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Q.E.P. CO., INC. REPORTS RECORD SALES FOR THE FIRST QUARTER OF FISCAL 2020

BOCA RATON, FLORIDA — July 10, 2019 — Q.E.P. CO., INC. (OTC: QEPC.PK) (the “Company” or “Q.E.P.”) today reported its consolidated results of operations for the first quarter of its fiscal year ending February 29, 2020.

Q.E.P. reported net sales of \$102.6 million for the quarter ended May 31, 2019, an increase of \$14.7 million or 16.8% from the \$87.9 million reported in the first quarter of fiscal 2019. Net sales growth for the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019 reflects the positive impact of businesses acquired during fiscal 2019, offset by reductions due to the divestiture of certain non-core product lines, declines in certain core product categories and the impact of currency translation due to weakening currencies in Europe and Australia. As a percentage of net sales, gross margin was 26.1% in the first quarter of fiscal 2020, as compared to 27.5% in the first quarter of fiscal 2019.

Lewis Gould, Chairman of the Board of Directors, commented on the Company’s results, “We are pleased with the Company’s sales growth that has been achieved through our ongoing acquisition strategy. During the first quarter, we continued to make investments in new products, samples and displays for our distributors. While these investments negatively impacted the quarter’s results, they are expected to benefit us in the future. We also worked to right-size the cost structure of these businesses by reducing headcount and integrating back office operations, which should also benefit future quarters.”

Mr. Gould continued, “We continue to work hard to offset the impact of product, manufacturing and shipping costs as well as tariffs in our core business as well as generate new business from sale of domestic manufactured goods that are not subject to tariff in the United States.”

Mr. Gould concluded, “We have worked diligently through a period of significant investment in the Company’s future and believe the Company is now better positioned for future earnings growth.”

The Company’s gross profit for the first quarter of fiscal 2020 was \$26.8 million, representing an increase of \$2.7 million, or 11.0% from \$24.1 million in the first quarter of fiscal 2019, which was driven by the same factors that impacted sales growth. Gross margin as a percentage of net sales was negatively impacted by changes in product mix; costs related to facility, production and product rationalization, increased transportation, product and manufacturing costs; and higher tariffs placed on the products the Company imports from China.

Operating expenses for the first quarter of fiscal 2020 and 2019 were \$30.4 million or 29.6% of net sales and \$22.0 million or 25.0% of net sales, respectively. The increase in operating expenses was due to the incremental costs assumed with the businesses acquired during the fiscal 2019 and one-time costs related to restructuring activity.

The increase in interest expense during the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019 was due to incremental borrowings under the Company’s credit facilities to fund acquisitions and support sales growth, along with increases in interest rates.

The benefit for income taxes as a percentage of income before taxes was 28.0% for the first quarter of fiscal 2020, as compared to a provision for income taxes of 28.0% for the first quarter of fiscal 2019.

Net loss for the first quarter of fiscal 2020 was \$1.3 million or \$.42 per diluted share, compared to net income of \$1.4 million or \$.44 per diluted share for the first quarter of fiscal 2019.

Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) as adjusted for non-operating income, corporate development and other one-time expenses for the first quarter of fiscal 2020 was a loss of \$2.1 million compared to income of \$3.3 million for the first quarter of fiscal 2019.

	For the Three Months Ended May 31,	
	2019	2018
Net income (loss)	\$ (1,320)	\$ 1,422
Add: Interest expense, net	678	180
(Benefit)/Provision for income taxes	(513)	553
Depreciation and amortization	1,190	919
Non-operating income	(2,399)	-
Corporate development and other expenses	234	259
EBITDA as adjusted for corporate development and other expenses ⁽¹⁾	<u>\$ (2,130)</u>	<u>\$ 3,333</u>

⁽¹⁾ EBITDA as adjusted for corporate development and other one-time expenses represent non-GAAP measures and exclude charges or credits not indicative of our core operations, which may include but are not limited to corporate development expenses, acquisition integration and acquisition costs.

Cash used in operations during the first quarter of fiscal 2020 was \$4.5 million as compared to cash provided by operations of \$4.2 million in the first quarter of fiscal 2019, reflecting a decrease in operating income and an increase in net investments in working capital, principally inventory and accounts receivable. During the first quarter of fiscal 2020, the Company sold certain non-core product lines and recorded a gain on the sale of \$2.4 million before income taxes, which is recorded in non-operating income. During the first quarter of fiscal 2019, the Company acquired businesses for \$14.3 million. In the first quarter of fiscal 2020, operations, capital expenditures and seasonal inventory growth were funded through cash on-hand, proceeds from the sale of a product line and borrowings under the Company's credit facilities. In the prior year's first quarter, investments in acquisitions and capital expenditures were funded by cash from operations and net borrowings

Working capital as of May 31, 2020 was \$39.0 million compared to \$43.9 million at the end of fiscal 2019. Aggregate debt, net of available cash balances at the end of the first quarter of fiscal was \$55.5 million or 75% of equity, a decrease of \$0.3 million compared to \$55.8 million or 74% of equity at the end of fiscal 2019.

The Company will be hosting a conference call to discuss these results and to answer your questions at 10:00 a.m. Eastern Time on Tuesday, July 16, 2019. If you would like to join the conference call, dial 1-866-548-4713



toll free from the US or 1-323-794-2093 internationally approximately 10 minutes prior to the start time and ask for the Q.E.P. Co., Inc. Investor Conference Call / Conference ID 8924732. A replay of the conference call will be available until midnight July 23, 2019 by calling 1-844-512-2921 toll free from the US and entering pin number 8924732; internationally, please call 1-412-317-6671 using the same pin number.

