



CONTACT:

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Q.E.P. CO., INC. REPORTS FISCAL 2023 SIX MONTH AND SECOND QUARTER FINANCIAL RESULTS

Six Month Net Sales of \$232.6 million
Six Month Net Income of \$0.5 million

BOCA RATON, FLORIDA — October 17, 2022 — 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 2023, which ended on August 31, 2022.

QEP reported net sales of \$232.6 million for the six months ended August 31, 2022, an increase of \$5.3 million or 2.3% from the \$227.3 million reported in the same period of fiscal 2022. The Company reported net sales of \$115.5 million for the quarter ended August 31, 2022, an increase of \$2.6 million or 2.4% from the \$112.9 million reported in the same period of fiscal 2022. The increase in net sales for the first six months and second quarter of fiscal 2023 compared to the prior year reflects 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 stronger U.S. Dollar during the current period.

Lewis Gould, Executive Chairman, commented on the Company’s results, “While the inflationary pressures and volatile global supply chain that adversely impacted our financial results during the first half of the year are showing some signs of abating, economic conditions remain challenging. As the operating environment continues to evolve, our team of dedicated employees remains committed to implementing our strategic plan, which includes channel and product expansion, distribution facilities consolidation and investment in core product categories.”

The Company’s gross profit for the first six months of fiscal 2023 was \$60.1 million compared to \$62.3 million in the corresponding fiscal 2022 period, a decrease of \$2.2 million or 3.5%. Gross profit for the second quarter of fiscal 2023 was \$29.2 million, representing a decrease of \$1.8 million or 5.7%, from \$31.0 million in the corresponding fiscal 2022 period. The Company’s gross margin as a percentage of net sales for the first six months and second quarter of fiscal year 2023 was 25.8% and 25.3%, respectively, which decreased from 27.4% and 27.5% 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 other product cost increases that have not been fully recovered through customer price increases and other cost reduction initiatives implemented during the first six months and second quarter of fiscal 2023.

Operating expenses for the first six months and second quarter of fiscal 2023 were \$58.5 million and \$29.4 million, respectively, or 25.1% and 25.4% of net sales in those periods, compared to \$54.7 million and \$27.4 million, respectively, or 24.1% and 24.3% of net sales in the comparable fiscal 2022 periods. The increase in operating expenses was due to higher outbound freight costs directly related to higher fuel costs. Additionally, the Company had higher personnel and marketing costs as it continues to reinvest 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 six months and second quarter of fiscal 2023 compared to the same periods in the prior fiscal year 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 the first six months and second quarter for both fiscal 2023 and fiscal 2022.

Net income and net loss for the first six months and second quarter of fiscal 2023 was \$0.5 million and minus \$0.5 million, respectively, or \$0.14 and minus \$0.15, respectively, per diluted share. For the comparable periods of fiscal 2022, net income was \$5.0 million and \$2.4 million, respectively, or \$1.50 and \$0.71, respectively, per diluted share.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the first six months and second quarter of fiscal 2023 was \$3.6 million and \$0.8 million, respectively, as compared to \$9.7 million and \$4.7 million for the first six months and second quarter of fiscal 2022, respectively.

	For the Three Months Ended		For the Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Net income (loss)	\$ (513)	\$ 2,380	\$ 475	\$ 5,019
Add: Interest expense, net	589	306	965	633
Provision (benefit) for income taxes	(199)	926	185	1,951
Depreciation and amortization	935	1,050	1,927	2,132
EBITDA	<u>\$ 812</u>	<u>\$ 4,662</u>	<u>\$ 3,552</u>	<u>\$ 9,735</u>

Cash used in operating activities during the first six months of fiscal 2023 was \$14.7 million as compared to cash provided by operating activities of \$1.7 million in the first six months of fiscal 2022, principally reflecting the payment to suppliers that previously funded the increase in inventory and lower operating income in the current period. During the first six months of fiscal 2023, borrowings under the Company's lines of credit were used to fund operating activities and capital expenditures. In the prior fiscal year period, cash provided by operations was used primarily to fund capital expenditures and increase cash balances.

Working capital as of August 31, 2022 was \$52.6 million compared to \$55.0 million at the end of fiscal 2022. Aggregate debt, net of available cash balances at the end of the second quarter of fiscal 2023, was \$49.1 million or 63.1% of equity, an increase of \$15.7 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: Wednesday, October 26, 2022
 Time: 10:00 a.m. Eastern Time
 Dial-in Numbers: 800-274-8461 (US or Canada)
 +1-203-518-9843 (International)



