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Q.E.P. CO., INC. REPORTS FISCAL 2024 SIX MONTH AND SECOND QUARTER FINANCIAL RESULTS

Six Month Net Sales of \$202.7 million/Net Income of \$2.6 million

BOCA RATON, FLORIDA — October 16, 2023 — 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 2024, which ended on August 31, 2023.

QEP reported net sales of \$202.7 million for the six months ended August 31, 2023, a decrease of \$29.9 million or 12.9% from the \$232.6 million reported in the same period of fiscal 2023. The Company reported net sales of \$99.4 million for the quarter ended August 31, 2023, a decrease of \$16.1 million or 13.9% from the \$115.5 million reported in the same period of fiscal 2023. The decrease in net sales was primarily due to lower demand in the North America retail and flooring dealer segments, along with the general softening of sales in the non- North America segments and the currency translation impact of the stronger U.S. Dollar in the current period.

Lewis Gould, Executive Chairman, commented on the Company’s results, “The Company’s topline net sales in the current year continue to be negatively impacted by the difficult macroeconomic backdrop, including the effect of inflation on consumer spending and the higher cost of borrowing. Despite this, gross profit margin improved as inbound freight costs declined to traditionally normal levels. Supply chain improvements have also allowed the Company to reduce its inventory levels and realize the associated reduction in borrowing.”

Mr. Gould concluded, “Additionally, I am pleased that the Company’s leadership team has executed on our strategy as outlined in recent press releases of addressing under-performing flooring product lines, along with re-aligning our global footprint, as evidenced by our recent exit from the North America flooring market and the divestment of our UK operations. We remain focused on completing the implementation of this strategy as our roadmap for a renewed emphasis on our core business aimed at increasing profitability and stockholder value.”

The Company’s gross profit for the first six months of fiscal 2024 was \$58.7 million compared to \$60.1 million in the corresponding fiscal 2023 period, a decrease of \$1.4 million or 2.3%. Gross profit for the second quarter of fiscal 2024 was \$29.4 million, representing an increase of \$0.1 million or less than 0.1%, from \$29.2 million in the corresponding fiscal 2023 period. The Company’s gross margin as a percentage of net sales for the first six months and second quarter of fiscal year 2024 was 29.0% and 29.5%, respectively, which increased from 25.8% and 25.3% in the corresponding prior fiscal year periods, respectively. The increase in gross margin as a percentage of net sales was largely due to lower inbound freight costs.

Operating expenses for the first six months and second quarter of fiscal 2024 were \$53.7 million and \$26.4 million, respectively, or 26.5% and 26.6% of net sales in those periods, compared to \$58.5 million and \$29.4 million, respectively, or 25.1% and 25.4% of net sales in the comparable fiscal 2023 periods. The reduction in operating expenses reflect lower variable shipping costs and marketing display expenses that were partially offset by higher personnel costs during the current period.

The higher interest expense during the first six months and second quarter of fiscal 2024 compared to the same periods in the prior fiscal year was due to 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 2024 and fiscal 2023.

Net income for the first six months and second quarter of fiscal 2024 was \$2.6 million and \$1.7 million, respectively, or \$0.78 and \$0.50, respectively, per diluted share. For the comparable periods of fiscal 2023, net income and net loss was \$0.5 million and minus \$0.5 million, respectively, or \$0.14 and minus \$0.15, respectively, per diluted share.

Earnings before interest, taxes, depreciation and amortization (EBITDA), as adjusted for gain on insurance recoveries, for the first six months and second quarter of fiscal 2024 was \$5.4 million and \$2.9 million, respectively, as compared to \$3.6 million and \$0.8 million for the first six months and second quarter of fiscal 2023, respectively.

	For the Three months Ended		For the Six months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Net income (loss)	\$ 1,682	\$ (513)	\$ 2,607	\$ 475
Add: Interest expense, net	625	589	1,342	965
Provision for income taxes	655	(199)	1,015	185
Depreciation and amortization	850	935	1,708	1,927
Gain from insurance recoveries	(903)	-	(1,293)	-
EBITDA, as adjusted ⁽¹⁾	<u>\$ 2,909</u>	<u>\$ 812</u>	<u>\$ 5,379</u>	<u>\$ 3,552</u>

⁽¹⁾ EBITDA as adjusted for gain on insurance recoveries represent non-GAAP measures and exclude charges or credits not indicative of our core operations.

