



CONTACT:

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Q.E.P. CO., INC. REPORTS FISCAL 2018 YEAR-END SALES AND EARNINGS

NET SALES - \$322.4 MILLION
NET INCOME - \$7.9 MILLION
EARNINGS PER SHARE (DILUTED) \$2.49

BOCA RATON, FLORIDA — May 15, 2018 — Q.E.P. CO., INC. (OTC: QEPC.PK) (the “Company”) today reported its consolidated results of operations for the fiscal year ended February 28, 2018.

Results of Operations:

The Company reported net sales of \$322.4 million for the year ended February 28, 2018, an increase of \$12.3 million or 4.0% from the \$310.1 million reported in the same period of fiscal 2017. As a percentage of net sales, gross margin was 27.7% in the fiscal 2018 compared to 28.0% in fiscal 2017.

Lewis Gould, Chairman of the Board of Directors, commented on Q.E.P.’s full year results, “We are pleased that we continued to grow in core areas of our business while also investing for the future”.

Mr. Gould continued, “This was an exciting year for Q.E.P. as many transitional events occurred to benefit long-term growth for our company. On the operational side, we initiated the consolidation of three West Coast locations into a new, modern, Phoenix-area hub, where we will become a one stop shop for all of our divisions in our company. As previously announced, we sold both the Adelanto, California facility and the facility in Calhoun, Georgia and rewarded shareholders with a special cash dividend for the first time. Our Board of Directors worked with Company leadership on strategies for the best way to grow our top line for the long-term and to help determine what acquisitions would be beneficial for Q.E.P.

Mr. Gould further stated, “In April 2018 we completed the acquisition in Australia of PR Floors, which expands our distribution base and makes Q.E.P. the dominant distributor of flooring sundries in Australia and New Zealand. We also entered into an agreement with a large European laminate manufacturer to become their exclusive agent for distribution of flooring in Australia/New Zealand later this year. The Company also recently purchased the operating assets of a distributor on the West Coast of the U.S. who specializes in wood flooring, which will improve the integration of our manufacturing and selling in the wood flooring space. We expect both acquisitions to provide sales and EBITDA growth as we go forward. I am also pleased to say Q.E.P. has now opened an office and begun distributing products in Germany, the 2nd largest DIY market. We look forward to continuing to work hard for our shareholders as the company grows.”

Net sales growth for fiscal year 2018 reflects the impact of businesses acquired during the current fiscal year, business growth in Australia and in net change in domestic product mix.

The Company's gross margin as a percentage of net sales decreased slightly compared to the prior fiscal year due to the changes in product mix and higher product and manufacturing costs.

Operating expenses for fiscal 2018 were \$74.2 million or 23.0% of net sales, compared to \$74.8 million or 24.1% of net sales in fiscal 2017 period. Included in operating expenses for fiscal 2018 is a \$5.6 million net gain on disposal of property and equipment related to the Company's operations in Adelanto, California and Calhoun, Georgia and corporate development related expenses of \$1.8 million. Excluding this net gain and the corporate development related expenses, operating expenses were \$78.0 million or 24.2% of net sales. Operating expenses in fiscal 2018 also include incremental expenses assumed with the businesses acquired during fiscal 2018 and additional operating costs incurred to support international sales growth.

Non-operating income in fiscal 2017 is related to a gain of less than \$0.1 million that resulted from the sale of certain non-core assets of the Company.

The decrease in interest expense during fiscal 2018 when compared to fiscal 2017 was due to repayment of outstanding debt, which more than offset increases to interest rates and utilization of credit facilities to support sales growth in Australia.

The provision for income taxes as a percentage of income before taxes for fiscal 2018 was 44.3% and 33.4% in fiscal 2018 and 2017, respectively. The effective tax rate in fiscal 2018 reflects the estimated impact of the enacted U.S. tax legislation, Tax Cuts and Jobs Act, which includes the lowering of the U.S. corporate tax rate, transitioning to a modified territorial system and providing for current expensing of certain qualified capital expenditures. The effect of the tax rate change was more than offset by provisional amounts recorded for the re-measurement of U.S. deferred tax assets and liabilities and the tax on the mandatory deemed repatriation of foreign earnings. Both fiscal years reflect the relative contribution of the Company's earnings sourced from its international operations.

