



CONTACT:

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Q.E.P. CO., INC. REPORTS FISCAL 2022 YEAR-END SALES AND EARNINGS

Full Year Net Sales of \$445.5 million and Net Income of \$9.6 million

BOCA RATON, FLORIDA — June 1, 2022 — Q.E.P. CO., INC. (OTCQX: QEPC) (the “Company” or “QEP”) today reported its consolidated results of operations for its fiscal year ended February 28, 2022.

QEP reported net sales of \$445.5 million for the year ended February 28, 2022, an increase of \$57.9 million or 14.9% from the \$387.6 million reported in fiscal 2021. The fiscal 2022 increase in net sales compared to the prior fiscal 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 fiscal 2021. As a percentage of net sales, gross margin was 27.1% in fiscal 2022, as compared to 28.0% in fiscal 2021.

Lewis Gould, Executive Chairman, commented on the Company’s results, “Despite significant inflationary pressures and unprecedented disruption in the global supply chain throughout fiscal 2022, the Company was able to achieve year-over-year net sales growth of 15% and adjusted EBITDA growth of 18%. The Company closely monitors the impact of rising costs on our profitability, and, where appropriate, has implemented price increases to mitigate margin erosion. In the latter part of the year, we also increased our investment in inventory to offset supply chain risk and ensure product availability to meet customer service levels.”

Mr. Gould concluded, “With increased volatility and uncertainty in global markets, the Company is focused on preserving profitability by managing overhead costs while still making the necessary investments to support our strategic priorities.”

The Company’s gross profit for fiscal 2022 was \$120.7 million, representing an increase of \$12.0 million, or 11.1% from \$108.7 million in fiscal 2021. The decrease in gross margin as a percentage of net sales was due to increased inbound freight and cost of goods, that were not fully recovered through price increases to customers or cost reduction initiatives.

Operating expenses, excluding restructuring charges, were \$106.7 million or 23.9% of net sales for fiscal 2022 and \$96.7 million or 25.0% of net sales for fiscal 2021. The increase in operating expenses was due to higher shipping costs related to sales volume, along with higher personnel and marketing costs from the Company’s reinvestment in sales support infrastructure. The Company was able to leverage the 14.9% year-over-year net sales growth, resulting in 110 basis points decline in operating expenses as a percentage of net sales.

Operating expenses for fiscal 2022 and 2021 include restructuring charges related to the Company’s Canadian subsidiary of \$0.2 million and \$0.8 million, respectively, which consisted of legal, administrative and asset impairment charges, net of the benefit related to the Plan of Compromise and Arrangement approved by the subsidiary’s unsecured creditors.

Non-operating loss in fiscal 2021 represents the sale of assets related to a non-core business unit.

The decrease in interest expense during fiscal 2022 as compared to fiscal 2021 was principally due to the reduction in borrowings under the Company's credit facilities during the current year.

The provision for income taxes as a percentage of income before taxes was 23.4% for fiscal 2022, as compared to 27.3% for fiscal 2021.

Net income for fiscal 2022 was \$9.6 million or \$2.88 per diluted share, as compared to \$6.9 million or \$2.06 per diluted share for fiscal 2021.

Earnings before interest, taxes, depreciation and amortization (EBITDA), as adjusted for restructuring charges, non-operating income and gain on sale of real property was \$18.3 million for fiscal 2022 as compared to \$15.5 million for fiscal 2021.

	For the Year Ended	
	February 28, 2022	February 28, 2021
Net income	\$ 9,648	\$ 6,898
Add: Interest expense, net	1,258	1,603
Provision for income taxes	2,949	2,584
Depreciation and amortization	4,176	4,594
Non-operating loss	-	24
Restructuring charges	240	840
Gain on sale of real property	-	(1,063)
EBITDA, as adjusted ⁽¹⁾	<u>\$ 18,271</u>	<u>\$ 15,480</u>

⁽¹⁾ EBITDA, as adjusted for restructuring charges, non-operating income and gain on sale of real property represent non-GAAP measures and exclude charges or credits not indicative of our core operations.

Cash used by operations during fiscal 2022 was \$11.0 million as compared to cash provided by operations of \$24.8 million in fiscal 2021, reflecting an increase in operating income and an increase net investment in working capital, principally in inventory to mitigate the impact of supply chain disruptions during fiscal 2022. In fiscal 2022, cash used in operations was funded by borrowings under the Company's credit facility and proceeds from the sale of property. In fiscal 2021, cash provided by operations, along with proceeds from the sale of property and the sale of a non-core business line were used to fund capital expenditures and repay borrowings under the Company's credit facility.

Working capital as of February 28, 2022 was \$55.0 million compared to \$44.7 million at the end of the 2021 fiscal year. Aggregate debt, net of available cash balances at the end of fiscal 2022 was \$33.4 million or 42.0% of equity, an increase of \$10.0 million compared to \$23.4 million or 32.9% of equity at the end of the 2021 fiscal year.



Conference Call Information

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

Date: Tuesday, June 7, 2022
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 888-220-8451 (US or Canada)
+1 646-828-8193 (International)
Confirmation Code: 8162366
Replay: 719-457-0820; Passcode: 8162366

The Company's consolidated fiscal 2022 audited financial statements are available on the Investor section of its website at www.qepcorporate.com.

