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Q.E.P. CO., INC. REPORTS FISCAL 2020 NINE MONTH AND THIRD QUARTER FINANCIAL RESULTS

Record Nine Month Net Sales of \$299.1 Million

BOCA RATON, FLORIDA — January 13, 2020 — Q.E.P. CO., INC. (OTC: QEPC.PK) (the “Company” or “QEP”), a leading global provider of high quality, innovative and value-driven flooring and installation solutions, today reported its consolidated results of operations for the first nine months and third quarter of its fiscal year ending February 29, 2020.

QEP reported net sales of \$299.1 million for the nine months ended November 30, 2019, an increase of \$17.9 million or 6.4% from the \$281.2 million reported in the same period of fiscal 2019. The Company reported net sales of \$96.7 million for the quarter ended November 30, 2019, a decrease of \$4.0 million or 4.0% from the \$100.7 million reported in the same period of fiscal 2019.

Lewis Gould, Chairman & CEO, commented, “We are encouraged by the sales growth resulting from our recent acquisitions. These results combined with the progress we continue to make in integrating these businesses has resulted in the Company’s return to generating positive EBITDA for the third quarter of fiscal 2020. In parallel with this integration, the Company continues to make important investments in personnel, branding, new products, displays and product samples, to support our extensive customer network in North America. We believe these investments are necessary to keep current with market trends, drive continued sales growth, and ensure sustained future profitability.”

Mr. Gould continued, “The Company will realize a benefit from the recent removal of tariffs on certain flooring products imported from China. In addition, we are continuing our efforts to offset the impact of higher costs on those Chinese-manufactured goods which still remain subject to tariffs including identifying alternative sourcing options that are subject to lower import duties.”

Mr. Gould concluded, “All of the Company’s business segments have meaningful sales growth and market expansion prospects that we expect to be realized over the coming months. As such, we remain committed to our current strategy, along with pragmatically reducing debt and improving working capital through inventory reduction.”

Net sales growth for the first nine months of fiscal 2020, as compared to the same periods in the prior fiscal year, reflect the positive impact of businesses acquired during fiscal 2019, offset by the divestment of certain non-core product lines and sales declines in certain core product categories, along with the unfavorable impact of foreign currency translation. Net sales decline for the third quarter of fiscal 2020, as compared to the same period in the prior fiscal year, reflect the impact of the divestment of certain non-core product lines and weaker year-over-year sales from the fiscal 2019 acquisitions.

The Company's gross profit for the first nine months of fiscal 2020 was \$79.5 million, representing an increase of \$4.6 million or 6.1% from \$74.9 million in the corresponding fiscal 2019 period. Gross profit for the third quarter of fiscal 2020 was \$26.5 million, representing an increase of \$0.8 million or 3.1%, from \$25.7 million in the fiscal 2019 period. The Company's gross margin as a percentage of net sales for the first nine months and third quarter of fiscal year 2020 was 26.6% and 27.4%, respectively, compared to 26.6% and 25.5% in the prior fiscal year periods, respectively. The fiscal 2019 acquisitions and the Company's Europe segment were responsible for the gross profit increase in both the nine-month period and the current quarter compared to the prior year. The change in gross margin as a percentage of net sales in fiscal 2020 compared to fiscal 2019 is principally the higher profit margins on the fiscal 2019 acquisition offset by the impact of higher tariffs placed on products imported from China that have not been fully passed through to customers through price increases or to suppliers through cost decreases.

Operating expenses for the first nine months and third quarter of fiscal 2020 were \$85.1 million and \$26.5 million, respectively, or 28.4% and 27.4% of net sales in those periods, compared to \$73.7 million and \$27.7 million, respectively, or 26.2% and 27.5% of net sales in the comparable fiscal 2019 periods. The increase in operating expenses was due to the incremental costs assumed with the businesses acquired during fiscal 2019, upfront marketing investments, along with one-time restructuring and integration costs related to these acquisitions, which were only partially offset by general and administrative cost reductions and non-recurring acquisition costs in fiscal 2019.

Non-operating income in fiscal 2020 represents the sale of assets related to a non-core product line.

The increase in interest expense during fiscal 2020 compared to 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 the loss before taxes was 28.0% for the first nine months and third quarter of fiscal 2020 compared to a provision/(benefit) for income taxes as a percentage of income/(loss) before taxes of 28.0% for the related fiscal 2019 periods.

Net loss for the first nine months and third quarter of fiscal 2020 was \$3.7 million and \$0.4 million, respectively, or \$1.16 and \$0.13, respectively, per diluted share. For the comparable periods of fiscal 2019, net income was \$0.2 million and net loss \$1.8 million, respectively, or \$0.06 and \$0.57, respectively, per diluted share.