Net income for fiscal 2018 was \$7.9 million or \$2.49 per diluted share. For fiscal 2017, net income was \$7.4 million or \$2.29 per diluted share.

Earnings before interest, taxes, depreciation and amortization (EBITDA) as adjusted for corporate development and other expenses and gain on disposal of long-lived assets, net of impairment and non-operating income for fiscal 2018 was \$15.3 million as compared to \$16.2 million for fiscal 2017.

	For the Year Ended	
	February 28,	
	2018	2017
Net income	\$ 7,945	\$ 7,366
Add: Interest expense, net	952	1,060
Provision for income taxes	6,325	3,691
Depreciation and amortization	3,837	4,087
Non-operating income	-	(49)
Corporate development and other expenses	1,830	-
Less: Gain on disposal of long-lived assets, net of impairment	(5,561)	-
EBITDA as adjusted for corporate development and other expenses, and gain on disposal of long-lived assets, net of impairment ⁽¹⁾	<u>\$ 15,328</u>	<u>\$ 16,155</u>

⁽¹⁾ EBITDA as adjusted for corporate development and other expenses and gain on disposal of long-lived assets, net of impairment represent non-GAAP measures and exclude charges or credits not indicative of our core operations which may include but are not limited to gain on disposal of long lived assets, asset impairments, corporate development expenses, acquisition integration and acquisition costs.

Cash provided by operations during fiscal 2018 was \$5.6 million as compared to \$11.8 million in fiscal 2017, reflecting a decrease in cash from operations and a higher net investment in working capital in the current year compared to the prior year. During fiscal 2018, the Company acquired businesses for \$3.9 million, made capital expenditures of approximately \$3.9 million, including \$1.5 million related to one of those acquisitions and paid a special dividend of \$3.2 million. In the fiscal year 2018, these investments as well as treasury stock purchases and debt reductions were funded through proceeds from the sale of property, cash from operations and cash on-hand. In the prior year our capital expenditures, investments and treasury stock purchases were funded from cash from operations with any additional funds used to reduce debt and increase cash on-hand.

Working capital at the end of fiscal 2018 was \$54.9 million compared to \$45.0 million at the end of the 2017 fiscal year. Aggregate debt, net of available cash balances at the end of fiscal 2018 was \$5.1 million or 6.4% of equity, a decrease of \$5.3 million compared to \$10.4 million or 13.9% of equity at the end of the 2017 fiscal year, reflecting repayment of debt from the proceeds of sales of property and equipment.

Acquisition:

In May 2018, the Company acquired certain assets and assumed certain liabilities of Ace Flooring Co., Inc., a hardwood flooring importer, manufacturer and distributor based in Southern California, which expanded the Company's product portfolio as well as its presence on the West Coast of the U.S.

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 Thursday, May 17, 2018. If you would like to join the conference call, dial 1-888-394-8218 toll free from the US or 1-323-701-0225 internationally approximately 10 minutes prior to the start time and ask for the Q.E.P. Co., Inc. Fiscal Year 2018 Year-end Conference Call / Conference ID 6462331. A replay of the conference call will be available until midnight May 24, 2018 by calling 1-844-512-2921 toll free from the US and entering pin number 6462331; internationally, please call 1-412-317-6671 using the same pin number.



The Company is posting its consolidated fiscal 2018 audited financial statements on the Investor section of its website at www.qepcorporate.com today.

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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, Fausfloor®, Vitrex®, Homelux®, TileRite®, PRCI®, Nupla®, HISCO®, Plasplugs®, Ludell®, 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, tax law change impacts, profit improvements, product development and marketing, operating expenses, cost savings, acquisition integration, strategic plans, working capital, 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,	
	2018	2017
Net sales	\$ 322,388	\$ 310,111
Cost of goods sold	232,930	223,203
Gross profit	89,458	86,908
Operating expenses:		
Shipping	28,550	26,913
General and administrative	28,569	25,928
Selling and marketing	23,155	22,534
Gain on disposal of long-lived assets, net of impairment	(5,561)	-
Other income, net	(477)	(535)
Total operating expenses	74,236	74,840
Operating income	15,222	12,068
Non-operating income	-	49
Interest expense, net	(952)	(1,060)
Income before provision for income taxes	14,270	11,057
Provision for income taxes	6,325	3,691
Net income	\$ 7,945	\$ 7,366
Net income per share:		
Basic	\$ 2.49	\$ 2.30
Diluted	\$ 2.49	\$ 2.29
Weighted average number of common shares outstanding:		
Basic	3,194	3,204
Diluted	3,196	3,211



