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Q.E.P. CO., INC. REPORTS FISCAL 2022 SIX MONTH AND SECOND QUARTER FINANCIAL RESULTS

Record Six Month Net Sales of \$227.3 million
Six Month Net Income of \$5.0 million

BOCA RATON, FLORIDA — October 14, 2021 — Q.E.P. CO., INC. (OTCQX: QEPC) (the “Company” or “QEP”) today reported its consolidated results of operations for the first six months and second quarter of its fiscal year 2022, which ended on August 31, 2021.

QEP reported net sales of \$227.3 million for the six months ended August 31, 2021, an increase of \$38.2 million or 20.2% from the \$189.1 million reported in the same period of fiscal 2021. The Company reported net sales of \$112.9 million for the quarter ended August 31, 2021, an increase of \$9.8 million or 9.5% from the \$103.1 million reported in the same period of fiscal 2021. The increase in net sales for the first six months and second quarter of fiscal 2022 compared to the prior year reflects strong economic activity in the current year and the adverse impact of the worldwide economic downturn caused by the COVID-19 pandemic during the first quarter of the prior year.

Lewis Gould, Executive Chairman, commented on the Company’s results, “We continue to be pleased with the Company’s year-over-year sales growth in both the second quarter and first six months of the current fiscal year. Demand for the Company’s products remains strong in all geographic segments and channels, despite significant inflationary pressure and unprecedented disruptions in the global supply chain. The Company, in collaboration with its customers, has implemented a series of price increases to moderate the impact of rising product costs. We continue to relentlessly follow our growth plan.”

Mr. Gould concluded, “The Company remains steadfast in balancing the need to maintain profitability while investing in the resources necessary to continue our market expansion.”

The Company’s gross profit for the first six months of fiscal 2022 was \$62.3 million compared to \$53.1 million in the corresponding fiscal 2021 period, an increase of \$9.2 million or 17.4%. Gross profit for the second quarter of fiscal 2022 was \$31.0 million, representing an increase of \$1.6 million or 5.4%, from \$29.4 million in the corresponding fiscal 2021 period. The Company’s gross margin as a percentage of net sales for the first six months and second quarter of fiscal year 2022 was 27.4% and 27.5%, respectively, which decreased from 28.1% and 28.5% in the corresponding prior fiscal year periods, respectively. The decrease in gross margin as a percentage of net sales was due to inbound freight and product cost increases that have not been fully recovered through customer price negotiations during the first six months and second quarter of fiscal 2022.

Operating expenses for the first six months and second quarter of fiscal 2022 were \$54.7 million and \$27.4 million, respectively, or 24.1% and 24.3% of net sales in those periods, compared to \$47.5 million and \$25.2 million, respectively, or 25.1% and 24.4% of net sales in the comparable fiscal 2021 periods. The increase in operating expenses was due to higher shipping costs related to sales volume, along with higher personnel and market costs

as the Company reinvested in sales support infrastructure that was eliminated or reduced during the prior year in response to the economic downturn caused by the COVID-19 pandemic. Additionally, during the prior year, the Company's non-US based operations benefited from local government subsidies received for maintaining certain employment levels during the pandemic.

The lower interest expense during the first six months and second quarter of fiscal 2022 compared to the same periods in the prior fiscal year was principally due to a reduction in borrowings under the Company's credit facilities.

The provision for income taxes as a percentage of incomes before taxes was 28.0% for the first six months and second quarter for both fiscal 2022 and fiscal 2021.

Net income for the first six months and second quarter of fiscal 2022 was \$5.0 million and \$2.4 million, respectively, or \$1.50 and \$0.71, respectively, per diluted share. For the comparable periods of fiscal 2021, net income was \$3.4 million and \$2.7 million, respectively, or \$1.03 and \$0.82, respectively, per diluted share.

Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) for the first six months and second quarter of fiscal 2022 was \$9.7 million and \$4.6 million, respectively as compared to \$7.8 million and \$5.3 million for the first six months and second quarter of fiscal 2021, respectively.

	For the Three Months Ended		For the Six Months Ended	
	August 31, 2021	August 31, 2020	August 31, 2021	August 31, 2020
Net income	\$ 2,380	\$ 2,743	\$ 5,019	\$ 3,431
Add: Interest expense, net	306	442	633	845
Provision for income taxes	926	1,067	1,951	1,334
Depreciation and amortization	1,021	1,082	2,074	2,222
EBITDA	<u>\$ 4,633</u>	<u>\$ 5,334</u>	<u>\$ 9,677</u>	<u>\$ 7,832</u>

Cash provided by operations during the first six months of fiscal 2022 was \$1.7 million as compared to \$20.8 million in the first six months of fiscal 2021, principally reflecting an increase in investment in inventory to mitigate delays in stock replenishment caused by supply chain disruptions and the rising cost of inbound freight from Asia. During the first six months of fiscal 2021, cash from operations was used primarily to fund capital expenditures and increase cash balances. In the prior fiscal year period, cash provided by operations was used primarily to pay down debt.

