



CONTACT:

Q.E.P. Co., Inc.
Enos Brown
Vice President and
Corporate Treasurer
561-994-5550

Q.E.P. CO., INC. REPORTS FISCAL 2020 SIX MONTH AND SECOND QUARTER FINANCIAL RESULTS

Record Six Month Sales of \$202.4 Million

BOCA RATON, FLORIDA — November 5, 2019 — 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 six months and second quarter of its fiscal year ending February 29, 2020.

QEP reported net sales of \$202.4 million for the six months ended August 31, 2019, an increase of \$21.9 million or 12.1% from the \$180.5 million reported in the same period of fiscal 2019. The Company reported net sales of \$99.8 million for the quarter ended August 31, 2019, an increase of \$7.2 million or 7.8% from the \$92.6 million reported in the same period of fiscal 2019.

Lewis Gould, Chairman and CEO, commented on the Company’s results, “We are encouraged by our continued sales growth that has been driven by recent acquisitions. However, we are still in the process of integrating these businesses in order to fully realize their synergies. This includes having to make significant investments in new products, displays and product samples, to support our extensive customer network in North America. While these investments have negatively impacted current period results, we believe they are necessary to keep current with market trends and drive future sales growth. At the same time, we expect to make further progress this fiscal year.”

Mr. Gould continued, “We are also continuing our efforts to offset the impact of higher tariffs on Chinese-manufactured goods. While we have been successful in passing through a portion of the tariffs to our customers, we are seeking to further minimize the negative impact going forward by identifying alternative sourcing options that are subject to lower tariffs.”

Mr. Gould concluded, “We are confident that our ongoing strategy, along with prudently reducing debt and improving working capital through inventory reduction, will return the Company to profitability and future earnings growth.”

Net sales growth for the first six months and second quarter 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 products categories.

The Company’s gross profit for the first six months of fiscal 2020 was \$53.0 million, representing an increase of \$3.8 million or 7.7% from \$49.2 million in the corresponding fiscal 2019 period. Gross profit for the second quarter of fiscal 2020 was \$26.2 million, representing an increase of \$1.1 million or 4.5%, from \$25.1 million in the fiscal 2019 period. The Company’s gross margin as a percentage of net sales for the first six months and second quarter

of fiscal year 2020 was 26.2% in each period, which decreased from 27.3% and 27.1% in the prior fiscal year periods, respectively. The fiscal 2019 acquisitions were responsible for the gross profit increase in both the quarter and six-month period compared to the prior year. The decline in gross margin as a percentage of net sales in fiscal 2020 compared to fiscal 2019 is principally the impact of higher tariffs placed on products imported from China that have not been fully passed through to customers through price increased or to suppliers through cost decreases.

Operating expenses for the first six months and second quarter of fiscal 2020 were \$58.6 million and \$28.2 million, respectively, or 29.0% and 28.3% of net sales in those periods, compared to \$46.1 million and \$24.1 million, respectively, or 25.5% and 26.0% 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.

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 six months and second quarter of fiscal 2020 compared to a provision for income taxes as a percentage income before taxes of 28.0% for the related fiscal 2019 periods.

Net loss for the first six months and second quarter of fiscal 2020 was \$3.3 million and \$1.9 million, respectively, or \$1.03 and \$0.62, respectively, per diluted share. For the comparable periods of fiscal 2019, net income was \$2.0 million and \$0.6 million, respectively, or \$0.62 and \$0.18, 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 six months and second quarter of fiscal 2020 was minus \$2.7 million and minus \$0.5 million, respectively as compared to \$6.2 million and \$2.9 million for the first six months and second quarter of fiscal 2019, respectively.

	For the Three Months Ended August 31,		For the Six Months Ended August 31,	
	2019	2018	2019	2018
Net income (loss)	\$ (1,947)	\$ 580	\$ (3,267)	\$ 2,002
Add:				
Interest expense, net	623	191	1,302	371
(Benefit)/Provision for income taxes	(757)	226	(1,271)	779
Depreciation and amortization	1,204	1,089	2,394	2,007
Non-operating income	28	-	(2,370)	-
Corporate development and other expenses	313	603	547	829
Impairment of long-lived assets	-	238	-	238
EBITDA as adjusted for impairment of long-lived assets, corporate development and other expenses ⁽¹⁾	<u>\$ (536)</u>	<u>\$ 2,927</u>	<u>\$ (2,665)</u>	<u>\$ 6,226</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 first six months of fiscal 2020 was \$4.7 million as compared to \$0.7 million in the first six months of fiscal 2019, reflecting a reduction in net investments in working capital, principally inventory and accounts receivable and a decrease in operating income. During the first six 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 \$0.5 million. In the first six months of fiscal 2019, the Company made acquisition of \$14.3 million and capital expenditures of \$2.9 million. In the first six 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, cash from operations and borrowings under the Company's lines of credit.

Working capital at the end of the Company's second quarter of fiscal 2020 was \$37.1 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 the Company's second quarter of fiscal 2020 quarter was \$48.2 million or 67.4% of equity, a decrease of \$7.6 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 second quarter financial results and answer questions.

