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Q.E.P. CO., INC. REPORTS FISCAL 2025 SIX MONTH AND SECOND QUARTER FINANCIAL RESULTS

Six Month Adjusted Net Income Grows to \$7.7 Million or \$2.34 per Share

BOCA RATON, FLORIDA — October 15, 2024 — 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 fiscal year 2025, which ended on August 31, 2024.

Results of Operations

During the prior fiscal year, QEP completed the sale of its Harris Flooring Group in North America and its businesses in the United Kingdom, Australia and New Zealand in order to streamline operations and concentrate resources on its core product lines in the North American market. These divested operations have been classified as discontinued operations in our financial statements for all periods presented.

QEP reported net sales of \$126.1 million for the six months ended August 31, 2024, a decrease of \$3.9 million or 3.0% from the \$130.0 million reported in the same period of fiscal 2024. The Company reported net sales of \$62.6 million for the quarter ended August 31, 2024, a decrease of \$1.4 million or 2.2% from the \$64.0 million reported in the same period of fiscal 2024. The decrease in net sales was primarily due to the ongoing moderation of consumer spending on home improvement projects due to elevated interest rates, inflationary pressures and broader economic uncertainty.

The Company’s gross profit for the first six months of fiscal 2025 was \$44.8 million compared to \$41.0 million in the corresponding fiscal 2024 period, an increase of \$3.8 million or 9.3%. Gross profit for the second quarter of fiscal 2025 was \$22.3 million, representing an increase of \$1.4 million or 6.4%, from \$20.9 million in the corresponding fiscal 2024 period. The Company’s gross margin as a percentage of net sales for the first six months and second quarter of fiscal 2025 was 35.5% and 35.6%, respectively, which increased from 31.5% and 32.7% in the same periods of the prior fiscal year. The increase in gross margin as a percentage of net sales was largely due to lower inbound freight costs, improved product sourcing and other cost reduction initiatives.

Leonard Gould, President & Chief Executive Officer, commented on the Company’s results, “QEP continues to lean into product innovation by investing in people, processes, and the latest technology to bring products to market that are meaningful to the Professional Installer. This is the lifeblood of remaining ‘The Product Authority’ within our categories. We have more work ahead of us, but the Pro has noticed.

Lastly, I’d like to acknowledge the tremendous efforts of our people to successfully ship our customers complete and on-time despite the challenging marketplace.”

Operating expenses for the first six months and second quarter of fiscal 2025 were \$34.5 million and \$17.2 million, respectively, or 27.3% and 27.5% of net sales in those periods, compared to \$33.3 million and \$16.3 million,

respectively, or 25.6% and 25.5% of net sales in the comparable fiscal 2024 periods. The increase in operating expenses was due to higher personnel costs in the current period.

Interest income for the first six months and second quarter of fiscal 2025 was \$0.4 million and \$0.2 million, respectively, compared to interest expense of \$1.1 million and \$0.5 million, respectively, in the comparable fiscal 2024 periods. This change is due to the Company's significant repayment of debt in the latter part of fiscal 2024 and the investment of the Company's cash surplus in fiscal 2025.

The provision for income taxes as a percentage of income before taxes remained unchanged at 28.0% for the first six months and second quarter for both fiscal 2025 and fiscal 2024.

Net income from continuing operations for the first six months and second quarter of fiscal 2025 was \$7.7 million and \$3.8 million, respectively, or \$2.34 and \$1.17, respectively, per diluted share. For the comparable periods of fiscal 2024, net income from continuing operations was \$4.8 million and \$3.0 million, respectively, or \$1.43 and \$0.88, respectively, per diluted share.

Earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations for the first six months and second quarter of fiscal 2025 was \$11.0 million and \$5.5 million, respectively, or 8.7% of net sales for both periods. For the comparable periods of fiscal 2024, EBITDA was \$8.4 million and \$4.9 million, respectively, or 6.5% and 7.7% of net sales, respectively.

