge and skills applies to the store owner and managers as well. “You might think you’re smart, and then you talk to other people and figure out you still have lots to learn,” Todd says. He networks with other Ace retailers in Arkansas to swap ideas and find out what works and what doesn’t. “Ace owners are truly helpful,” he reports, “and they’re always happy to help other store owners.”

Todd and Mary reinforce this helpful philosophy by empowering their store associates to do whatever it takes to help the customer. “If employees can’t get an answer from somebody and they feel they know the right thing to do, they’re empowered to do it,” says Todd. “We have competition send people to us because they can’t always serve their customers the way we do; they’re not allowed to think out of the box.”

“We teach our employees
that the priority of helping the
customer is number one.”

To make sure employees are always performing up to the standard he expects, Todd uses Ace’s Mystery Shop program to evaluate their helpfulness. The feedback has consistently been positive, with scores at 90% or better. Shoppers reported Haynes Ace employees were creative in solving their problems and making recommendations. Customers make similar comments.

“I hear it all the time,” says Todd. “Customers will say, ‘I just love it here; your people went above and beyond.’” Mary adds, “We’ve got a lot of regular customers who’ll come in just to visit. That’s one of the things we all like the most.”

This excellent service and friendly, family atmosphere has resulted in sales and profits increasing year-over-year for the last eight years. “We’re always discussing how we can improve and what we have to do to have a better next year,” he says. “We’re not at the top yet; we’re still climbing.”





MARK'S ACE HARDWARE Tucson, Ariz.



Enrich
the
Assortment

HOME-GROWN EXPERTISE BRINGS SUCCESS

For Mark Rios, working for Ace has been quite a

learning experience. Literally. He was just 19 years old when he walked into a local Ace store looking for a job. "When I applied, I didn't know a Phillips from a slotted screwdriver," laughs Mark. "I started out mopping the floors."

Thanks to hard work and dedication, Mark found himself quickly moving up the ladder, eventually working his way up to general manager of a chain of Ace stores in Tucson, Ariz. But Mark was eager to take everything he had learned and apply it to running his own business. "I kept hammering away at the owner (of the chain) to sell me one of his stores," Mark recalls. "Finally, he said 'let's do it,' so I ran to the bank, took out a big loan and here I am."

He figured out early on that the key to coming out on top was to do everything he could to differentiate his store and make it stand out from the competition. First, he refreshed his store, bringing in new products the store hadn't sold before. "The resets have been huge," says Mark. "You can't let things get stale. You've got to change it, rotate in new endcaps, put fresh displays up, keep it fresh and fun." He also worked with Ace to develop a regionalized mix for categories like plumbing. The latest signage and store decor is always in place to give his store a distinct

and unique look. The store is also Supply Place certified, which has helped Mark's Ace land several large commercial contracts.

Success, however, doesn't rely on product alone. "The people aspect is a huge thing," says Mark. "We have a great mix of people, with the right personalities and right energy levels." He uses Helpful 101 and 201 to help reinforce to his employees his core philosophy, which he calls CFD — the Customer-Friendly Decision. "We empower our associates to make their own customer-friendly decisions without consulting a manager." That could mean giving a 10% discount on a product with damaged packaging or taking the customer's word on a price-matching request. "That's the key thing that we stress to our employees — make the customer happy."

"We empower our associates to make their own customer-friendly decisions without consulting a manager."

The results have been amazing. Mark's Ace has had sales increases for 34 consecutive months and counting, and posted record bottom-line profit dollars for the first three quarters of 2015.



CONVERSION KEEPS STORE MOVING FORWARD

FOSTER ACE HARDWARE Mariposa, Calif.



Foster Ace Hardware started out as part of another co-op.

“My father, Troy Foster, retired and moved here to Mariposa in 2005, where he bought the store to keep busy,” says daughter and store co-owner Melissa Swank. “He calls it his retirement, but he loves this store so much he’s probably here more than he was at his last job.”

Over time, father and daughter decided that to take the store in the direction they wanted it to go, a new co-op partner might better fulfill their needs. They had been in discussions with Ace, but they didn’t make a decision until Melissa and the store manager attended an Ace convention. They were blown away by what they saw there and immediately called Troy back home. “We called him up and said ‘Why haven’t you decided already? Say yes!’” remembers Melissa. “And that was pretty much how everything happened.”