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 nine months and third quarter of fiscal 2020 was minus \$1.7 million and \$0.9 million, respectively as compared to \$7.0 million and \$0.8 million for the first nine months and third quarter of fiscal 2019, respectively.

| | For the Three Months | | For the Nine Months | |
|--|----------------------|---------------|---------------------|-----------------|
| | Ended | | Ended | |
| | November 30, | | November 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | \$ (398) | \$ (1,796) | \$ (3,664) | \$ 208 |
| Add: | | | | |
| Interest expense, net | 583 | 518 | 1,885 | 889 |
| (Benefit)/Provision for income taxes | (155) | (698) | (1,426) | 80 |
| Depreciation and amortization | 1,194 | 1,318 | 3,587 | 3,325 |
| Non-operating income | - | - | (2,370) | - |
| Corporate development and other expenses | (303) | 1,413 | 244 | 2,275 |
| Impairment of long-lived assets | - | - | - | 238 |
| EBITDA as adjusted for impairment of long-lived assets, corporate development and other expenses ⁽¹⁾ | <u>\$ 921</u> | <u>\$ 755</u> | <u>\$ (1,744)</u> | <u>\$ 7,015</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 provided by operations during the nine months of fiscal 2020 was \$1.8 million as compared to \$3.1 million of cash used in operation for the first nine months of fiscal 2019, reflecting a reduction in net investments in working capital, principally inventory and accounts receivable, partially offset by a decrease in operating income. During the first nine months of fiscal 2020, the Company generated cash from the sale of a business of \$4.7 million and made an equity investment of \$1.9 million and capital expenditures of \$0.9 million. In the first nine months of fiscal 2019, the Company made acquisition of \$40.0 million and capital expenditures of \$6.7 million. In the first nine months of the current fiscal year, the cash provided by operating activities and the sale of a business were used to repay debt. In the prior fiscal year period, acquisitions, capital expenditures and seasonal inventory growth were funded through cash on-hand, borrowings under the Company's lines of credit and expansion of the Company's term loan facilities.

Working capital at the end of the Company's third quarter of fiscal 2020 was \$36.8 million compared to \$43.9 million at the end of the 2019 fiscal year. Aggregate debt, net of available cash balances at the end of the Company's third quarter of fiscal 2020 quarter was \$52.6 million or 73.6% of equity, a decrease of \$3.2 million compared to \$55.8 million or 73.8% of equity at the end of the 2019 fiscal year.

Conference Call Information

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

Date: Thursday, January 16, 2020
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 800-353-6461 (US or Canada)
+1 334-323-0501 (International)
Confirmation Code: 8210750



Replay: 719-457-0820 or toll free 888-203-1112; Passcode: 8210750

About QEP

Founded in 1979, Q.E.P. Co., Inc. is a leading global provider of high quality, innovative and value-driven flooring and installation solutions. QEP manufactures, markets and sells a comprehensive line of hardwood, porcelain, SPC, vinyl, carpet tile and laminate flooring, installation tools, adhesives, and other flooring-related products for the professional installer and do-it-yourselfer. QEP sells its products to home improvement retail centers, specialty distribution outlets, and flooring dealers throughout the world under brand names including QEP®, ROBERTS®, Capitol®, Harris®Wood, Kraus®, Naturally Aged Flooring, Vitrex®, Homelux®, TileRite®, PRCI, Plasplugs®, Porta-Nails®, Tomecanic®, and Elastiment®.

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. Any forward-looking statements contained herein are based on current expectations and beliefs, and are subject to a number of risks and uncertainties. These forward-looking statements include, but are not limited to, 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. 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 EARNINGS
(In thousands except per share data)
(Unaudited)

| | For the Three Months Ended November 30, | | For the Nine Months Ended November 30, | |
|--|--|-------------------|---|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net sales | \$ 96,682 | \$ 100,717 | \$ 299,059 | \$ 281,164 |
| Cost of goods sold | 70,202 | 75,042 | 219,565 | 206,266 |
| Gross profit | 26,480 | 25,675 | 79,494 | 74,898 |
| Operating expenses: | | | | |
| Shipping | 11,152 | 9,908 | 33,060 | 26,545 |
| General and administrative | 7,101 | 10,480 | 25,849 | 28,183 |
| Selling and marketing | 8,646 | 7,548 | 27,012 | 19,460 |
| Impairment loss on long-lived assets | - | - | - | 238 |
| Other income, net | (449) | (285) | (852) | (705) |
| Total operating expenses | 26,450 | 27,651 | 85,069 | 73,721 |
| Operating income | 30 | (1,976) | (5,575) | 1,177 |
| Non-operating income | - | - | 2,370 | - |
| Interest expense, net | (583) | (518) | (1,885) | (889) |
| Income (loss) before provision for income taxes | (553) | (2,494) | (5,090) | 288 |
| Provision (benefit) for income taxes | (155) | (698) | (1,426) | 80 |
| Net income (loss) | \$ (398) | \$ (1,796) | \$ (3,664) | \$ 208 |
| Earnings per share: | | | | |
| Basic | \$ (0.13) | \$ (0.57) | \$ (1.16) | \$ 0.06 |
| Diluted | \$ (0.13) | \$ (0.57) | \$ (1.16) | \$ 0.06 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 3,164 | 3,168 | 3,164 | 3,185 |
| Diluted | 3,164 | 3,168 | 3,164 | 3,188 |



Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

| | For the Three Months Ended November 30, | | For the Nine Months Ended November 30, | |
|---|--|--------------------------|---|------------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | \$ (398) | \$ (1,796) | \$ (3,664) | \$ 208 |
| Unrealized currency translation adjustments | 349 | (115) | (480) | (1,149) |
| Comprehensive income (loss) | <u>\$ (49)</u> | <u>\$ (1,911)</u> | <u>\$ (4,144)</u> | <u>\$ (941)</u> |



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

| | November 30, 2019 | February 28, 2019 |
|--|------------------------------|------------------------------|
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Cash | \$ 2,829 | \$ 6,467 |
| Accounts receivable, less allowance for doubtful accounts of \$755 and \$751 as of November 30, 2019 and February 28, 2019, respectively | 49,445 | 53,295 |
| Inventories | 76,636 | 91,684 |
| Prepaid expenses and other current assets | 7,129 | 7,360 |
| Current assets | 136,039 | 158,806 |
| Property and equipment, net | 15,436 | 16,695 |
| Deferred income taxes, net | 3,265 | 3,271 |
| Intangibles, net | 14,432 | 16,815 |
| Goodwill | 6,074 | 6,140 |
| Other assets | 21,959 | 1,056 |
| Total Assets | \$ 197,205 | \$ 202,783 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Trade accounts payable | \$ 31,316 | \$ 36,611 |
| Accrued liabilities | 25,974 | 29,358 |
| Income taxes payable (prepaid) | (2,907) | (2,217) |
| Lines of credit | 42,954 | 49,398 |
| Current maturities of notes payable | 1,949 | 1,733 |
| Current liabilities | 99,286 | 114,883 |
| Notes payable | 10,548 | 11,101 |
| Deferred income taxes | 193 | 193 |
| Other long term liabilities | 15,711 | 1,084 |
| Total Liabilities | 125,738 | 127,261 |
| Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at November 30, 2019 and February 28, 2019 | - | - |
| Common stock, 20,000 shares authorized, \$.001 par value; 3,827 shares issued, and 3,142 shares outstanding at November 30, 2019 and February 28, 2019 | 4 | 4 |
| Additional paid-in capital | 11,087 | 10,963 |
| Retained earnings | 73,365 | 77,029 |
| Treasury stock, 680 and 679 held at cost respectively at November 30, 2019 and February 28, 2019 | (8,735) | (8,700) |
| Accumulated other comprehensive income | (4,254) | (3,774) |
| Shareholders' Equity | 71,467 | 75,522 |
| Total Liabilities and Shareholders' Equity | \$ 197,205 | \$ 202,783 |



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

(In thousands)
(Unaudited)

| | For the Nine Months Ended | |
|---|----------------------------------|-----------------|
| | November 30, | |
| | 2019 | 2018 |
| Operating activities: | | |
| Net income (loss) | \$ (3,664) | \$ 208 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of business | (2,370) | - |
| Gain on sale of property | 6 | - |
| Depreciation and amortization | 3,587 | 3,325 |
| Impairment loss on long term assets | - | 238 |
| Other non-cash adjustments | 211 | 182 |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 3,057 | (523) |
| Inventories | 12,287 | (6,412) |
| Prepaid expenses and other assets | (18,867) | (1,725) |
| Trade accounts payable and accrued liabilities | 7,560 | 1,605 |
| Net cash provided (used in) by operating activities | 1,807 | (3,102) |
| Investing activities: | | |
| Acquisitions | (1,324) | (40,036) |
| Capital expenditures | (933) | (6,746) |
| Proceeds from sale of business | 4,663 | - |
| Proceeds from sale of property | 287 | 226 |
| Purchase of equity securities | (1,900) | - |
| Net cash provided by (used in) investing activities | 793 | (46,556) |
| Financing activities: | | |
| Net borrowings (repayment) under lines of credit | (5,714) | 31,849 |
| Net borrowings (repayments) of notes payable | (216) | 10,064 |
| Purchase of treasury stock | (90) | (1,091) |
| Net cash provided (used in) financing activities | (6,020) | 40,822 |
| Effect of exchange rate changes on cash | (218) | (116) |
| Net decrease in cash | (3,638) | (8,952) |
| Cash at beginning of period | 6,467 | 16,134 |
| Cash at end of period | \$ 2,829 | \$ 7,182 |