



CONTACT:

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Q.E.P. CO., INC. REPORTS FISCAL 2020 YEAR-END SALES AND EARNINGS

BOCA RATON, FLORIDA — July 13, 2020 — Q.E.P. CO., INC. (OTC: QEPC.PK) (the “Company” or “QEP.”) today reported its consolidated results of operations for its fiscal year ended February 29, 2020.

QEP reported net sales of \$393.9 million for the year ended February 29, 2020, an increase of \$14.5 million or 3.8% from the \$379.4 million reported in fiscal 2019. Net sales growth for fiscal 2020 as compared to the prior fiscal year reflects the positive contribution of businesses acquired during fiscal 2019, offset by divestment of certain non-core product lines and sales declines in certain North America core product categories, along with the unfavorable impact of foreign currency translation. As a percentage of net sales, gross margin was 26.4% in fiscal 2020, as compared to 26.5% in fiscal 2019.

Lewis Gould, Chairman & CEO, commented on the Company’s results, “We are pleased with the Company’s sales growth that has been achieved through our recent acquisitions. However, challenges associated with the integration of these acquisitions and investment made to update their product offerings had a negative impact on the current year earnings. Additionally, in fiscal 2020 the Company was adversely affected by higher tariffs imposed on certain flooring products imported from China.”

Mr. Gould continued, “The Company continues to actively monitor and adjust our cost structure and use of working capital, modifying our plans to achieve the best return on these investments.”

Mr. Gould concluded, “In these uncertain times, the Company is being very deliberate in making strategic decisions to secure our future. We believe that these decisions, along with the expansion of our product offerings and distribution channels, will create significant opportunities for sales growth and increased profitability in the year ahead.”

The Company’s gross profit for fiscal 2020 was \$103.9 million, representing an increase of \$3.3 million, or 3.3% from \$100.6 million in fiscal 2019, which resulted from fiscal 2019 acquisitions. Gross margin as a percentage of net sales was relatively flat as favorable product mix and reduced facility and production costs offset the increase in product cost resulting from higher tariffs placed on certain products the Company imports from China.

Operating expenses, excluding the impairment loss on goodwill, for fiscal 2020 and 2019 were \$112.6 million or 28.6% of net sales and \$106.4 million or 28.0% of net sales, respectively. The increase in operating expenses was due to the incremental costs assumed with the businesses acquired during fiscal 2019, net of cost reduction in general and administrative expenses through the removal of duplicative acquisition overhead and one-time transaction costs related to acquisition activity in 2019. Operating expenses for 2020 include a non-cash impairment charge for goodwill of \$4.0 million resulting from the decline in the Company’s market valuation.

Non-operating income in fiscal 2020 and fiscal 2019 represents the sale of assets related to non-core product lines.

The increase in interest expense during fiscal 2020 as compared to fiscal 2019 was due to incremental borrowings under the Company's credit facilities to fund acquisitions and support sales growth.

The benefit for income taxes as a percentage of income before taxes was 5.0% for fiscal 2020, as compared to 23.9% for fiscal 2019. The effective tax rate in fiscal 2020 reflects a valuation allowance of \$2.7 million on deferred tax assets related to the Company's Canadian subsidiary.

Net loss for fiscal 2020 was \$12.1 million or \$3.84 per diluted share, as compared to a net loss of \$3.0 million or \$0.95 per diluted share for fiscal 2019.

Earnings before interest, taxes, depreciation and amortization (EBITDA) as adjusted for impairment charges, non-operating income, corporate development and other one-time expenses for fiscal 2020 was minus \$3.3 million as compared to \$2.0 million for fiscal 2019.

| | For the Year Ended February, | |
|--|---|-----------------|
| | <u>2020</u> | <u>2019</u> |
| Net income (loss) | \$ (12,142) | \$ (3,020) |
| Add: Interest expense, net | 2,441 | 1,567 |
| Benefit for income taxes | (641) | (950) |
| Depreciation and amortization | 4,754 | 4,728 |
| Non-operating income | (2,370) | (3,414) |
| Corporate development and other expenses | 637 | 2,813 |
| Impairment loss on goodwill | 4,041 | - |
| Impairment of long-lived assets | - | 238 |
| EBITDA as adjusted for impairment charges, non-operating income and corporate development and other expenses ⁽¹⁾ | <u>\$ (3,280)</u> | <u>\$ 1,962</u> |

⁽¹⁾ EBITDA as adjusted for impairment charges, non-operating income and 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 restructuring costs.