Throughout the conversion, Ace corporate was there to assist. “Paint was our biggest concern,” says Melissa. “It was always our biggest seller, and we didn’t want to disappoint our customers.” With Ace’s help, they didn’t.

The next hurdle Troy and Melissa had to face were the space constraints of their 3,000-square-foot store. “Dad really wanted to build something bigger to serve the community,”

says Melissa. The two ended up expanding the store next door. Troy and Melissa worked with an Ace project management team that developed a floor plan, installed fixtures, and merchandised their new space with a bigger, more diverse selection of products. After months of hard work, the store celebrated its grand opening in October 2015.

“We’re grateful Ace has everything we need.”

Foster Ace Hardware now comprises nearly 15,000 square feet and has seen huge sales growth thanks to the expansion. Paint, Craftsman and a new Stihl lineup have all proven to be big hits, and customers have been overjoyed with the new store. “They embrace us, and they’re so happy with the expansion,” says Melissa. “We have people say ‘Wow, I can buy all my Christmas presents here this year,’ and ‘You guys carry such a big variety of stuff now, I don’t have to go out of town.’”

Melissa feels it’s all been possible thanks to their partnership with Ace. “We’re grateful Ace has everything we need,” she says. “As a business, you have to progress, and I feel Ace is the best company to move forward with.”

BUILDING BUSINESS THROUGH B2B

PELLICCI ACE Farmington, Eagan, and Zumbrota, Minn.



If you’re looking for B2B best practices, look no further

than Pellicci Ace. They’ve achieved their success by making the most of Ace’s Supply Place program.

According to Mark Pellicci, owner of Pellicci Ace, B2B makes up 25% of his stores’ total sales. Mark attributes this to his philosophy of investing in people, training and maintaining a relevant product assortment.

It all starts with Ace’s lineup of paper goods. “Paper products are our stepping stone to get into a business,” says Mark. “Everybody uses them.” Once they get a foot in the door, the store builds sales with other in-demand products such as cleaning supplies, shovels and ice melt.

Corporate training and support programs play a key role as well. “Ace has been very helpful,” says Mark. “There are some really good things out there, like TheSupplyPlace.com. We use it and encourage our customers to use it.”

Of course, products and programs are only part of the equation. A personal touch and helpful attitude make a difference, too. That’s where Mark’s dedicated B2B salesman, Josh Solinger, comes in. “He’s out pounding the pavement every day, checking for leads, looking

for new business, dedicating himself 100% to new sales and building the accounts we already have,” says Mark.

One of Josh’s strategies is to go on-site at customer locations to take orders. “I’ll go in and drop off a business card and say, ‘If there’s anything I can help you with, let me know.’” While he’s there, Josh can assess the customer’s needs and uncover opportunities for additional sales.

“At the end of the day, it’s all about people.”

Mark and Josh are always looking for new and innovative ways to expand the store’s B2B sales even further. Their latest plan is to start providing LED conversions to local businesses through Ace’s LED retrofit program. “I think that’s a huge opportunity for us, and I’d really, really like to see that take off,” Mark says.

Pellicci Ace also maintains a high profile in the local community. Josh is vice president of the downtown business organization, and Pellicci Ace works with the organization, side by side with other businesses, on community events. Pellicci Ace gets a fair share of B2B business through the relationships and positive PR that results from their community involvement.

While TheSupplyPlace.com and Ace’s other tools, programs and products are fantastic resources for Pellicci Ace, and a major factor driving their success, “at the end of the day, it’s all about people,” says Josh, “coming through on what you say you’re going to do, and taking care of people.”

If there is anything
I can help you with,
let me know.



PROVEN PROGRAMS CREATE A ROADMAP FOR GROWTH



ACE HARDWARE Philippines



Enrich
the
Assortment

There are few retailers out there capable of achieving the incredibly ambitious goal of opening more than 100 stores in the next five years. Few, that is, apart from Ace Philippines. They're a force to be reckoned with as they pull out all the stops to aggressively grow their business. They ended 2015 with over 13 new stores, all while working towards renovating, refurbishing and stocking the latest assortments in their 110 existing stores.

Their recipe for success boils down to what VP for Operations and Merchandising Bernard Ong calls "The Big 7": a strategic plan that Ace Philippines developed in partnership with Ace corporate. The Big 7 encompasses seven diverse projects, from strengthening the Ace brand and launching Ace Rewards, to store upgrades, store openings, and a merchandising strategy that highlights Ace-branded products.

