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Q.E.P. CO., INC. REPORTS RECORD SALES FOR FISCAL 2019

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 its fiscal year ended February 28, 2019.

Q.E.P. reported net sales of \$379.4 million for the year ended February 28, 2019, an increase of \$57.0 million or 17.7% from the \$322.4 million reported in fiscal 2018. Net sales growth for fiscal 2019 as compared to the prior fiscal year reflects the positive impact of businesses acquired during fiscal 2019, offset by sales declines in certain core product categories. As a percentage of net sales, gross margin was 26.5% in fiscal 2019, as compared to 27.7% in fiscal 2018.

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 with the acquisition of three businesses during fiscal 2019. During the second half of the year, the costs of integrating these new businesses as well as our significant investments in new products, samples, displays and streamlining our supply chain, negatively impacted fiscal 2019 results, but are expected to provide benefits in the future. Our expansion and consolidation into a new West Coast distribution center located in Arizona was completed in the fourth quarter. This facility provides manufacturing capacity for adhesives, new glue cartridge filling capability, and West Coast distribution for Kraus Flooring products. In the fourth quarter, we completed the consolidation and enhancement of our wood manufacturing operations with the transition from our former Indiana facility. We also sold the non-core product lines of Nupla and Halex in February and March 2019, respectively, in order to focus our efforts on our core flooring, tools and accessories businesses.”

Mr. Gould continued, “The core business continues to experience cost pressures as product, manufacturing and shipping costs increase, along with the absorption of higher tariffs imposed on imports from China. Q.E.P. continues to work with our customers to pass along market-based price increases. We continue to monitor our cost structure and use of working capital, adjusting our plans to achieve the best return on these investments.”

Mr. Gould concluded, “The Company has been deliberate in making strategic investments in our future. We believe that these investments, along with the expansion of our distribution channels, will create significant opportunities for sales growth and increased profitability.”

The Company’s gross profit for fiscal 2019 was \$100.6 million, representing an increase of \$11.1 million, or 12.5% from \$89.5 million in fiscal 2018, which resulted from fiscal 2019 acquisitions. 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 inbound transportation, product and manufacturing costs; and higher tariffs placed on the products the Company imports from China.

Operating expenses, excluding the net gain on the disposal of long-lived assets, for fiscal 2019 and 2018 were \$106.3 million or 28.0% of net sales and \$79.8 million or 24.8% of net sales, respectively. The increase in operating expenses was due to the incremental costs assumed with the businesses acquired during fiscal 2019, one-time costs related to acquisition activity and increases in outbound shipping costs.

The increase in interest expense during fiscal 2019 as compared to fiscal 2018 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 23.9% for fiscal 2019, as compared to a provision for income taxes of 44.3% for fiscal 2018. The effective tax rate in fiscal 2019 and 2018 reflects the impact of the enacted U.S. tax legislation, Tax Cuts and Jobs Act, and the relative contribution of the Company's earnings sourced from its international operations.

Net loss for fiscal 2019 was \$3.0 million or \$0.95 per diluted share, as compared to net income of \$7.9 million or \$2.49 per diluted share for fiscal 2018.

Earnings before interest, taxes, depreciation and amortization (EBITDA) as adjusted for impairment of long-lived assets, corporate development and other one-time expenses for fiscal 2019 was \$2.0 million as compared to \$15.3 million for fiscal 2018.

	For the Year Ended February,	
	<u>2019</u>	<u>2018</u>
Net income (loss)	\$ (3,020)	\$ 7,945
Add: Interest expense, net	1,567	952
(Benefit)/Provision for income taxes	(950)	6,325
Depreciation and amortization	4,728	3,837
Non-operating income	(3,414)	-
Corporate development and other expenses	2,813	1,830
Impairment of long-lived assets	238	(5,561)
EBITDA as adjusted for Impairment of long-lived assets, corporate development and other expenses ⁽¹⁾	<u>\$ 1,962</u>	<u>\$ 15,328</u>

⁽¹⁾ EBITDA as adjusted for impairment of long-lived assets, 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 fiscal 2019 was \$13.0 million as compared to cash provided by operations of \$5.6 million in fiscal 2018, reflecting a decrease in operating income and an increase in net investments in working capital, principally inventory and accounts receivable. During fiscal 2019, the Company acquired businesses for \$39.1 million compared to \$3.9 million during fiscal 2018. In fiscal 2019, these investments, capital expenditures, treasury stock purchases and seasonal inventory growth were funded through cash on-hand, cash from operations, proceeds from the sale of a business and borrowings under the Company's credit facilities. In the prior fiscal year, investments in acquisitions as well as additional capital expenditures, dividend payment and



treasury stock purchases were funded through cash on-hand, proceeds from the sale of properties and cash from operations.

