



CONTACT:

Q.E.P. Co., Inc.
Enos Brown
Executive Vice President and
Chief Financial Officer
561-994-5550

Q.E.P. CO., INC. REPORTS FISCAL 2023 NINE MONTH AND THIRD QUARTER FINANCIAL RESULTS

Nine Month Net Sales of \$335.4 million
Nine Month Net Income of \$0.7 million

BOCA RATON, FLORIDA — January 17, 2023 — Q.E.P. CO., INC. (OTCQX: QEPC) (the “Company” or “QEP”) today reported its consolidated results of operations for the first nine months and third quarter of its fiscal year 2023, which ended on November 30, 2022.

QEP reported net sales of \$335.4 million for the nine months ended November 30, 2022, a decrease of \$3.8 million or 1.1% from the \$339.2 million reported in the same period of fiscal 2022. The Company reported net sales of \$102.8 million for the quarter ended November 30, 2022, a decrease of \$9.2 million or 8.2% from the \$111.9 million reported in the same period of fiscal 2022. The decrease in net sales for the first nine months and third quarter of fiscal 2023 compared to the prior year reflects lower sales volume in the most recent three months, principally in the Company’s North America flooring business, and the currency translation impact of the strong U.S. Dollar in the current period, which were only partially offset by year-over-year product price increases to customers.

Lewis Gould, Executive Chairman, commented on the Company’s results, “While profitability for the first nine months is disappointing, supply chain costs are trending down from recent unprecedented highs, inventory levels are declining towards more normalized levels and the Company is beginning to reduce its debt burden. As part of our ongoing profit improvement initiatives, we remain focused on expanding primary sales channels, investing in core products and improving or disposing of non-accretive business units.”

The Company’s gross profit for the first nine months of fiscal 2023 was \$87.8 million compared to \$92.8 million in the corresponding fiscal 2022 period, a decrease of \$5.0 million or 5.4%. Gross profit for the third quarter of fiscal 2023 was \$27.6 million, representing a decrease of \$2.9 million or 9.3%, from \$30.5 million in the corresponding fiscal 2022 period. The Company’s gross margin as a percentage of net sales for the first nine months and third quarter of fiscal year 2023 was 26.2% and 26.9%, respectively, which decreased from 27.4% and 27.2% 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 during the earlier part of the fiscal year that have not been fully recovered through customer price increases and other cost reduction initiatives.

Operating expenses for the first nine months and third quarter of fiscal 2023 were \$85.1 million and \$26.6 million, respectively, or 25.4% and 25.8% of net sales in those periods, compared to \$81.1 million and \$26.4 million, respectively, or 23.9% and 23.6% of net sales in the comparable fiscal 2022 periods. The increase in operating expenses was due to increased outbound freight costs which resulted from higher fuel costs. Additionally, the Company had higher personnel and marketing costs, including marketing displays and samples, to support recently launched flooring product lines.

The higher interest expense during the first nine months and third 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 nine months and third quarter for both fiscal 2023 and fiscal 2022.

Net income for the first nine months and third quarter of fiscal 2023 was \$0.7 million and \$0.2 million, respectively, or \$0.21 and \$0.07, respectively, per diluted share. For the comparable periods of fiscal 2022, net income was \$7.7 million and \$2.7 million, respectively, or \$2.31 and \$0.81, respectively, per diluted share.

Earnings before interest, taxes, depreciation and amortization (EBITDA), as adjusted for restructuring charges and business disposal for the first nine months and third quarter of fiscal 2023 was \$6.0 million and \$2.4 million, respectively, as compared to \$14.9 million and \$5.2 million for the first nine months and third quarter of fiscal 2022, respectively.

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2022	November 30, 2021	November 30, 2022	November 30, 2021
Net income	\$ 244	\$ 2,721	\$ 719	\$ 7,740
Add:				
Interest expense, net	734	343	1,699	993
Provision for income taxes	94	1,058	279	3,009
Depreciation and amortization	954	1,046	2,881	3,178
Restructuring charges	196	-	280	-
Gain on sales of AC Products property	(130)	-	(130)	-
Loss on disposal of business	307	-	307	-
EBITDA, as adjusted	<u>\$ 2,399</u>	<u>\$ 5,168</u>	<u>\$ 6,035</u>	<u>\$ 14,920</u>

The addback for restructuring charges relate to personnel cost in the Company's North America segment and the business disposal relates to the net loss on closure of the Company's AC Products Co. operation, a ceramic products manufacturer located in Ohio.