To help ensure their growth plan is carried out effectively and efficiently, Ace Philippines looked at how Ace does business in the United States for guidance. "If it works, we use it," says Bernard. "We leverage existing proven frameworks when it makes sense." That includes mirroring Ace's consumer research methods, bringing Ace Rewards on board to take advantage of the data analytics, and using other best practices for store layout.

Some of Ace Philippines' strategies involve putting a local spin on a tried-and-true business plan imported from the United States. Ace Philippines is rationalizing brands and products to eliminate redundancies and align each store's product mix to a "good, better, best" strategy. In response to local market conditions, however, Ace Philippines has taken the additional step of positioning the Ace brand as a mid-range offering, a step below the global brands, but a

step above low-priced local or Chinese brands. Merchandising teams in both the Philippines and the United States have also worked together to build optimized, market-specific assortments and broaden the availability of the Ace quality promise in the Philippines. Ace now ships 22 new brand categories to the Philippines, and these specially developed products have helped grow their business with Ace International 78% year-over-year.

Training also plays a big part in moving Ace Philippines forward. Bernard has a simple plan to make this happen: formal training for all through Helpful 101 and 201. As a result, Ace Philippines certified six stores simultaneously — a first among Ace International partners.

Bernard says Ace Philippines strives for constant innovation: "If something works, it's good for a year. If it's outstanding, it's good for maybe three years. After that, you need

something new. The customer is always moving ahead faster." The end result is a rate of growth and market success that keeps getting better.

"If it works, we use it. We leverage existing proven frameworks when it makes sense."



YET ANOTHER RECORD-BREAKING YEAR FOR THE ACE FOUNDATION

A double-digit increase is tough to achieve — especially in fundraising — but the Ace Foundation did it again with a 22% increase, raising a record-breaking \$7.12 million for Children’s Miracle Network Hospitals in 2015. This incredible feat was made possible through the hard work and dedication of Ace retailers, store associates, vendor partners and corporate employees who once again have demonstrated how truly committed they are to being “Ace Helpful.”



Retailers see sweet success by fundraising with World’s Finest Chocolate

For the first time, retailer fundraising accounted for the largest portion of the total amount raised at an astounding \$3.07 million. Helping to lead the charge was an ingenious initiative proposed by an Ace retailer in Brooklyn.

Matt Mazzone, owner of Mazzone Ace Hardware, and his store manager, Liz, came up with the idea of raising funds by selling something right at the register that no customer could resist. And what would that irresistible item be? Why, chocolate, of course! Matt had recently sold a box of World’s Finest Chocolate for a fundraiser that Liz’s daughter

was involved in, and he thought to himself, “Why can’t I do this for my CMN Hospital?” He contacted the Ace Foundation, tested the concept with a few stores in his market, and it turned out to be a game changer. One year later, it’s been our fastest-growing, most popular promotion of 2015, exceeding everyone’s expectations. Part of the success was due to how easy Ace made the program for its retailers. The donation is built into retailers’ cost of purchase — when they order their boxes, 48¢ of every bar goes right to their local CMN Hospital.

Once the ball was rolling, more and more retailers jumped on board, resulting in the participation of more than 1,700 stores. Together they sold over 950,000 chocolate bars, generating an incredible \$450,000 for CMN Hospitals. It all just goes to show how the little things can make a big difference when the Helpful Place is involved!