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

	For the Year Ended	
	February 28,	
	2018	2017
Net income	\$ 7,945	\$ 7,366
Unrealized currency translation adjustments	<u>1,167</u>	<u>(58)</u>
Comprehensive income	<u>\$ 9,112</u>	<u>\$ 7,308</u>



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

	<u>February 28,</u> <u>2018</u>	<u>February 28,</u> <u>2017</u>
ASSETS		
Cash	\$ 16,134	\$ 19,152
Accounts receivable, less allowance for doubtful accounts of \$371 and \$274 as of February 28, 2018 and February 28, 2017, respectively	41,443	38,493
Inventories	48,276	40,826
Prepaid expenses and other current assets	6,578	2,858
Current assets	112,431	101,329
Property and equipment, net	10,923	19,072
Deferred income taxes, net	2,154	5,726
Intangibles, net	11,442	10,997
Goodwill	3,308	2,745
Other assets	834	372
Total Assets	\$ 141,092	\$ 140,241
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 22,350	\$ 18,106
Accrued liabilities	17,433	17,819
Income taxes payable (prepaid)	(1,600)	(845)
Lines of credit	18,470	18,683
Current maturities of notes payable	857	2,573
Current liabilities	57,510	56,336
Notes payable	1,929	8,284
Deferred income taxes	282	294
Other long term liabilities	802	555
Total Liabilities	60,523	65,469
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 and 18 shares outstanding at February 28, 2018 and February 28, 2017, respectively	-	18
Common stock, 20,000 shares authorized, \$.001 par value; 3,821 shares issued, and 3,183 and 3,189 shares outstanding at February 28, 2018 and February 28, 2017, respectively	4	4
Additional paid-in capital	10,854	10,796
Retained earnings	80,049	75,308
Treasury stock, 638 and 632 shares held at cost at February 28, 2018 and February 28, 2017, respectively	(7,557)	(7,406)
Accumulated other comprehensive income	(2,781)	(3,948)
Shareholders' Equity	80,569	74,772
Total Liabilities and Shareholders' Equity	\$ 141,092	\$ 140,241



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

(In thousands)
(Unaudited)

	For the Year Ended	
	February 28,	
	2018	2017
	<u>2018</u>	<u>2017</u>
Operating activities:		
Net income	\$ 7,945	\$ 7,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of property	(6,793)	(61)
Impairment loss on long term assets	1,231	-
Depreciation and amortization	3,837	4,087
Gain from sale of business	-	(49)
Other non-cash adjustments	244	85
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(1,624)	306
Inventories	(3,500)	2,008
Prepaid expenses and other assets	2,773	(631)
Trade accounts payable and accrued liabilities	1,474	(1,306)
Net cash provided by operating activities	<u>5,587</u>	<u>11,805</u>
Investing activities:		
Proceeds from sale of property	12,381	75
Acquisitions	(3,899)	(1,710)
Capital expenditures	(3,862)	(2,133)
Proceeds from sale of businesses	97	1,050
Proceeds from insurance settlements	252	-
Net cash provided by (used in) investing activities	<u>4,969</u>	<u>(2,718)</u>
Financing activities:		
Net repayment under lines of credit	(2,227)	(2,712)
Net repayments of notes payable	(8,113)	(2,032)
Purchase of treasury stock	(120)	(509)
Dividends	(3,204)	(10)
Redemption of preferred stock	(18)	(319)
Net cash used in financing activities	<u>(13,682)</u>	<u>(5,582)</u>
Effect of exchange rate changes on cash	108	(276)
Net increase (decrease) in cash	<u>(3,018)</u>	<u>3,229</u>
Cash at beginning of period	19,152	15,923
Cash at end of period	<u>\$ 16,134</u>	<u>\$ 19,152</u>