



CONTACT:

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Q.E.P. CO., INC. REPORTS FISCAL 2021 FIRST QUARTER 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 the first quarter of its fiscal year ending February 28, 2021.

Q.E.P. reported net sales of \$86.0 million for the quarter ended May 31, 2020, a decrease of \$16.6 million or 16.2% from the \$102.6 million reported in the first quarter of fiscal 2020. The decline in net sales reflects the adverse impact of the worldwide economic downturn caused by the COVID-19 pandemic. As a percentage of net sales, gross margin was 27.5% in the first quarter of fiscal 2021, as compared to 26.1% in the first quarter of fiscal 2020.

Lewis Gould, Chairman & CEO, commented on the Company’s results, “The Company’s sales were negatively impacted by the Stay in Place Orders that were enacted in all of our sales territories. This sales downturn was significantly mitigated by many of the Company’s larger customers, and, by extension, the Company being designated as a provider of essential services, which allowed us to continue operating and shipping without a major interruption. Notwithstanding this, the Company took aggressive actions to reduce overhead and discretionary expenses, including a reduction-in-force, employee furloughs, curtailing non-essential travel, and overtime, along with accessing government subsidy and support programs that were available to our non-US based operations. Collectively, these actions were able to preserve the Company’s profitability during the quarter.”

Mr. Gould concluded, “The Company has made a deliberate and careful response to the challenges presented during these difficult times and has been sensitive to our social responsibility to our associates, customers, suppliers and shareholders, along with the broader communities in which we operate. As we navigate these turbulent headwinds, we believe the Company will emerge better positioned for sustainable future earnings growth.”

The Company’s gross profit for the first quarter of fiscal 2021 was \$23.7 million, representing a decrease of \$3.2 million, or 11.8% from \$26.8 million in the first quarter of fiscal 2020, which is the result of the same economic factors that caused the sales decline. The gross margin as a percentage of net sales improved due to favorable changes in product mix and timely actions taken by the Company to reduce manufacturing overhead during the first quarter of fiscal 2021.

Operating expenses for the first quarter of fiscal 2021 and 2020 were \$22.3 million or 25.9% of net sales and \$30.4 million or 29.6% of net sales, respectively. The reduction in operating expenses was due to lower shipping costs related to lower sales volume and quarter-over-quarter synergies realized through the integration and rationalization of the fiscal 2019 acquisitions, along with lower personnel costs due to reduction-in-force and furlough activity during the COVID-19 economic activity downturn, along with government subsidies received for maintaining employment levels at the Company’s international operations.



The lower interest expense during the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020 was due to a reduction in borrowings under the Company's credit facilities and lower interest rates during the current period.

The provision for income taxes as a percentage of income before taxes was 28.0% for the first quarter of fiscal 2021, as compared to a benefit for income taxes of 28.0% for the first quarter of fiscal 2020.

Net income for the first quarter of fiscal 2021 was \$0.7 million or \$.22 per diluted share, compared to net loss of \$1.3 million or \$.42 per diluted share for the first quarter of fiscal 2020.

Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) as adjusted for non-operating income for the first quarter of fiscal 2021 was \$2.5 million compared to a loss of \$2.4 million for the first quarter of fiscal 2020.

| | For the Three Months Ended May 31, | |
|---|---|-------------------|
| | 2020 | 2019 |
| Net income (loss) | \$ 688 | \$ (1,320) |
| Add: Interest expense, net | 403 | 678 |
| (Benefit)/provision for income taxes | 268 | (513) |
| Depreciation and amortization | 1,140 | 1,190 |
| Non-operating income | - | (2,399) |
| EBITDA as adjusted for non-operating income | <u>\$ 2,499</u> | <u>\$ (2,364)</u> |

Cash provided by operations during the first quarter of fiscal 2021 was \$10.6 million as compared to cash used in operations of \$4.5 million in the first quarter of fiscal 2020, reflecting an increase in operating income and a reduction in net investments in working capital, principally accounts receivable. During the first quarter of fiscal 2020, the Company sold certain non-core product line and recorded a gain on the sale of \$2.4 million before income taxes, which was recorded in non-operating income. In the first quarter of fiscal 2021, cash from operations was used primarily to pay down \$11.2 million of debt. In the prior year's first quarter, cash used by operations was funded through the proceeds from the sale of a non-core product line and cash on-hand.

Working capital as of May 31, 2020 was \$30.2 million compared to \$29.1 million at the end of fiscal 2020. Aggregate debt, net of available cash balances at the end of the first quarter of fiscal 2021 was \$35.2 million or 56% of equity, a decrease of \$11.2 million compared to \$46.4 million or 74% of equity at the end of fiscal 2020.

On June 29, 2020, the Company's Canadian operating subsidiary, Roberts Company Canada Limited, was granted an Order by the Ontario Superior Court of Justice (Commercial List) to commence a restructuring proceeding under the Companies' Creditor Arrangement Act (CCAA). This filing was initiated due to the subsidiary's lack of liquidity, which was exacerbated by the economic impact of COVID-19, and to be able to continue operating while it efficiently restructures its business. The subsidiary expects to complete its reorganization and emerge from the CCAA protection in a few months. The Company is not a party to this proceeding.