Cash provided by operations during the first six months of fiscal 2024 was \$23.5 million as compared to cash used in operations of \$14.7 million in the first six months of fiscal 2023, reflecting the reduction in inventory to more normalized levels, as previous supply chain disruptions were addressed. In the first six months of fiscal 2024, cash provided by operations was used to reduce borrowings under the Company's credit facilities, fund capital expenditures and increase cash balances.

Working capital as of August 31, 2023 was \$52.5 million compared to \$55.0 million at the end of fiscal 2023. Aggregate debt, net of available cash balances at the end of the second quarter of fiscal 2024 was \$10.3 million or 12.8% of equity, a decrease of \$23.2 million compared to \$33.5 million or 43.0% of equity at the end of fiscal 2023.

Conference Call Information

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

Date: October 19, 2023
Time: 10:00 a.m. Eastern Time



Dial-in Numbers: 800-225-9448 (US or Canada)
203-518-9708 (International)

Confirmation ID: QEP2Q

Replay: 800-654-1563 (Toll Free)
862-902-0129 (Toll)
Access Code: 10190800

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 installation solutions for commercial and home improvement projects worldwide. QEP offers a comprehensive line of specialty installation tools, adhesives, and underlayment. QEP sells its products throughout the world to home improvement retail centers, and professional specialty distribution outlets, under brand names including QEP®, LASH®, ROBERTS®, Capitol®, Premix-Marbletite® (PMM), Brutus®, Homelux®, PRCI®, and Tomecanic®.

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

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 implementation of the Company's strategies and increasing profitability and stockholder value. Any forward-looking statements contained herein are based on current expectations and beliefs, and are subject to a number of risks and uncertainties, including those listed in the Company's annual report, as such risk factors may be amended, supplemented or superseded from time to time by other reports and disclosures made by the Company. 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, scarcity and rising cost for raw materials, shifts in global sourcing patterns, and general inflationary pressures, economic conditions, sales growth, price increases, maintaining and improving profitability, product development and marketing, operating expenses, cost savings, the successful completion of acquisitions and dispositions, acquisition integration, operational synergy realization, global sourcing, political uncertainty, cash flow, debt and currency exchange rates, 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, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Net sales	\$ 99,416	\$ 115,519	\$ 202,699	\$ 232,602
Cost of goods sold	70,055	86,280	143,993	172,485
Gross profit	29,361	29,239	58,706	60,117
Operating expenses:				
Shipping	12,253	13,565	23,955	27,183
General and administrative	8,836	7,589	17,411	15,156
Selling and marketing	6,399	8,169	13,950	16,273
Other (income) expense, net	(1,089)	39	(1,574)	(120)
Total operating expenses	26,399	29,362	53,742	58,492
Operating income (loss)	2,962	(123)	4,964	1,625
Interest expense, net	(625)	(589)	(1,342)	(965)
Income (loss) before provision for income taxes	2,337	(712)	3,622	660
Provision (benefit) for income taxes	655	(199)	1,015	185
Net income (loss)	\$ 1,682	\$ (513)	\$ 2,607	\$ 475
Earnings (loss) per share:				
Basic	\$ 0.50	\$ (0.15)	\$ 0.78	\$ 0.14
Diluted	\$ 0.50	\$ (0.15)	\$ 0.78	\$ 0.14
Weighted average number of shares outstanding:				
Basic	3,342	3,338	3,343	3,340
Diluted	3,347	3,338	3,348	3,349



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, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Net income (loss)	\$ 1,682	(513)	\$ 2,607	\$ 475
Unrealized currency translation adjustments	263	(1,191)	306	(1,989)
Comprehensive income (loss)	\$ 1,945	\$ (1,704)	\$ 2,913	\$ (1,514)



