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Q.E.P. CO., INC. REPORTS FISCAL 2023 FIRST QUARTER FINANCIAL RESULTS

Quarterly Net Sales of \$117.1 million
Quarterly Net Income of \$1.0 million

BOCA RATON, FLORIDA — July 14, 2022 — Q.E.P. CO., INC. (OTC: QEPC.PK) (the “Company” or “QEP”) today reported its consolidated results of operations for the first quarter of fiscal year 2023, which ended on May 31, 2022.

Q.E.P. reported net sales of \$117.1 million for the quarter ended May 31, 2022, an increase of \$2.7 million or 2.3% compared to \$114.4 million in the first quarter of fiscal 2022. The increase in net sales was primarily due to year-over-year price increases that were implemented to mitigate the impact of inflationary pressures. These price increases were partially offset by lower sales volume and the currency translation impact of the strong U.S. Dollar in the current period. As a percentage of net sales, gross margin was 26.4% in the first quarter of fiscal 2023, as compared to 27.4% in the first quarter of fiscal 2022.

Lewis Gould, Executive Chairman, commented on the Company’s results, “We continue to be adversely impacted by significant inflationary pressures and disruption to the global supply chain. Despite implementing an unprecedented series of price increases, we continue to lag the impact of elevated inbound freight rates, along with higher product, labor and other operating costs. In light of these headwinds, the Company continues to closely monitor and take appropriate actions on marginally profitable products, product lines and operating expenses.”

Mr. Gould concluded, “The Company recognizes the challenging and volatile environment in which we operate and remains focused on improving the overall profitability of our operations.”

The Company’s gross profit for the first quarter of fiscal 2023 was \$30.9 million, representing a decrease of \$0.4 million, or 1.4% from \$31.3 million in the first quarter of fiscal 2022. The decrease in absolute gross margin and gross margin as a percentage of net sales was due to increased inbound freight and products costs, that were not fully recovered through price increases to customers and cost reduction initiatives.

Operating expenses for the first quarter of fiscal 2023 and 2022 were \$29.1 million or 24.9% of net sales and \$27.3 million or 23.9% of net sales, respectively. The increase in operating expenses was due to higher outbound freight costs directly related to higher energy costs. Additionally, the Company had higher personnel and marketing costs as it reinvested in sales support infrastructure, including marketing displays and samples, to support the recent launch of certain flooring product lines.

The higher interest expense during the first quarter of fiscal 2023 compared to the first quarter of fiscal 2022 was due to an increase in borrowings under the Company’s credit facilities and higher interest rates during the current period.



The provision for income taxes as a percentage of income before taxes was 28.0% for both the first quarter of fiscal 2023 and the first quarter of fiscal 2022.

Net income for the first quarter of fiscal 2023 was \$1.0 million or \$0.29 per diluted share, compared to \$2.6 million or \$0.79 per diluted share for the first quarter of fiscal 2022.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the first quarter of fiscal 2023 was \$2.7 million as compared to \$5.1 million for the first quarter of fiscal 2022.

	For the Three Months Ended	
	May 31, 2022	May 31, 2021
Net income	\$ 988	\$ 2,639
Add: Interest expense, net	376	327
Provision for income taxes	384	1,026
Depreciation and amortization	992	1,082
EBITDA	<u>\$ 2,740</u>	<u>\$ 5,074</u>

Cash used in operations during the first quarter of fiscal 2023 was \$8.8 million as compared to cash provided by operations of \$1.4 million in the first quarter of fiscal 2022, reflecting the payment to suppliers that previously funded the increase in inventory. In the first quarter of fiscal 2023, cash used in operations and capital expenditures was funded by increased borrowings under the Company's lines of credit.

Working capital as of May 31, 2022 was \$53.4 million compared to \$55.0 million at the end of fiscal 2022. Aggregate debt, net of available cash balances at the end of the first quarter of fiscal 2023 was \$43.4 million or 54.5% of equity, an increase of \$10.0 million compared to \$33.4 million or 42.0% of equity at the end of fiscal 2022.