Confirmation ID: QEP2Q

Replay: 800-654-1563 (Toll Free)
862-902-0129 (Toll)
Access Code: 10140315

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 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		For the Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Net sales	\$ 115,519	\$ 112,865	\$ 232,602	\$ 227,269
Cost of goods sold	86,280	81,850	172,485	164,941
Gross profit	29,239	31,015	60,117	62,328
Operating expenses:				
Shipping	13,565	12,592	27,183	25,213
General and administrative	7,589	7,911	15,156	15,043
Selling and marketing	8,169	7,073	16,273	14,801
Other (income) expense, net	39	(173)	(120)	(332)
Total operating expenses	29,362	27,403	58,492	54,725
Operating income (loss)	(123)	3,612	1,625	7,603
Interest expense, net	(589)	(306)	(965)	(633)
Income (loss) before provision for income taxes	(712)	3,306	660	6,970
Provision (benefit) for income taxes	(199)	926	185	1,951
Net income (loss)	\$ (513)	\$ 2,380	\$ 475	\$ 5,019
Earnings (loss) per share:				
Basic	\$ (0.15)	\$ 0.71	\$ 0.14	\$ 1.50
Diluted	\$ (0.15)	\$ 0.71	\$ 0.14	\$ 1.50
Weighted average number of common shares outstanding:				
Basic	3,338	3,335	3,340	3,335
Diluted	3,338	3,346	3,349	3,346



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

	For the Three Months Ended		For the Six Months Ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Net income (loss)	\$ (513)	\$ 2,380	\$ 475	\$ 5,019
Unrealized currency translation adjustments	(1,191)	(543)	(1,989)	(669)
Comprehensive income (loss)	<u>\$ (1,704)</u>	<u>\$ 1,837</u>	<u>\$ (1,514)</u>	<u>\$ 4,350</u>



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

	August 31, 2022	February 28, 2022
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Cash	\$ 6,165	\$ 3,203
Accounts receivable, less allowance for doubtful accounts of \$748 and \$807 at August 31, 2022 and February 28, 2022, respectively	55,608	55,990
Inventories, net	97,690	98,087
Prepaid expenses and other current assets	4,951	3,711
Prepaid income taxes	1,107	-
Current assets	165,521	160,991
Property and equipment, net	11,659	10,529
Right of use operating lease assets	26,761	15,485
Deferred income taxes, net	3,577	3,578
Intangibles, net	8,719	10,233
Goodwill	2,101	2,390
Other assets	5,127	3,150
Total Assets	\$ 223,465	\$ 206,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 39,347	\$ 47,715
Accrued liabilities	20,135	24,919
Current operating lease liabilities	4,644	4,942
Income taxes payable	-	634
Lines of credit	46,117	26,449
Current maturities of debt	2,668	1,321
Current liabilities	112,911	105,980
Long term debt	6,463	8,797
Non-current operating lease liabilities	23,768	11,643
Other long term liabilities	2,528	534
Total Liabilities	145,670	126,954
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at August 31, 2022 and February 28, 2022, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,303 and 3,307 shares outstanding at August 31, 2022 and February 28, 2022, respectively	4	4
Additional paid-in capital	11,449	11,449
Retained earnings	81,743	81,268
Treasury stock, 702 and 698 shares held at cost at August 31, 2022 and February 28, 2022, respectively	(9,217)	(9,124)
Accumulated other comprehensive income	(6,184)	(4,195)
Shareholders' Equity	77,795	79,402
Total Liabilities and Shareholders' Equity	\$ 223,465	\$ 206,356



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

(In thousands)

(Unaudited)

	For the Six Months Ended	
	August 31, 2022	August 31, 2021
Operating activities:		
Net income	\$ 475	\$ 5,019
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Gain) loss on sale of property	135	(59)
Depreciation and amortization	1,927	2,132
Other non-cash adjustments	(171)	(106)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(1,245)	(1,095)
Inventories	(2,215)	(10,552)
Prepaid expenses and other assets	2,580	3,856
Trade accounts payable and accrued liabilities	(16,137)	2,488
Net cash provided by (used in) operating activities	(14,651)	1,683
Investing activities:		
Capital expenditures	(2,519)	(603)
Proceeds from sale of property	49	264
Net cash used in investing activities	(2,470)	(339)
Financing activities:		
Net borrowings under lines of credit	21,286	391
Net repayments of term loan facilities	(720)	(102)
Purchase of treasury stock	(153)	(60)
Principal payments on finance leases	(56)	(55)
Dividends paid	-	(165)
Net cash provided by financing activities	20,357	9
Effect of exchange rate changes on cash	(274)	(119)
Net increase in cash	2,962	1,234
Cash at beginning of period	3,203	10,905
Cash at end of period	\$ 6,165	\$ 12,139



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
								Comprehensive	Equity
								Income	
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	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 11,449</u>	<u>\$ 81,268</u>	<u>\$ (9,124)</u>	<u>\$ (4,195)</u>	<u>\$ 79,402</u>
Net income						475			475
Unrealized currency translation adjustments								(1,989)	(1,989)
Purchase of treasury stock							(93)		(93)
Balance at August 31, 2022	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 11,449</u>	<u>\$ 81,743</u>	<u>\$ (9,217)</u>	<u>\$ (6,184)</u>	<u>\$ 77,795</u>