Date: Thursday, November 7, 2019
Time: 10:00 a.m. Eastern Time
Dial-in Numbers: 877-260-1479 (US or Canada)
+1 334-323-0522 (International)
Confirmation Code: 2253170
Replay: 719-457-0820; Passcode: 2253170

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		For the Six Months Ended	
	August 31,		August 31,	
	2019	2018	2019	2018
Net sales	\$ 99,773	\$ 92,571	\$ 202,377	\$ 180,447
Cost of goods sold	73,586	67,506	149,364	131,224
Gross profit	26,187	25,065	53,013	49,223
Operating expenses:				
Shipping	10,669	8,546	21,908	16,637
General and administrative	8,893	9,597	18,748	17,704
Selling and marketing	8,903	5,950	18,366	11,912
Other income, net	(225)	(25)	(403)	(182)
Total operating expenses	28,240	24,068	58,619	46,071
Operating income	(2,053)	997	(5,606)	3,152
Non-operating income	(28)	-	2,370	-
Interest expense, net	(623)	(191)	(1,302)	(371)
Income (loss) before provision for income taxes	(2,704)	806	(4,538)	2,781
Provision (benefit) for income taxes	(757)	226	(1,271)	779
Net income (loss)	\$ (1,947)	\$ 580	\$ (3,267)	\$ 2,002
Earnings per share:				
Basic	\$ (0.62)	\$ 0.18	\$ (1.03)	\$ 0.62
Diluted	\$ (0.62)	\$ 0.18	\$ (1.03)	\$ 0.62
Weighted average number of common shares outstanding:				
Basic	3,160	3,194	3,160	3,194
Diluted	3,160	3,197	3,160	3,196



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

(In thousands)

(Unaudited)

	For the Three Months		For the Six Months Ended	
	August 31,		August 31,	
	2019	2018	2019	2018
Net income (loss)	\$ (1,947)	\$ 580	\$ (3,267)	\$ 2,002
Unrealized currency translation adjustments	(281)	(452)	(829)	(1,034)
Comprehensive income (loss)	<u>\$ (2,228)</u>	<u>\$ 128</u>	<u>\$ (4,096)</u>	<u>\$ 968</u>



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

	<u>August 31,</u> <u>2019</u>	<u>February 28,</u> <u>2019</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Cash	\$ 4,192	\$ 6,467
Accounts receivable, less allowance for doubtful accounts of \$809 and \$751 as of August 31, 2019 and February 28, 2019, respectively	47,943	53,295
Inventories	77,304	91,684
Prepaid expenses and other current assets	7,066	7,360
Current assets	136,505	158,806
Property and equipment, net	15,572	16,695
Deferred income taxes, net	3,280	3,271
Intangibles, net	14,578	16,815
Goodwill	5,959	6,140
Other assets	21,782	1,056
Total Assets	\$ 197,676	\$ 202,783
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 31,286	\$ 36,611
Accrued liabilities	29,410	29,358
Income taxes payable (prepaid)	(2,367)	(2,217)
Lines of credit	38,336	49,398
Current maturities of notes payable	2,761	1,733
Current liabilities	99,426	114,883
Notes payable	11,246	11,101
Deferred income taxes	193	193
Other long term liabilities	15,385	1,084
Total Liabilities	126,250	127,261
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at August 31, 2019 and February 28, 2019	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 3,821 shares issued, and 3,142 shares outstanding at August 31, 2019 and February 28, 2019	4	4
Additional paid-in capital	10,963	10,963
Retained earnings	73,762	77,029
Treasury stock, 679 shares held at cost at August 31, 2019 and February 28, 2019	(8,700)	(8,700)
Accumulated other comprehensive income	(4,603)	(3,774)
Shareholders' Equity	71,426	75,522
Total Liabilities and Shareholders' Equity	\$ 197,676	\$ 202,783



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

(In thousands)
(Unaudited)

	For the Six Months Ended	
	August 31,	
	2019	2018
Operating activities:		
Net income (loss)	\$ (3,267)	\$ 2,002
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	2,394	2,007
Impairment loss on long term assets	-	238
Other non-cash adjustments	183	117
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	4,190	(2,488)
Inventories	11,030	(4,148)
Prepaid expenses and other assets	(18,601)	(2,658)
Trade accounts payable and accrued liabilities	11,175	5,671
Net cash provided by operating activities	4,740	741
Investing activities:		
Acquisitions	(875)	(14,254)
Capital expenditures	(472)	(2,885)
Proceeds from sale of business	4,663	-
Proceeds from sale of property	203	55
Proceeds from insurance settlements	-	-
Purchase of equity securities	(1,900)	-
Net cash provided by (used in) investing activities	1,619	(17,084)
Financing activities:		
Net borrowings (repayment) under lines of credit	(9,537)	5,324
Net borrowings (repayments) of notes payable	1,294	(428)
Purchase of treasury stock	(60)	(60)
Net cash provided (used in) financing activities	(8,303)	4,836
Effect of exchange rate changes on cash	(331)	(90)
Net decrease in cash	(2,275)	(11,597)
Cash at beginning of period	6,467	16,134
Cash at end of period	\$ 4,192	\$ 4,537