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

	August 31, 2023	February 28, 2023
	(Unaudited)	(Audited)
ASSETS		
Cash	\$ 13,252	\$ 4,996
Accounts receivable, less allowance for credit losses of \$677 and \$601 at August 31, 2023 and February 28, 2023, respectively	49,060	49,499
Inventories, net	58,030	80,347
Prepaid expenses and other current assets	5,601	3,485
Prepaid income taxes	-	288
Current assets	125,943	138,615
Property and equipment, net	11,478	10,864
Right of use operating lease assets	28,859	29,515
Deferred income taxes, net	4,079	4,100
Intangibles, net	7,422	7,990
Goodwill	2,251	2,163
Other assets	2,124	2,759
Total assets	\$ 182,156	\$ 196,006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 25,007	\$ 26,800
Accrued liabilities	19,621	19,131
Current operating lease liabilities	5,337	4,724
Income taxes payable	272	-
Lines of credit	23,137	31,039
Current maturities of debt	101	1,916
Current liabilities	73,475	83,610
Long term debt	362	5,513
Non-current operating lease liabilities	25,635	26,710
Other long term liabilities	1,771	2,333
Total liabilities	101,243	118,166
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at August 31, 2023 and February 28, 2023, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,291 and 3,293 shares outstanding at August 31, 2023 and February 28, 2023, respectively	4	4
Additional paid-in capital	11,635	11,449
Retained earnings	83,812	81,205
Treasury stock, 714 and 712 shares held at cost at August 31, 2023 and February 28, 2023, respectively	(9,436)	(9,410)
Accumulated other comprehensive income	(5,102)	(5,408)
Shareholders' equity	80,913	77,840
Total liabilities and shareholders' equity	\$ 182,156	\$ 196,006



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

(In thousands)

(Unaudited)

	For the Six Months Ended	
	August 31, 2023	August 31, 2022
Operating activities:		
Net income	\$ 2,607	\$ 475
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,708	1,927
(Gain) loss on sale of property	(10)	135
Gain from insurance recoveries	(1,293)	-
Proceeds from settlement of insurance claims	537	-
Other non-cash adjustments	223	(171)
Changes in assets and liabilities:		
Accounts receivable	(82)	(1,245)
Inventories	22,101	(2,215)
Prepaid expenses and other assets	1,468	2,580
Trade accounts payable and accrued liabilities	(3,788)	(16,137)
Net cash provided by (used in) operating activities	23,471	(14,651)
Investing activities:		
Capital expenditures	(1,603)	(2,519)
Proceeds from sale of property	36	49
Proceeds from settlement of insurance claims	1,456	-
Net cash used in investing activities	(111)	(2,470)
Financing activities:		
Net borrowings (repayments) under lines of credit	(8,104)	21,286
Net repayments of term loan facilities	(6,910)	(720)
Purchase of treasury stock	(87)	(153)
Principal payments on finance leases	(58)	(56)
Net cash provided by (used in) financing activities	(15,159)	20,357
Effect of exchange rate changes on cash	55	(274)
Net increase in cash	8,256	2,962
Cash at beginning of period	4,996	3,203
Cash at end of period	\$ 13,252	\$ 6,165



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

	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						475			475
Unrealized currency translation adjustments								(1,989)	(1,989)
Purchase of treasury stock							(93)		(93)
Balance at August 31, 2022	-	\$ -	4,005,370	\$ 4	\$ 11,449	\$ 81,743	\$ (9,217)	\$ (6,184)	\$ 77,795
Balance at February 28, 2023	-	\$ -	4,005,370	\$ 4	\$ 11,449	\$ 81,205	\$ (9,410)	\$ (5,408)	\$ 77,840
Net income						2,607			2,607
Unrealized currency translation adjustments								306	306
Purchase of treasury stock							(26)		(26)
Stock-based compensation expense					186				186
Balance at August 31, 2023	-	\$ -	4,005,370	\$ 4	\$ 11,635	\$ 83,812	\$ (9,436)	\$ (5,102)	\$ 80,913