



FGI INDUSTRIES ANNOUNCES SECOND QUARTER 2022 RESULTS

EAST HANOVER, N.J., August 10, 2022 – FGI Industries Ltd. (Nasdaq: FGI) (“FGI” or the “Company”), a leading global supplier of kitchen and bath products, today announced results for the second quarter of 2022.

SECOND QUARTER 2022 HIGHLIGHTS

(As compared to the Second Quarter of 2021)

- Total Revenues of \$47.8 million, +12.5% y/y
- Operating Income of \$1.7 million, (47.9%) y/y
- Net Income of \$1.2 million, (53.3%) y/y
- Adjusted Operating Income of \$1.8 million, (47.2%) y/y
- Adjusted Net Income of \$1.2 million, (52.6%) y/y
- Reaffirmed full-year 2022 financial guidance

Total revenue increased by 13% on a year-over-year basis in the second quarter of 2022, driven primarily by continued strength in the Sanitaryware and Other categories (including shower systems and custom kitchen cabinetry), while partially offset by a decline in Bath Furniture. Second quarter revenue trends remained strong in Canada, while the United States and Europe increased modestly.

The Company reported operating income of \$1.7 million in the second quarter of 2022, a decline of \$1.6 million versus the prior-year period, primarily driven by supply chain disruptions, investments in organic growth initiatives, and incremental public company costs, partially offset by strong revenue growth. Excluding non-recurring IPO-related compensation expense of \$0.02 million, adjusted operating income was \$1.8 million during the second quarter of 2022, as compared to \$3.3 million for the prior-year period.

For the three months ended June 30, 2022, the Company reported GAAP net income of \$1.2 million, or \$0.10 per diluted share, versus net income of \$2.5 million, or \$0.36 per diluted share, in the second quarter of 2021. Excluding non-recurring items and the related tax impact, the Company reported second quarter 2022 adjusted net income of \$1.2 million, or \$0.10 per diluted share.

MANAGEMENT COMMENTARY

“Demand trends remained strong across our key product categories during the second quarter, with total revenue increasing by 13% on a year-over-year basis, driven by strong demand in both the wholesale and retail channels for sanitaryware and continued growth in our newer product categories,” stated David Bruce, President and Chief Executive Officer of FGI. “As we had expected coming into the year, we have seen some moderation in the broader R&R market growth owing to the ongoing macroeconomic headwinds, with our Bath Furniture segment seeing the biggest impact within our product portfolio; however, overall demand for our products has remained more resilient. We remain encouraged by the organic growth outlook for our business as we enter the second half of the year, as our portfolio of innovative, high-quality products continues to be received favorably by consumers. We continue to see the strong order momentum from the first half continuing into second half of 2022.”

“I am extremely pleased by our solid execution in the quarter, as we made additional progress on our margin recovery initiatives, with pricing actions and other measures to offset the supply chain challenges driving roughly 200 basis points of sequential improvement in operating margin during the second quarter,” continued Bruce. “A less favorable business mix masked some of the progress we made during the quarter, but we continue to successfully implement strategic pricing actions that will benefit second half results and as a result we expect to see additional sequential margin improvement in the back half of the year.”

“The supply chain headwinds have resulted in a period of elevated working capital usage in recent quarters, but these issues are beginning to normalize, and we expect strong cash flow conversion in the back half of the year as balance sheet metrics return to historical levels,” stated Perry Lin, Chief Financial Officer of FGI. “We exited the second quarter of 2022 in a strong financial position with cash of \$3.1 million and we have ample liquidity with which to support our organic growth initiatives and any potential strategic M&A.”

“We were able to post another quarter of solid financial performance despite the challenging business environment, which is a direct result of the hard work and dedication of our highly motivated team members across the organization,” continued Bruce. “We continue to pursue a number of programs that have the potential to drive strong incremental organic growth over the long-term, including investments in manufacturing capacity to support potentially meaningful growth in our Covered Bridge custom kitchen cabinetry brand in the coming quarters and years. We are excited by the strong growth potential for FGI and remain encouraged by our ability to drive improving profitability despite the ongoing supply chain challenges. Based on these factors, we remain confident in our financial outlook for the year and are reiterating our full-year 2022 financial guidance.”