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

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)
(Unaudited)

| | For the Three Months Ended May 31, | |
|--|---|-------------------|
| | 2020 | 2019 |
| Net sales | \$ 86,015 | \$ 102,604 |
| Cost of goods sold | 62,348 | 75,777 |
| Gross profit | 23,667 | 26,827 |
| Operating expenses: | | |
| Shipping | 9,721 | 11,238 |
| General and administrative | 6,770 | 9,858 |
| Selling and marketing | 5,904 | 9,463 |
| Other income, net | (87) | (178) |
| Total operating expenses | 22,308 | 30,381 |
| Operating income (loss) | 1,359 | (3,554) |
| Non-operating income | - | 2,399 |
| Interest expense, net | (403) | (678) |
| Income (loss) before provision for income taxes | 956 | (1,833) |
| Provision (benefit) for income taxes | 268 | (513) |
| Net income (loss) | \$ 688 | \$ (1,320) |
| Earnings (loss) per share: | | |
| Basic | \$ 0.22 | \$ (0.42) |
| Diluted | <u>\$ 0.22</u> | <u>\$ (0.42)</u> |
| Weighted average number of common shares outstanding: | | |
| Basic | 3,156 | 3,160 |
| Diluted | <u>3,156</u> | <u>3,160</u> |



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

| | For the Three Months | |
|---|----------------------|-------------------|
| | May 31, | |
| | <u>2020</u> | <u>2019</u> |
| Net income (loss) | \$ 688 | \$ (1,320) |
| Unrealized currency translation adjustments | <u>(140)</u> | <u>(548)</u> |
| Comprehensive income (loss) | \$ 548 | \$ (1,868) |



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

| | May 31, 2020 (Unaudited) | February 29, 2020 (Audited) |
|---|---|--|
| ASSETS | | |
| Cash | \$ 3,812 | \$ 4,999 |
| Accounts receivable, less allowance for doubtful accounts of \$633 and \$475 as of May 31, 2020 and February 29, 2020, respectively | 42,306 | 49,264 |
| Inventories | 67,821 | 69,061 |
| Prepaid expenses and other current assets | 4,030 | 4,280 |
| Prepaid income taxes | 457 | 740 |
| Current assets | 118,426 | 128,344 |
| Property and equipment, net | 14,739 | 15,168 |
| Right of use operating lease assets | 17,197 | 18,320 |
| Deferred income taxes, net | 4,149 | 4,135 |
| Intangibles, net | 13,039 | 13,871 |
| Goodwill | 2,194 | 2,288 |
| Other assets | 2,830 | 2,824 |
| Total Assets | \$ 172,574 | \$ 184,950 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Trade accounts payable | \$ 33,439 | \$ 31,114 |
| Accrued liabilities | 17,692 | 19,366 |
| Current operating lease liabilities | 5,222 | 5,262 |
| Lines of credit | 28,610 | 40,107 |
| Current maturities of notes payable | 3,294 | 3,399 |
| Current liabilities | 88,257 | 99,248 |
| Notes payable | 7,122 | 7,854 |
| Non-current operating lease liabilities | 13,034 | 14,121 |
| Deferred income taxes | 73 | 114 |
| Other long term liabilities | 799 | 872 |
| Total Liabilities | 109,285 | 122,209 |
| Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at May 31, 2020 and February 29, 2020 | - | - |
| Common stock, 20,000 shares authorized, \$.001 par value; 3,827 shares issued, and 3,139 shares outstanding at May 31, 2020 and February 29, 2020, respectively | 4 | 4 |
| Additional paid-in capital | 11,087 | 11,087 |
| Retained earnings | 65,575 | 64,887 |
| Treasury stock, 688 shares held at cost at May 31, 2020 and February 29, 2020 | (8,869) | (8,869) |
| Accumulated other comprehensive income | (4,508) | (4,368) |
| Shareholders' Equity | 63,289 | 62,741 |
| Total Liabilities and Shareholders' Equity | \$ 172,574 | \$ 184,950 |



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

| | For the Three Months Ended | |
|---|-----------------------------------|-----------------|
| | May 31, | |
| | 2020 | 2019 |
| Operating activities: | | |
| Net income (loss) | \$ 688 | \$ (1,320) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of business | - | (2,399) |
| Depreciation and amortization | 1,140 | 1,190 |
| Other non-cash adjustments | 81 | 91 |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 6,326 | 4,001 |
| Inventories | 576 | 7,385 |
| Prepaid expenses and other assets | 607 | (19,174) |
| Trade accounts payable and accrued liabilities | 1,222 | 5,767 |
| Net cash provided by (used in) operating activities | 10,640 | (4,459) |
| Investing activities: | | |
| Acquisitions | (287) | (875) |
| Capital expenditures | (282) | (313) |
| Proceeds from sale of business | - | 4,691 |
| Proceeds from sale of property | 84 | 84 |
| Net cash provided by (used in) investing activities | (485) | 3,587 |
| Financing activities: | | |
| Net repayment under lines of credit | (10,382) | (525) |
| Net repayments of notes payable | (839) | (89) |
| Purchase of treasury stock | (30) | (30) |
| Principal payments on finance leases | (19) | - |
| Net cash used in financing activities | (11,270) | (644) |
| Effect of exchange rate changes on cash | (72) | (225) |
| Net decrease in cash | (1,187) | (1,741) |
| Cash at beginning of period | 4,999 | 6,467 |
| Cash at end of period | \$ 3,812 | \$ 4,726 |