CONGRATULATIONS TO THE TOP 10 FUNDRAISING ACE/CMN HOSPITAL MARKETS

- 1

\$355,348

HOUSTON
- 2

\$291,485

CHICAGO
- 3

\$123,288

DENVER
- 4

\$102,265

SALT LAKE CITY
- 5

\$89,929

KANSAS CITY
- 6

\$77,364

HONOLULU
- 7

\$72,265

ATLANTA
- 8

\$68,487

PORTLAND, ORE.
- 9

\$67,605

MINNEAPOLIS-ST. PAUL
- 10

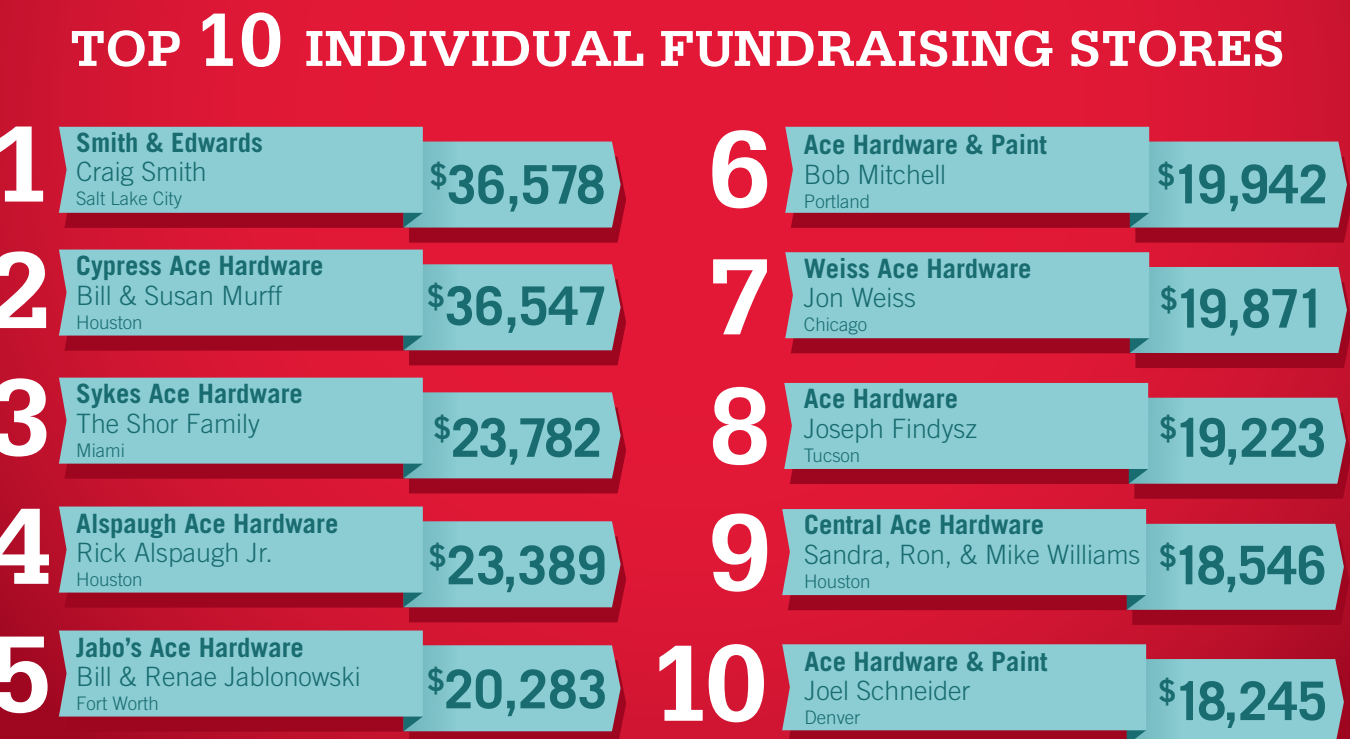
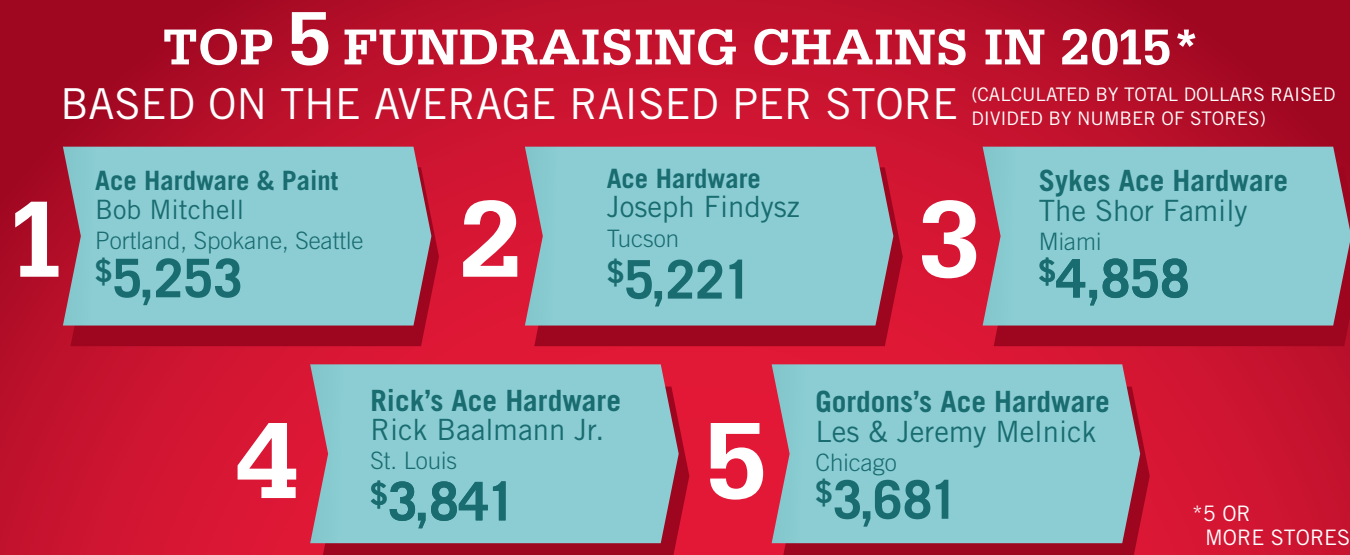
\$61,913