Cash provided by operations during fiscal 2020 was \$8.3 million as compared to cash used in operations of \$13.0 million in fiscal 2019, reflecting a decrease in net investment in working capital, principally inventory and other assets that offset the decreased operating income. During fiscal 2020, the Company made acquisition payments of \$1.3 million compared to \$39.1 million during fiscal 2019. In fiscal 2020, cash provided by operations, along with proceeds from the sale of a non-core business line were used to repay borrowings under the Company's credit facility. In the prior fiscal year, investments in acquisitions, capital expenditures and inventory growth were



funded through cash on-hand, proceeds from the sale of a business and borrowings under the Company's credit facilities.

Working capital as of February 29, 2020 was \$29.1 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 fiscal 2020, was \$46.4 million or 73.9% of equity, a decrease of \$9.4 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 financial results and answer questions.

Date: Thursday, July 16, 2020
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 800-367-2403 (US or Canada)
+1 334-777-6978 (International)
Confirmation Code: 7860603

The Company is posting its consolidated fiscal 2020 audited financial statements on the Investor section of its website at www.qepcorporate.com today.

About QEP

Founded in 1979, Q.E.P. Co., Inc. is a leading global provider of high quality, innovative and value-driven flooring and flooring installation solutions. QEP manufactures, markets and sells a comprehensive line of flooring installation tools, adhesives, and underlayment for both consumers as well as professional installers. Under the Harris Flooring Group™, QEP manufactures and offers a complete line of hardwood, luxury vinyl, and modular carpet tile. QEP sells its products throughout the world to home improvement retail centers, professional specialty distribution outlets, and flooring dealers under brand names including QEP®, LASH®, Roberts®, Harris Flooring Group™, Capitol®, Harris®Wood, Kraus®, Naturally Aged Flooring™, Vitrex®, Homelux®, Brutus®, PRCI®, Plasplugs®, Tomecanic®, Premix-Marbletite® (PMM), Apple Creek® and Elastiment®.

QEP is headquartered in Boca Raton, Florida with offices in Canada, Europe, Asia, Australia and New Zealand.

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)

| | For the Year Ended | |
|--|---------------------------|--------------------------|
| | February 29, 2020 | February 28, 2019 |
| | <u>2020</u> | <u>2019</u> |
| Net sales | \$ 393,901 | \$ 379,402 |
| Cost of goods sold | <u>289,983</u> | <u>278,798</u> |
| Gross profit | <u>103,918</u> | <u>100,604</u> |
| Operating expenses: | | |
| Shipping | 43,986 | 37,923 |
| General and administrative | 33,778 | 41,112 |
| Selling and marketing | 35,860 | 28,209 |
| Impairment loss on goodwill | 4,041 | - |
| Other income, net | <u>(1,035)</u> | <u>(823)</u> |
| Total operating expenses | <u>116,630</u> | <u>106,421</u> |
| Operating income (loss) | (12,712) | (5,817) |
| Non-operating income | 2,370 | 3,414 |
| Interest expense, net | <u>(2,441)</u> | <u>(1,567)</u> |
| Income (loss) before provision for income taxes | (12,783) | (3,970) |
| Benefit for income taxes | <u>(641)</u> | <u>(950)</u> |
| Net income (loss) | <u>\$ (12,142)</u> | <u>\$ (3,020)</u> |
| Earnings (loss) per share: | | |
| Basic | <u>\$ (3.84)</u> | <u>\$ (0.95)</u> |
| Diluted | <u>\$ (3.84)</u> | <u>\$ (0.95)</u> |
| Weighted average number of common shares outstanding: | | |
| Basic | <u>3,160</u> | <u>3,179</u> |
| Diluted | <u>3,160</u> | <u>3,181</u> |



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

| | For the Year Ended | |
|---|---------------------------|--------------------------|
| | February 29, 2020 | February 28, 2019 |
| Net income (loss) | \$ (12,142) | \$ (3,020) |
| Unrealized currency translation adjustments | (594) | (993) |
| Comprehensive income (loss) | <u>\$ (12,736)</u> | <u>\$ (4,013)</u> |