Working capital as of August 31, 2021 was \$48.4 million compared to \$44.7 million at the end of fiscal 2021. Aggregate debt, net of available cash balances at the end of the second quarter of fiscal 2022 was \$22.0 million or 29.3% of equity, a decrease of \$1.0 million compared to \$23.0 million or 32.4% of equity at the end of fiscal 2021.

Conference Call Information

The Company will be hosting the following conference call to discuss its financial results and answer questions.



Date: Thursday, October 21, 2021
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 800-353-6461 (US or Canada)
+1 334-323-0501 (International)
Confirmation Code: 3331272

Replay: 719-457-0820; Passcode: 3331272

About QEP

Founded in 1979, Q.E.P. Co., Inc. is a leading designer, manufacturer and distributor of a broad range of best-in-class flooring and installation solutions for commercial and home improvement projects worldwide. QEP offers a comprehensive line of specialty installation tools, adhesives, and underlayment as well as a complete line of hardwood, luxury vinyl, and modular carpet tile. QEP sells its products throughout the world to home improvement retail centers, professional specialty distribution outlets, and flooring dealers under brand names including QEP®, LASH®, ROBERTS®, Vitrex®, Brutus®, PRCI®, Plasplugs®, Tomecanic®, Premix-Marbletite® (PMM), Apple Creek®, Homelux®, Capitol® and XPS Foam™. Brand names featured under QEP's Harris Flooring Group® include Harris®, Kraus® and Naturally Aged Flooring™.

QEP is headquartered in Boca Raton, Florida with offices in Canada, Europe, Asia, Australia and New Zealand. Please visit our website at www.qepcorporate.com.

Forward-Looking Statements

This press release contains forward-looking statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements contained in this press release, other than statements of historical facts, may constitute forward-looking statements within the meaning of the federal securities laws. These statements can be identified by words such as "expects," "plans," "projects," "will," "may," "anticipates," "believes," "should," "intends," "estimates," and other words of similar meaning. These forward-looking statements include, but are not limited to, statements regarding emergence of the world from the COVID-19 pandemic and the Company's belief that it is positioned to respond to evolving uncertainties related thereto, the Company's shifting of its focus to new challenges presented by (i) scarcity and rising cost for raw materials and transcontinental freight, (ii) the weakening U.S. Dollar, (iii) shifts in global sourcing patterns and (iv) general inflationary pressures, economic conditions, sales growth, price increases, profit improvements, product development and marketing, operating expenses, cost savings, acquisition integration, operational synergy realization, global sourcing, political uncertainty, cash flow, debt and currency exchange rates. Any forward-looking statements contained herein are based on current expectations and beliefs, and are subject to a number of risks and uncertainties. Forward-looking statements may also be adversely affected by general market factors, competitive product development, product availability, federal and state regulations and legislation, manufacturing issues that may arise, patent positions and litigation, among other factors. The forward-looking statements contained in this press release speak only as of the date the statements were made, and the Company does not undertake any obligation to update forward-looking statements, except as required by law.

-Financial Information Follows-



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	August 31,	August 31,	August 31,	August 31,
	2021	2020	2021	2020
Net sales	\$ 112,865	\$ 103,051	\$ 227,269	\$ 189,067
Cost of goods sold	81,850	73,632	164,941	135,980
Gross profit	31,015	29,419	62,328	53,087
Operating expenses:				
Shipping	12,592	11,251	25,213	20,973
General and administrative	7,911	8,000	15,043	14,770
Selling and marketing	7,073	6,189	14,801	12,093
Other income, net	(173)	(273)	(332)	(359)
Total operating expenses	27,403	25,167	54,725	47,477
Operating income	3,612	4,252	7,603	5,610
Interest expense, net	(306)	(442)	(633)	(845)
Income before provision for income taxes	3,306	3,810	6,970	4,765
Provision for income taxes	926	1,067	1,951	1,334
Net income	\$ 2,380	\$ 2,743	\$ 5,019	\$ 3,431
Earnings per share:				
Basic	\$ 0.71	\$ 0.82	\$ 1.50	\$ 1.03
Diluted	\$ 0.71	\$ 0.82	\$ 1.50	\$ 1.03
Weighted average number of common shares outstanding:				
Basic	3,335	3,335	3,335	3,335
Diluted	3,346	3,337	3,346	3,336