Working capital as of February 28, 2019 was \$43.9 million compared to \$54.9 million at the end of the 2018 fiscal year. Aggregate debt, net of available cash balances at the end of fiscal 2019 was \$55.8 million or 73.8% of equity, an increase of \$50.7 million compared to \$5.1 million or 6.4% of equity at the end of the 2018 fiscal year, reflecting the use of cash to make strategic investments in the business.

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 with current presentation.

-Financial Information Follows-



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

	For the Year Ended	
	February 28, 2019	February 28, 2018
Net sales	\$ 379,402	\$ 322,388
Cost of goods sold	278,798	232,930
Gross profit	100,604	89,458
Operating expenses:		
Shipping	37,923	28,550
General and administrative	40,970	28,569
Selling and marketing	28,209	23,155
Gain on disposal of long-lived assets, net of impairment	142	(5,561)
Other income, net	(823)	(477)
Total operating expenses	106,421	74,236
Operating income	(5,817)	15,222
Non-operating income	3,414	-
Interest expense, net	(1,567)	(952)
Income (loss) before provision for income	(3,970)	14,270
Provision (benefit) for income taxes	(950)	6,325
Net income (loss)	\$ (3,020)	\$ 7,945
Earnings per share:		
Basic	\$ (0.95)	\$ 2.49
Diluted	\$ (0.95)	\$ 2.49
Weighted average number of common shares outstanding:		
Basic	3,179	3,194
Diluted	3,181	3,196



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

	For the Year Ended	
	February 28, 2019	February 28, 2018
Net income (loss)	\$ (3,020)	\$ 7,945
Unrealized currency translation adjustments	(993)	1,167
Comprehensive income (loss)	<u>\$ (4,013)</u>	<u>\$ 9,112</u>



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

	February 28, 2019	February 28, 2018
ASSETS		
Cash	\$ 6,467	\$ 16,134
Accounts receivable, less allowance for doubtful accounts of \$751 and \$371 as of February 28, 2019 and February 28, 2018, respectively	53,295	41,443
Inventories	91,684	48,276
Prepaid expenses and other current assets	7,360	6,578
Current assets	158,806	112,431
Property and equipment, net	16,695	10,923
Deferred income taxes, net	3,271	2,154
Intangibles, net	16,815	11,442
Goodwill	6,140	3,308
Other assets	1,056	834
Total Assets	\$ 202,783	\$ 141,092
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 36,611	\$ 22,350
Accrued liabilities	29,358	17,433
Income taxes payable (prepaid)	(2,217)	(1,600)
Lines of credit	49,398	18,470
Current maturities of notes payable	1,733	857
Current liabilities	114,883	57,510
Notes payable	11,101	1,929
Deferred income taxes	193	282
Other long term liabilities	1,084	802
Total Liabilities	127,261	60,523
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at February 28, 2019 and February 28, 2018, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 3,821 shares issued, and 3,142 and 3,183 shares outstanding at February 28, 2019 and February 28, 2018, respectively	4	4
Additional paid-in capital	10,963	10,854
Retained earnings	77,029	80,049
Treasury stock, 679 and 638 shares held at cost at February 28, 2019 and February 28, 2018, respectively	(8,700)	(7,557)
Accumulated other comprehensive income	(3,774)	(2,781)
Shareholders' Equity	75,522	80,569
Total Liabilities and Shareholders' Equity	\$ 202,783	\$ 141,092



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	February 28, 2019	February 28, 2018
Operating activities:		
Net income (loss)	\$ (3,020)	\$ 7,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of business	(3,415)	-
Gain on sale of property	(96)	(6,793)
Impairment loss on long term assets	238	1,231
Depreciation and amortization	4,728	3,837
Other non-cash adjustments	281	244
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(2,457)	(1,624)
Inventories	(15,141)	(3,500)
Prepaid expenses and other assets	(2,253)	2,773
Trade accounts payable and accrued liabilities	8,161	1,474
Net cash provided (used in) by operating activities	(12,974)	5,587
Investing activities:		
Acquisitions	(39,075)	(3,899)
Capital expenditures	(8,206)	(3,862)
Proceeds from sale of business	9,350	97
Proceeds from sale of property	599	12,381
Proceeds from insurance settlements	-	252
Net cash provided by (used in) investing activities	(37,332)	4,969
Financing activities:		
Net borrowings (repayment) under lines of credit	31,805	(2,227)
Net borrowings (repayments) of notes payable	10,036	(8,113)
Purchase of treasury stock	(1,121)	(120)
Dividends	-	(3,204)
Redemption of preferred shares	-	(18)
Net cash provided (used in) financing activities	40,720	(13,682)
Effect of exchange rate changes on cash	(81)	108
Net decrease in cash	(9,667)	(3,018)
Cash at beginning of period	16,134	19,152
Cash at end of period	\$ 6,467	\$ 16,134