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

| | February 29, 2020 | February 28, 2019 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 4,999 | \$ 6,467 |
| Accounts receivable, less allowance for doubtful accounts of \$475 and \$751 as of February 29, 2020 and February 28, 2019, respectively | 49,264 | 53,295 |
| Inventories | 69,061 | 91,684 |
| Prepaid expenses and other current assets | 4,280 | 7,360 |
| Prepaid income taxes | 740 | 2,217 |
| Current assets | 128,344 | 161,023 |
| Property and equipment, net | 15,168 | 16,695 |
| Right of use operating lease assets | 18,320 | - |
| Deferred income taxes, net | 4,135 | 3,271 |
| Intangibles, net | 13,871 | 16,815 |
| Goodwill | 2,288 | 6,140 |
| Other assets | 2,824 | 1,056 |
| Total Assets | \$ 184,950 | \$ 205,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Trade accounts payable | \$ 31,114 | \$ 36,611 |
| Accrued liabilities | 19,366 | 29,358 |
| Current operating lease liabilities | 5,262 | - |
| Lines of credit | 40,107 | 49,398 |
| Current maturities of notes payable | 3,399 | 1,733 |
| Current liabilities | 99,248 | 117,100 |
| Notes payable | 7,854 | 11,101 |
| Non-current operating lease liabilities | 14,121 | - |
| Deferred income taxes | 114 | 193 |
| Other long term liabilities | 872 | 1,084 |
| Total Liabilities | 122,209 | 129,478 |
| Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at February 29, 2020 and February 28, 2019, respectively | - | - |
| Common stock, 20,000 shares authorized, \$.001 par value; 3,827 and 3,821 shares issued, and 3,139 and 3,142 shares outstanding at February 29, 2020 and February 28, 2019, respectively | 4 | 4 |
| Additional paid-in capital | 11,087 | 10,963 |
| Retained earnings | 64,887 | 77,029 |
| Treasury stock, 688 and 679 shares held at cost at February 29, 2020 and February 28, 2019, respectively | - | - |
| | (8,869) | (8,700) |
| Accumulated other comprehensive income | (4,368) | (3,774) |
| Shareholders' Equity | 62,741 | 75,522 |
| Total Liabilities and Shareholders' Equity | \$ 184,950 | \$ 205,000 |



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

| | For the Year Ended | |
|---|----------------------|----------------------|
| | February 29, 2020 | February 28, 2019 |
| Operating activities: | | |
| Net income (loss) | \$ (12,142) | \$ (3,020) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of businesses | (2,370) | (3,415) |
| Gain on sale of property | (10) | (96) |
| Impairment loss on goodwill | 4,041 | - |
| Impairment loss on long term assets | - | 238 |
| Depreciation and amortization | 4,754 | 4,728 |
| Other non-cash adjustments | 273 | 281 |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 2,975 | (2,457) |
| Inventories | 19,480 | (15,141) |
| Prepaid expenses and other assets | 9,331 | (2,253) |
| Trade accounts payable and accrued liabilities | (18,018) | 8,161 |
| Net cash provided by (used in) operating activities | 8,314 | (12,974) |
| Investing activities: | | |
| Acquisitions | (1,324) | (39,075) |
| Capital expenditures | (1,339) | (8,206) |
| Proceeds from sale of businesses | 4,663 | 9,350 |
| Proceeds from sale of property | 401 | 599 |
| Purchase of equity securities | (1,900) | - |
| Net cash provided by (used in) investing activities | 501 | (37,332) |
| Financing activities: | | |
| Net borrowings (repayment) under lines of credit | (8,397) | 31,805 |
| Net borrowings (repayments) of notes payable | (1,408) | 10,036 |
| Purchase of treasury stock | (155) | (1,121) |
| Principal payments on finance leases | (21) | - |
| Net cash provided by (used in) financing activities | (9,981) | 40,720 |
| Effect of exchange rate changes on cash | (302) | (81) |
| Net decrease in cash | (1,468) | (9,667) |
| Cash at beginning of period | 6,467 | 16,134 |
| Cash at end of period | \$ 4,999 | \$ 6,467 |