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	August 31,	August 31,	August 31,	August 31,
	2021	2020	2021	2020
Net income	\$ 2,380	\$ 2,743	\$ 5,019	\$ 3,431
Unrealized currency translation adjustments	(543)	815	(669)	675
Comprehensive income	\$ 1,837	\$ 3,558	\$ 4,350	\$ 4,106



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands except per share values)

	August 31, 2021	February 28, 2021
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Cash	\$ 12,139	\$ 10,905
Accounts receivable, less allowance for doubtful accounts of \$847 and \$1,059 as of August 31, 2021 and February 28, 2021, respectively	53,960	53,183
Inventories	76,931	67,032
Prepaid expenses and other current assets	5,906	6,829
Prepaid income taxes	384	736
Current assets	149,320	138,685
Property and equipment, net	10,863	11,398
Right of use operating lease assets	17,305	16,417
Deferred income taxes, net	3,408	3,436
Intangibles, net	11,367	12,454
Goodwill	2,454	2,493
Other assets	2,932	2,840
Total Assets	\$ 197,649	\$ 187,723
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 40,009	\$ 40,900
Accrued liabilities	29,122	23,475
Current operating lease liabilities	5,424	5,196
Lines of credit	21,289	21,010
Current maturities of notes payable	5,107	3,417
Current liabilities	100,951	93,998
Notes payable	7,722	9,438
Non-current operating lease liabilities	12,985	12,336
Deferred income taxes	172	172
Other long term liabilities	706	851
Total Liabilities	122,536	116,795
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at August 31, 2021 and February 28, 2021	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued, and 3,309 shares outstanding at August 31, 2021 and February 28, 2021	4	4
Additional paid-in capital	11,251	11,251
Retained earnings	76,639	71,785
Treasury stock, 696 shares held at cost at August 31, 2021 and February 28, 2021	(9,082)	(9,082)
Accumulated other comprehensive income	(3,699)	(3,030)
Shareholders' Equity	75,113	70,928
Total Liabilities and Shareholders' Equity	\$ 197,649	\$ 187,723



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Six Months Ended	
	August 31,	August 31,
	2021	2020
Operating activities:		
Net income	\$ 5,019	\$ 3,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of property	(59)	-
Depreciation and amortization	2,074	2,222
Other non-cash adjustments	(106)	63
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(1,095)	(3,259)
Inventories	(10,552)	7,831
Prepaid expenses and other assets	3,914	3,419
Trade accounts payable and accrued liabilities	2,488	7,076
Net cash provided by operating activities	1,683	20,783
Investing activities:		
Acquisitions	-	(436)
Capital expenditures	(603)	(364)
Proceeds from sale of property	264	168
Net cash used in investing activities	(339)	(632)
Financing activities:		
Net borrowings (repayments) under lines of credit	391	(18,709)
Net borrowings (repayments) of notes payable	(102)	1,658
Purchase of treasury stock	(60)	(60)
Principal payments on finance leases	(55)	(39)
Dividends	(165)	-
Net cash provided by (used in) financing activities	9	(17,150)
Effect of exchange rate changes on cash	(119)	226
Net increase in cash	1,234	3,227
Cash at beginning of period	10,905	4,999
Cash at end of period	\$ 12,139	\$ 8,226



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except shares data)

	Preferred Stock		Common Stock		Paid-in	Retained	Treasury	Accumulated Other	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Comprehensive Income	Shareholders Equity
Balance at February 29, 2020	-	\$ -	3,826,642	\$ 4	\$ 11,087	\$ 64,887	\$ (8,869)	\$ (4,368)	\$ 62,741
Net income						6,898			6,898
Unrealized currency translation adjustments								1,338	1,338
Purchase of treasury stock							(213)		(213)
Stock-based compensation expense					164				164
Stock dividends			178,728	-					-
Balance at February 28, 2021	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 11,251</u>	<u>\$ 71,785</u>	<u>\$ (9,082)</u>	<u>\$ (3,030)</u>	<u>\$ 70,928</u>
Net income						5,019			5,019
Unrealized currency translation adjustments								(669)	(669)
Dividends paid						(165)			(165)
Balance at August 31, 2021	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 11,251</u>	<u>\$ 76,639</u>	<u>\$ (9,082)</u>	<u>\$ (3,699)</u>	<u>\$ 75,113</u>