Cash used in operating activities during the first nine months of fiscal 2023 was \$2.2 million as compared to cash provided by operating activities of \$5.1 million in the first nine months of fiscal 2022, principally reflecting the payment to suppliers for the purchase of inventory and lower operating income in the current period. During the first nine 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 November 30, 2022 was \$54.3 million compared to \$55.0 million at the end of fiscal 2022. Aggregate debt, net of available cash balances at the end of the third quarter of fiscal 2023, was \$37.1 million or 47.3% of equity, an increase of \$3.7 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: Thursday, January 19, 2023
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 800-245-3047 (US or Canada)
203-518-9765 (International)
Confirmation ID: QEP3Q

Replay: 800-654-1563 (Toll Free)
862-902-0129 (Toll)
Access Code: 11621632

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), 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 Nine Months Ended	
	November 2022	November 2021	November 2022	November 2021
Net sales	\$ 102,789	\$ 111,942	\$ 335,391	\$ 339,211
Cost of goods sold	75,147	81,455	247,632	246,396
Gross profit	27,642	30,487	87,759	92,815
Operating expenses:				
Shipping	11,902	12,248	39,085	37,461
General and administrative	7,878	7,468	23,034	22,511
Selling and marketing	6,730	6,723	23,003	21,524
Other (income) expense, net	60	(74)	(60)	(423)
Total operating expenses	26,570	26,365	85,062	81,073
Operating income	1,072	4,122	2,697	11,742
Interest expense, net	(734)	(343)	(1,699)	(993)
Income before provision for income taxes	338	3,779	998	10,749
Provision for income taxes	94	1,058	279	3,009
Net income	\$ 244	\$ 2,721	\$ 719	\$ 7,740
Earnings per share:				
Basic	\$ 0.07	\$ 0.82	\$ 0.22	\$ 2.32
Diluted	\$ 0.07	\$ 0.81	\$ 0.21	\$ 2.31
Weighted average number of shares outstanding:				
Basic	3,332	3,335	3,337	3,335
Diluted	3,339	3,344	3,346	3,345



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

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>November 30,</u>	<u>November 30,</u>	<u>November 30,</u>	<u>November 30,</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net income	\$ 244	\$ 2,721	\$ 719	\$ 7,740
Unrealized currency translation adjustments	521	(612)	(1,468)	(1,281)
Comprehensive income (loss)	<u>\$ 765</u>	<u>\$ 2,109</u>	<u>\$ (749)</u>	<u>\$ 6,459</u>



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

	November 30, 2022	February 28, 2022
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Cash	\$ 7,472	\$ 3,203
Accounts receivable, less allowance for doubtful accounts of \$802 and \$807 at November 30, 2022 and February 28, 2022, respectively	49,919	55,990
Inventories, net	91,206	98,087
Prepaid expenses and other current assets	4,269	3,711
Prepaid income taxes	1,110	-
Current assets	153,976	160,991
Property and equipment, net	10,809	10,529
Right of use operating lease assets	30,393	15,485
Deferred income taxes, net	3,569	3,578
Intangibles, net	8,380	10,233
Goodwill	2,151	2,390
Other assets	4,857	3,150
Total Assets	\$ 214,135	\$ 206,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 36,260	\$ 47,715
Accrued liabilities	20,292	24,919
Current operating lease liabilities	4,714	4,942
Income taxes payable	-	634
Lines of credit	34,424	26,449
Current maturities of debt	3,943	1,321
Current liabilities	99,633	105,980
Long term debt	6,185	8,797
Non-current operating lease liabilities	27,497	11,643
Other long term liabilities	2,438	534
Total Liabilities	135,753	126,954
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at November 30, 2022 and February 28, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,294 and 3,307 shares outstanding at November 30, 2022 and February 28, 2022, respectively	4	4
Additional paid-in capital	11,449	11,449
Retained earnings	81,987	81,268
Treasury stock, 711 and 698 shares held at cost at November 30, 2022 and February 28, 2022, respectively	(9,395)	(9,124)
Accumulated other comprehensive income	(5,663)	(4,195)
Shareholders' Equity	78,382	79,402
Total Liabilities and Shareholders' Equity	\$ 214,135	\$ 206,356



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

(In thousands)

(Unaudited)

	For the Nine Months Ended	
	November 30,	November 30,
	2022	2021
Operating activities:		
Net income	\$ 719	\$ 7,740
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on disposal of business	307	-
(Gain) loss on sale of property	9	(88)
Depreciation and amortization	2,881	3,178
Other non-cash adjustments	(75)	(27)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	6,130	(522)
Inventories	3,447	(19,806)
Prepaid expenses and other assets	4,684	5,316
Trade accounts payable and accrued liabilities	(20,322)	9,264
Net cash provided by (used in) operating activities	(2,220)	5,055
Investing activities:		
Capital expenditures	(4,451)	(819)
Proceeds from sale of property	1,388	1,173
Net cash provided by (used in) investing activities	(3,063)	354
Financing activities:		
Net borrowings under lines of credit	9,787	1,369
Net repayments of term loan facilities	268	(2,047)
Purchase of treasury stock	(203)	(90)
Principal payments on finance leases	(84)	(82)
Dividends paid	-	(165)
Net cash provided by (used in) financing activities	9,768	(1,015)
Effect of exchange rate changes on cash	(216)	(284)
Net increase in cash	4,269	4,110
Cash at beginning of period	3,203	10,905
Cash at end of period	\$ 7,472	\$ 15,015



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

	Preferred Stock		Common Stock		Paid-in	Retained	Treasury	Accumulated	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Other	Shareholders'
								Income	Equity
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						719			719
Unrealized currency translation adjustments								(1,468)	(1,468)
Purchase of treasury stock							(271)		(271)
Balance at November 30, 2022	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 11,449</u>	<u>\$ 81,987</u>	<u>\$ (9,395)</u>	<u>\$ (5,663)</u>	<u>\$ 78,382</u>