ST. LOUIS

Congratulations to this extraordinary group of Ace retailers and store teams for their fundraising efforts in 2015

The Ace Foundation would like to thank and congratulate the following retailers and their store teams for their extraordinary fundraising efforts for their local CMN Hospitals in 2015. Each year, the bar is raised and the competition grows – all for the kids.

We are humbled and proud to recognize the following stores with a \$10,000 donation to their local CMN Hospital in their name, courtesy of our friends at P&G and Duracell.



A RECORD-BREAKING \$7.12 MILLION

RAISED FOR CMN HOSPITALS IN 2015

**\$3.07
MILLION**

95%
OF PINNACLE STORES
FUNDRAISE FOR
CMN HOSPITALS

2,905



**STORE
PARTICIPATION**

47%
INCREASE OVER
\$2.09 MILLION IN 2014



DOLLARS RAISED

**RETAILER
FUNDRAISING**

**\$2.69
MILLION**

\$1.6 MILLION



ACE SHOOTOUT

\$100,000



**RACING FOR A
MIRACLE**

980 GOLFERS



VENDOR GOLF OUTING

**VENDOR
FUNDRAISING**

**\$1.36
MILLION**

\$158,677



**CHANGE FOR KIDS
PAYROLL DEDUCTION**

\$69,177



**MOTORCYCLE
MIRACLE MISSION**

\$817,750

RSC FUNDRAISING

**CORPORATE
FUNDRAISING**

ACE ALL-STAR RETAILER FROM CHICAGO BRINGS PEOPLE TOGETHER TO HELP CMN HOSPITALS

STORE OWNER DAN OLSON BUILDS A COALITION OF ACE RETAILERS TO BOOST FUNDRAISING TO RECORD LEVELS

Every day, Ace retailers inspire others with their

dedication to their communities; in many cases, this includes their commitment to their local CMN Hospital. This is particularly true for store owner Dan Olson, who received the second Annual Ace All-Star Retailer award in 2015. Nominated by his local CMN hospital, Ann & Robert H. Lurie Children's Hospital of Chicago, Olson was commended for his tireless fundraising efforts and for his leadership that brought together other Ace retailers in the Chicago area to deliver results much greater than a single store could do alone.

Dan had spent his entire career in the hardware industry and decided he wanted to branch out in a way that made a difference. He started fundraising for Lurie Children's and soon reached the conclusion that there was greater strength in numbers. Reaching out to his fellow retailers in the Chicago area, Dan formed a coalition of Ace store owners dedicated to raising funds for Lurie Children's. He formed a committee with representatives from each area store group and, with Dan

as the chairman, he and his fellow retailers were able to bring Chicago up to the No. 2 fundraising market in the country. Dan's stores alone were able to raise over \$10,000 in 2015, a long way from his start three years earlier when his store raised \$300. As part of Dan's award, a \$25,000 donation courtesy of P&G and Duracell was also made in his name to Lurie Children's.