	For the Three Months		For the Six Months Ended	
	August 31, 2024	August 31, 2023	August 31, 2024	August 31, 2023
Net income from continuing operations	\$ 3,832	\$ 2,954	\$ 7,735	\$ 4,774
Add: Interest (income) expense, net	(223)	496	(406)	1,099
Provision for income taxes	1,495	1,149	3,003	1,857
Depreciation and amortization	348	348	686	704
EBITDA from continuing operations	<u>\$ 5,452</u>	<u>\$ 4,947</u>	<u>\$ 11,018</u>	<u>\$ 8,434</u>

Cash provided by operations during the first six months of fiscal 2025 was \$11.2 million as compared to \$23.5 million in the first six months of fiscal 2024, reflecting the reduction in inventory to more normalized levels during the prior year period. In the first six months of fiscal 2025, cash provided by operations, along with proceeds from the sale of businesses, were used to pay a stockholder dividend, repurchase stock and increase the Company's cash surplus. In the first six months of fiscal 2024, cash provided by operations was used to reduce borrowings under the Company's lines of credit and increase cash balances.

Working capital as of August 31, 2024 was \$61.4 million compared to \$60.0 million at the end of fiscal 2024. Aggregate available cash, net of outstanding debt at August 31, 2024 was \$29.8 million compared to \$21.7 million at the end of fiscal 2024.

The Company welcomes investor inquiries via email at ir@qep.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 installation solutions for commercial and home improvement projects. 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 other facilities in the United States, Canada, Europe and Asia. 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, 2024	August 31, 2023	August 31, 2024	August 31, 2023
Net sales	\$ 62,559	\$ 63,988	\$ 126,084	\$ 129,966
Cost of goods sold	40,271	43,050	81,292	88,978
Gross profit	22,288	20,938	44,792	40,988
Operating expenses:				
Shipping	6,909	7,168	13,989	14,178
General and administrative	6,952	6,249	13,236	12,375
Selling and marketing	3,278	3,110	7,184	6,981
Other income, net	45	(188)	51	(276)
Total operating expenses	17,184	16,339	34,460	33,258
Operating income	5,104	4,599	10,332	7,730
Interest income (expense), net	223	(496)	406	(1,099)
Income before provision for income taxes	5,327	4,103	10,738	6,631
Provision for income taxes	1,495	1,149	3,003	1,857
Net income from continuing operations	3,832	2,954	7,735	4,774
Gain/(Loss) from discontinued operations, net of tax	(27)	(1,272)	538	(2,167)
Net income	\$ 3,805	\$ 1,682	\$ 8,273	\$ 2,607
Basic earnings (loss) per share:				
From continuing operations	1.17	0.88	2.34	1.43
From discontinued operations	(0.01)	(0.38)	0.17	(0.65)
Basic earnings per share	1.16	0.50	2.51	0.78
Diluted earnings (loss) per share:				
From continuing operations	1.17	0.88	2.34	1.43
From discontinued operations	(0.01)	(0.38)	0.16	(0.65)
Diluted earnings per share	1.16	0.50	2.50	0.78
Weighted average number of common shares outstanding:				
Basic	3,276	3,342	3,300	3,343
Diluted	3,280	3,347	3,307	3,348