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Q.E.P. Co., Inc., founded in 1979, is a world class, worldwide provider of innovative, quality and value-driven flooring and industrial solutions. As a leading manufacturer, marketer and distributor, QEP delivers a comprehensive line of hardwood and laminate flooring, flooring installation tools, adhesives and flooring related products targeted for the professional installer as well as the do-it-yourselfer. In addition, the Company provides industrial tools with cutting edge technology to the industrial trades. Under brand names including QEP®, ROBERTS®, Capitol®, Harris®Wood, Kraus®, Naturally Aged Flooring®, Vitrex®, Homelux®, TileRite®, PRCI®, Plasplugs®, Porta-Nails®, Tomecanic®, Bénètiere®, Elastiment®, X-TREME Board™ and AppleCreek™, the Company sells its products to home improvement retail centers, specialty distribution outlets, municipalities and industrial solution providers in 50 states and throughout the world.

This press release contains forward-looking statements, including statements regarding economic conditions, sales growth, price increases, profit improvements, product development and marketing, operating expenses, cost savings, acquisition integration, operational synergy realization, cash flow, debt and currency exchange rates. These statements are not guarantees of future performance and actual results could differ materially from our current expectations. Certain prior period amounts have been reclassified to conform to current presentation.

-Financial Information Follows-



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands except per share data)
(Unaudited)

	For the Three Months Ended	
	May 31,	
	2019	2018
Net sales	\$ 102,604	\$ 87,876
Cost of goods sold	75,777	63,718
Gross profit	26,827	24,158
Operating expenses:		
Shipping	11,238	8,091
General and administrative	9,858	8,107
Selling and marketing	9,463	5,962
Other income, net	(178)	(157)
Total operating expenses	30,381	22,003
Operating income	(3,554)	2,155
Non-operating income	2,399	-
Interest expense, net	(678)	(180)
Income (loss) before provision for income taxes	(1,833)	1,975
Provision (benefit) for income taxes	(513)	553
Net income (loss)	\$ (1,320)	\$ 1,422
Earnings per share:		
Basic	\$ (0.42)	\$ 0.45
Diluted	\$ (0.42)	\$ 0.44
Weighted average number of common shares outstanding:		
Basic	3,160	3,194
Diluted	3,160	3,196



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

	For the Three Months	
	May 31,	
	2019	2018
Net income (loss)	\$ (1,320)	\$ 1,422
Unrealized currency translation adjustments	(548)	(582)
Comprehensive income (loss)	\$ (1,868)	\$ 840



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

	May 31, 2019	February 28, 2019
	(Unaudited)	(Audited)
ASSETS		
Cash	\$ 4,726	\$ 6,467
Accounts receivable, less allowance for doubtful accounts of \$768 and \$751 as of May 31, 2019 and February 28, 2019, respectively	48,449	53,295
Inventories	81,239	91,684
Prepaid expenses and other current assets	7,033	7,360
Current assets	141,447	158,806
Property and equipment, net	16,151	16,695
Deferred income taxes, net	3,277	3,271
Intangibles, net	15,390	16,815
Goodwill	6,014	6,140
Other assets	20,494	1,056
Total Assets	\$ 202,773	\$ 202,783
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 28,484	\$ 36,611
Accrued liabilities	26,794	29,358
Income taxes payable (prepaid)	(2,806)	(2,217)
Lines of credit	47,584	49,398
Current maturities of notes payable	2,355	1,733
Current liabilities	102,411	114,883
Notes payable	10,307	11,101
Deferred income taxes	193	193
Other long term liabilities	16,208	1,084
Total Liabilities	129,119	127,261
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at May 31, 2019 and February 28, 2019	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 3,821 shares issued, and 3,142 shares outstanding at May 31, 2019 and February 28, 2019	4	4
Additional paid-in capital	10,963	10,963
Retained earnings	75,709	77,029
Treasury stock, 679 shares held at cost at May 31, 2019 and February 28, 2019	(8,700)	(8,700)
Accumulated other comprehensive income	(4,322)	(3,774)
Shareholders' Equity	73,654	75,522
Total Liabilities and Shareholders' Equity	\$ 202,773	\$ 202,783



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

(In thousands)
(Unaudited)

	For the Three Months Ended	
	May 31,	
	2019	2018
Operating activities:		
Net income (loss)	\$ (1,320)	\$ 1,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of business	(2,399)	-
Depreciation and amortization	1,190	919
Other non-cash adjustments	91	46
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	4,001	(1,800)
Inventories	7,385	(308)
Prepaid expenses and other assets	(19,174)	(642)
Trade accounts payable and accrued liabilities	5,767	4,607
Net cash provided (used in) by operating activities	<u>(4,459)</u>	<u>4,244</u>
Investing activities:		
Acquisitions	(875)	(14,254)
Capital expenditures	(313)	(948)
Proceeds from sale of business	4,691	-
Proceeds from sale of property	84	18
Net cash provided by (used in) investing activities	<u>3,587</u>	<u>(15,184)</u>
Financing activities:		
Net borrowings (repayment) under lines of credit	(525)	1,077
Net borrowings (repayments) of notes payable	(89)	(214)
Purchase of treasury stock	(30)	(30)
Net cash provided (used in) financing activities	<u>(644)</u>	<u>833</u>
Effect of exchange rate changes on cash	(225)	(59)
Net decrease in cash	<u>(1,741)</u>	<u>(10,166)</u>
Cash at beginning of period	6,467	16,134
Cash at end of period	<u>\$ 4,726</u>	<u>\$ 5,968</u>