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.

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, and the Company's shifting of its focus to new challenges presented by (i) scarcity and rising cost of raw materials and transcontinental freight, (ii) shifts in global sourcing patterns; and (iii) general inflationary pressures, economic conditions, sales growth, price increases, maintaining and improving profitability, 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)

	For the Year Ended	
	February 28, 2022	February 28, 2021
Net sales	\$ 445,531	\$ 387,597
Cost of goods sold	324,786	278,904
Gross profit	120,745	108,693
Operating expenses:		
Shipping	49,533	44,595
General and administrative	29,861	28,402
Selling and marketing	27,914	25,340
Restructuring	240	840
Other income, net	(658)	(1,593)
Total operating expenses	106,890	97,584
Operating income	13,855	11,109
Non-operating loss	-	(24)
Interest expense, net	(1,258)	(1,603)
Income before provision for income taxes	12,597	9,482
Provision for income taxes	2,949	2,584
Net income	\$ 9,648	\$ 6,898
Earnings per share:		
Basic	\$ 2.89	\$ 2.07
Diluted	\$ 2.88	\$ 2.06
Weighted average number of common shares outstanding:		
Basic	3,336	3,336
Diluted	3,346	3,341



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

	For the Year Ended	
	February 28, 2022	February 28, 2021
Net income	\$ 9,648	\$ 6,898
Unrealized currency translation adjustments	(1,165)	1,338
Comprehensive income	\$ 8,483	\$ 8,236



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

	<u>February 28,</u> <u>2022</u>	<u>February 28,</u> <u>2021</u>
ASSETS		
Cash	\$ 3,203	\$ 10,905
Accounts receivable, less allowance for doubtful accounts of \$807 and \$1,059 as of February 28, 2022 and 2021, respectively	55,990	53,183
Inventories, net	98,087	67,032
Prepaid expenses and other current assets	3,711	6,829
Prepaid income taxes	-	736
Current assets	160,991	138,685
Property and equipment, net	10,529	11,804
Right of use operating lease assets	15,485	16,417
Deferred income taxes, net	3,578	3,436
Intangibles, net	10,233	12,454
Goodwill	2,390	2,493
Other assets	3,150	2,434
Total Assets	<u>\$ 206,356</u>	<u>\$ 187,723</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 47,715	\$ 40,900
Accrued liabilities	24,919	23,365
Current operating lease liabilities	4,942	5,196
Income taxes payable	634	-
Lines of credit	26,449	21,010
Current maturities of debt	1,321	3,527
Current liabilities	105,980	93,998
Long term debt	8,797	9,735
Non-current operating lease liabilities	11,643	12,336
Deferred income taxes	-	172
Other long term liabilities	534	554
Total Liabilities	126,954	116,795
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at February 28, 2022 and 2021, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,307 and 3,309 shares outstanding at February 28, 2022 and 2021, respectively	4	4
Additional paid-in capital	11,449	11,251
Retained earnings	81,268	71,785
Treasury stock, 698 and 696 shares held at cost at February 28, 2022 and 2021, respectively	(9,124)	(9,082)
Accumulated other comprehensive income	(4,195)	(3,030)
Shareholders' Equity	79,402	70,928
Total Liabilities and Shareholders' Equity	<u>\$ 206,356</u>	<u>\$ 187,723</u>



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

	For the Year Ended	
	February 28, 2022	February 28, 2021
Operating activities:		
Net income	\$ 9,648	\$ 6,898
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on sale of business	-	24
Gain on sale of property	(131)	(1,066)
Restructuring	157	(453)
Depreciation and amortization	4,176	4,594
Other non-cash adjustments	18	523
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(3,331)	(3,168)
Inventories	(32,362)	2,102
Prepaid expenses and other assets	6,247	(3,239)
Trade accounts payable and accrued liabilities	4,541	18,632
Net cash provided by (used in) operating activities	(11,037)	24,847
Investing activities:		
Acquisitions	-	(461)
Capital expenditures	(1,094)	(811)
Proceeds from sale of business	-	200
Proceeds from sale of property	2,104	3,285
Net cash provided by investing activities	1,010	2,213
Financing activities:		
Net borrowings (repayments) under lines of credit	5,974	(20,621)
Net repayments of term loan facilities	(2,946)	(599)
Purchase of treasury stock	(162)	(120)
Principal payments on finance leases	(110)	(96)
Dividends paid	(165)	-
Net cash provided by (used in) financing activities	2,591	(21,436)
Effect of exchange rate changes on cash	(266)	282
Net increase (decrease) in cash	(7,702)	5,906
Cash at beginning of period	10,905	4,999
Cash at end of period	\$ 3,203	\$ 10,905



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	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Other	Shareholders
								Income	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	-	-	4,005,370	4	11,251	71,785	(9,082)	(3,030)	70,928
Net income						9,648			9,648
Unrealized currency translation adjustments								(1,165)	(1,165)
Purchase of treasury stock							(42)		(42)
Stock-based compensation expense					198				198
Dividends paid						(165)			(165)
Balance at February 28, 2022	-	-	4,005,370	\$ 4	\$ 11,449	\$ 81,268	\$ (9,124)	\$ (4,195)	\$ 79,402