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

	<u>August 31,</u> <u>2024</u>	<u>February 29,</u> <u>2024</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Cash	\$ 29,944	\$ 22,369
Accounts receivable, less allowance for credit losses of \$213 and \$134 at August 31, 2024 and February 29, 2024, respectively	30,283	30,338
Inventories, net	32,196	29,913
Prepaid expenses and other current assets	2,810	7,491
Prepaid income taxes	-	1,375
Discontinued operations	721	693
Current assets	95,954	92,179
Property and equipment, net	11,352	9,894
Right of use operating lease assets	18,816	19,852
Deferred income taxes, net	2,548	2,548
Intangibles, net	4	99
Other assets	823	1,276
Total assets	\$ 129,497	\$ 125,848
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 14,821	\$ 14,438
Accrued liabilities	16,010	13,352
Current operating lease liabilities	3,289	3,210
Income taxes payable	373	-
Lines of credit	50	601
Current maturities of debt	32	74
Discontinued operations	-	479
Current liabilities	34,575	32,154
Long term debt	14	-
Non-current operating lease liabilities	18,463	19,855
Other long term liabilities	740	1,209
Total liabilities	53,792	53,218
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at August 31, 2024 and February 29, 2024, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,265 and 3,286 shares outstanding at August 31, 2024 and February 29, 2024, respectively	4	4
Additional paid-in capital	10,361	11,901
Retained earnings	78,215	73,211
Treasury stock, 740 and 719 shares held at cost at August 31, 2024 and February 29, 2024, respectively	(10,008)	(9,517)
Accumulated other comprehensive income	(2,867)	(2,969)
Shareholders' equity	75,705	72,630
Total liabilities and shareholders' equity	\$ 129,497	\$ 125,848



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

(In thousands)

(Unaudited)

	For the Six Months Ended	
	August 31, 2024	August 31, 2023
Operating activities:		
Net income	\$ 8,273	\$ 2,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	686	1,708
Gain on disposal of businesses	(512)	-
Gain on sale of property	(1)	(10)
Gain from insurance recoveries	-	(1,293)
Proceeds from settlement of insurance claims	-	537
Impairment of long-lived asset	85	-
Other non-cash adjustments	82	223
Changes in assets and liabilities:		
Accounts receivable	103	(82)
Inventories	(2,233)	22,101
Prepaid expenses and other assets	1,678	1,468
Trade accounts payable and accrued liabilities	3,019	(3,788)
Net cash provided by operating activities	11,180	23,471
Investing activities:		
Capital expenditures	(2,121)	(1,603)
Proceeds from sale of businesses	4,305	-
Proceeds from sale of property	1	36
Proceeds from settlement of insurance claims	-	1,456
Net cash provided by (used in) investing activities	2,185	(111)
Financing activities:		
Net repayments under lines of credit	(548)	(8,104)
Net repayments of term loan facilities	-	(6,910)
Repurchase of equity-based awards	(1,540)	-
Purchase of treasury stock	(403)	(87)
Principal payments on finance leases	(55)	(58)
Dividends paid	(3,269)	-
Net cash used in financing activities	(5,815)	(15,159)
Effect of exchange rate changes on cash	25	55
Net increase in cash	7,575	8,256
Cash at beginning of period	22,369	3,060
Cash at beginning of the period from discontinued operations	-	1,936
Cash at end of period	\$ 29,944	\$ 13,252



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

The following table shows the changes in the shareholder's equity for the first six months ended August 31, 2024 and 2023.

	Preferred Stock		Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				Other Comprehensive Income	
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	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 11,635</u>	<u>\$ 83,812</u>	<u>\$ (9,436)</u>	<u>\$ (5,102)</u>	<u>\$ 80,913</u>

	Preferred Stock		Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				Other Comprehensive Income	
Balance at February 29, 2024	-	\$ -	4,005,370	\$ 4	\$ 11,901	\$ 73,211	\$ (9,517)	\$ (2,969)	\$ 72,630
Net income						8,273			8,273
Unrealized currency translation adjustments								102	102
Repurchase of equity-based awards					(1,540)				(1,540)
Purchase of treasury stock							(491)		(491)
Dividends paid						(3,269)			(3,269)
Balance at August 31, 2024	<u>-</u>	<u>\$ -</u>	<u>4,005,370</u>	<u>\$ 4</u>	<u>\$ 10,361</u>	<u>\$ 78,215</u>	<u>\$ (10,008)</u>	<u>\$ (2,867)</u>	<u>\$ 75,705</u>