Conference Call Information

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

Date: Thursday, July 21, 2022
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 888-221-3881 (US or Canada)
+1 646-828-8193 (International)
Confirmation Code: 2074266
Replay: 719-457-0820; Passcode 2074266

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)
(Unaudited)

	For the Three Months Ended	
	May 31, 2022	May 31, 2021
Net sales	\$ 117,083	\$ 114,404
Cost of goods sold	86,205	83,091
Gross profit	30,878	31,313
Operating expenses:		
Shipping	13,618	12,621
General and administrative	7,567	7,132
Selling and marketing	8,104	7,728
Other income, net	(159)	(160)
Total operating expenses	29,130	27,321
Operating income	1,748	3,992
Interest expense, net	(376)	(327)
Income before provision for income taxes	1,372	3,665
Provision for income taxes	384	1,026
Net income	\$ 988	\$ 2,639
Earnings per share:		
Basic	\$ 0.30	\$ 0.79
Diluted	\$ 0.29	\$ 0.79
Weighted average number of common shares outstanding:		
Basic	3,341	3,335
Diluted	3,351	3,346



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

	<u>For the Three Months Ended</u>	
	<u>May 31,</u> <u>2022</u>	<u>May 31,</u> <u>2021</u>
Net income	\$ 988	\$ 2,639
Unrealized currency translation adjustments	(798)	(126)
Comprehensive income	<u>\$ 190</u>	<u>\$ 2,513</u>



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

	May 31, 2022	February 28, 2022
	(Unaudited)	(Audited)
ASSETS		
Cash	\$ 4,542	\$ 3,203
Accounts receivable, less allowance for doubtful accounts of \$737 and \$807 as of May 31, 2022 and February 28, 2022, respectively	55,787	55,990
Inventories, net	96,250	98,087
Prepaid expenses and other current assets	4,416	3,711
Current assets	160,995	160,991
Property and equipment, net	11,517	10,529
Right of use operating lease assets	23,476	15,485
Deferred income taxes, net	3,582	3,578
Intangibles, net	9,462	10,233
Goodwill	2,266	2,390
Other assets	5,470	3,150
Total Assets	\$ 216,768	\$ 206,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 40,348	\$ 47,715
Accrued liabilities	20,449	24,919
Current operating lease liabilities	4,818	4,942
Income taxes payable	784	634
Lines of credit	38,407	26,449
Current maturities of debt	2,773	1,321
Current liabilities	107,579	105,980
Long term debt	6,744	8,797
Non-current operating lease liabilities	20,148	11,643
Other long term liabilities	2,754	534
Total Liabilities	137,225	126,954
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at May 31, 2022 and February 28, 2022, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,305 and 3,307 shares outstanding at May 31, 2022 and February 28, 2022, respectively	4	4
Additional paid-in capital	11,449	11,449
Retained earnings	82,256	81,268
Treasury stock, 700 and 698 shares held at cost at May 31, 2022 and February 28, 2022, respectively	(9,173)	(9,124)
Accumulated other comprehensive income	(4,993)	(4,195)
Shareholders' Equity	79,543	79,402
Total Liabilities and Shareholders' Equity	\$ 216,768	\$ 206,356



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended	
	May 31, 2022	May 31, 2021
Operating activities:		
Net income	\$ 988	\$ 2,639
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of property	(6)	(42)
Depreciation and amortization	992	1,082
Other non-cash adjustments	(121)	(100)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(301)	(602)
Inventories	952	(4,024)
Prepaid expenses and other assets	1,632	(168)
Trade accounts payable and accrued liabilities	(12,965)	2,636
Net cash provided by (used in) operating activities	(8,829)	1,421
Investing activities:		
Capital expenditures	(1,539)	(243)
Proceeds from sale of property	6	140
Net cash used in investing activities	(1,533)	(103)
Financing activities:		
Net borrowings (repayments) under lines of credit	12,364	(27)
Net borrowings (repayments) of term loan facilities	(502)	1,024
Purchase of treasury stock	(79)	(30)
Principal payments on finance leases	(28)	(26)
Net cash provided by financing activities	11,755	941
Effect of exchange rate changes on cash	(54)	35
Net increase in cash	1,339	2,294
Cash at beginning of period	3,203	10,905
Cash at end of period	\$ 4,542	\$ 13,199



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

	Preferred Stock		Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders Equity
	Shares	Amount	Shares	Amount					
Balance at February 28, 2021	-	\$ -	4,005,370	\$ 4	\$ 11,251	\$ 71,785	\$ (9,082)	\$ (3,030)	\$ 70,928
Net Income						2,639			2,639
Unrealized currency translation adjustments								(126)	(126)
Balance at May 31, 2021	-	\$ -	4,005,370	\$ 4	\$ 11,251	\$ 74,424	\$ (9,082)	\$ (3,156)	\$ 73,441
	Preferred Stock		Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders Equity
	Shares	Amount	Shares	Amount					
Balance at February 28, 2022	-	\$ -	4,005,370	\$ 4	\$ 11,449	\$ 81,268	\$ (9,124)	\$ (4,195)	\$ 79,402
Net income						988			988
Unrealized currency translation adjustments								(798)	(798)
Purchase of treasury stock							(49)		(49)
Balance at May 31, 2022	-	\$ -	4,005,370	\$ 4	\$ 11,449	\$ 82,256	\$ (9,173)	\$ (4,993)	\$ 79,543