*"Being part of something bigger,
it's something to aspire to."*

Dan's fundraising efforts haven't been limited to the Chicago area, either. A friendly rivalry resulted in a bet between Dan and Houston retailer Bill Murff. Whoever's market could raise more funds for CMNH in 2014 would get to enlist the "loser" to help with his market's fundraising efforts. Dan and several members of his Chicagoland committee ended up flying down to Houston to fulfill their part of the bargain. They worked the 2015 Houston Golf Outing weekend, which went on to raise an amazing \$110,000 for Texas Children's Hospital.

Dan also is one of four retailer champions who volunteers his time and joins the Ace Foundation staff at retailer group meetings across the country, sharing his passion for fundraising and what it has done for his business. "When you do the right thing in your business, it empowers you to do the right thing outside your business," Dan says. It's no coincidence that 95% of Pinnacle stores are CMNH fundraisers!

Dan continues to be inspired by his newfound calling. "CMNH fundraising has changed my life," he says. "I've worked in hardware my whole life, and this gives me a new mission." Dan's employees are inspired as well, appreciating the opportunity to do something for their community. "We give to dozens of local charities every year from Little League to Boy Scouts, but CMN is the only one that my employees are involved in. They're proud to be a part of it," he adds. "Being part of something bigger, it's something to aspire to."



A STARRING ROLE

“I work for ACE HARDWARE!”
-proudly proclaims 2015 Ace All-Star Parker Grelecki

Six-year-old Parker Grelecki brings a special energy and

enthusiasm to everything he does. Born with hydrocephalus, or excess fluid on the brain, Parker underwent a series of surgeries at Children’s Healthcare of Atlanta as an infant. But despite the challenges he’s faced, after being crowned Ace’s All-Star for 2015, Parker threw himself into the role with everything he had. His fundraising efforts took him to Ace stores throughout Georgia; he attended the Ace show in Vegas, visited the corporate headquarters in Oak Brook, Ill., and made a stop at the Gainesville RSC golf outing; and he finished the year with an all-expenses paid trip to the Children’s Miracle Network Hospitals’ annual celebration in Walt Disney World.

The store visits in particular had a profound impact on Parker. He loved everything about visiting an Ace Hardware store, learning the lingo (he’s been known to ask customers if they have an Ace Rewards card) and wanting to help customers. At one store the employees showed him how the key-cutting machinery worked, and from then on, Parker was hooked. With every subsequent store visit, he would insist on taking a blank SC1 key

duplicate with him as a keepsake, compiling quite an impressive collection.

Everywhere he went, Parker never failed to make a lasting impression. “He’s never met a stranger,” says Chris Doucet, Retailer Fundraising Manager for the Ace Foundation. “He’ll just run up and introduce himself — ‘I’m Parker, I’m the Ace All-Star.’ He’s so proud of that title and truly connects with everybody.”

Parker and his father, Ryan, assisted with the Foundation’s fundraising efforts in markets across the country, creating motivational videos for over a dozen retailer groups. Their fundraising efforts were met with particular success in their hometown of Atlanta. Markets with an Ace All-Star have always at least doubled their fundraising total for the year, and Atlanta continued that tradition — and then some — raising a spectacular \$72,264 and nearly tripling their 2014 donation to Children’s Healthcare of Atlanta.

As his year drew to a close, the Ace team had one last honor reserved for Parker. The Foundation, corporate employees and

retailers alike surprised Parker and his family at The Zone, a special play area at Children’s Healthcare of Atlanta, where a plaque was unveiled to salute his fundraising work as the Ace All-Star. The Atlanta area retailers Parker had met on his store visits were there as well to present a homemade key display, complete with engraved SC1 key blanks commemorating the donations raised by Atlanta retailers and the key role Parker played in 2015’s successful fundraising efforts.

While Parker’s year as an Ace All-Star had a tremendous effect on fundraising, it made a huge difference in his life as well. “It has had and will have a much longer-lasting positive impact on Parker’s life beyond this year,” says his dad. “His personality being both allowed and encouraged to shine brightly are the investments in his future that will pay dividends for years to come. Thank you for letting us go on this journey with you and Ace in 2015. The Ace family will forever be our family!”



“The benefits this **community**
focus has provided for our business simply

Ace came up with a plan,
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supermarket, and it's
gone well.”

“We **empower** our
their own customer friends

“As a business, you have to
progress, and I feel Ace is the
best company to move forward with.”

can walk back into our Spicewood store
and things are operating exactly the same as
when I left.”

“We're happy to jump on a register, whatever is required
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