STRATEGIC UPDATE

Consistent with its long-term strategic plan, FGI intends to drive value creation for its shareholders through a focus on product innovation, execution of its Brands, Products and Channels (“BPC”) strategy to drive organic growth, margin expansion, and efficient capital deployment. Notable progress against these initiatives achieved during the second quarter were as follows:

- FGI has expanded its relationship with Hajoca Corporation, the nation’s largest privately held wholesale distributor of plumbing, heating, and industrial supplies in the United States. Hajoca is now offering almost the entire portfolio of FGI’s products to its customers
- FGI continues to grow its custom kitchen cabinetry business, generating strong growth in its dealer network which totaled 119 at June 30, 2022, up from 71 at the start of the year. FGI is also in active discussions with large national customers for even greater growth potential in the years ahead. As a result, the Company is investing in manufacturing capacity to support the growth trajectory of its custom kitchen cabinetry business.
- FGI generated roughly 200 basis points of sequential operating margin improvement during the second quarter of 2022 as compared to the first quarter of 2022 owing to price increases and other efficiency measures. Based on continued strategic price actions and declining freight costs, FGI expects to generate continued margin improvement in the back half of 2022.
- FGI continues to focus its capital deployment efforts on organic growth strategies in the near-term (as illustrated by its investment in manufacturing capacity for its custom kitchen cabinetry business) and continues to focus on attractive organic growth initiatives that could contribute significant growth in the coming years. In addition, the Company is actively screening potential M&A opportunities to supplement its organic growth strategy.

SECOND QUARTER 2022 RESULTS

Revenue totaled \$47.8 million during the second quarter of 2022, an increase of 12.5% compared to the prior-year period, driven by strong volume growth and continued pricing gains, partially offset by negative product mix. Revenue benefitted from volume and pricing growth in Sanitaryware, as well as contribution from new products such as shower wall systems and kitchen cabinetry. However, supply chain challenges continue to result in order delays that negatively impacted Bath Furniture revenues, causing revenue to decline in the quarter.

- Sanitaryware revenue was \$32.2 million during the second quarter of 2022, an increase of 55.5% compared to the prior-year period, primarily driven by continued volume strength in the pro channel as well as solid demand in the retail channel. Order momentum for the Sanitaryware business remains on track with no indications of a slowdown visible at this point.

- Bath Furniture revenue was \$7.7 million during the second quarter of 2022, a decrease of 52% compared to the prior-year period. The Company continued to experience order delays due to supply chain issues and elevated levels of channel inventory. This is largely a timing issue, as end consumer demand has moderated slightly but remains solid. The Company expects these issues to begin normalizing in the second half of 2022 as orders are expected to be placed and shipped in the coming quarters.
- Other revenue was \$7.9 million during the second quarter of 2022, an increase of 35.5% compared to the prior-year period, primarily driven by volume growth resulting from continued strength in sales of the Jetcoat Shower wall systems, shower doors, and Covered Bridge custom-kitchen cabinetry.

Gross profit was \$8.4 million during the second quarter of 2022, a decrease of 8.4% compared to the prior-year period, as strong revenue growth was offset by ongoing supply chain disruptions. As a result of these factors, gross profit margin was 17.6% during the second quarter of 2022, down from 21.6% in the prior-year period. The reduction in the Company's gross margin percentage is primarily attributable to the impact of higher ocean freight charges associated with recent global supply chain issues and a less favorable product mix given the revenue decline in Bath Furniture. The Company will benefit from additional price increases that have recently been implemented, declines in ocean freight costs, and an expected rebound in the Bath Furniture segment, which should drive continued sequential gross margin improvement in the second half of 2022.

Operating income was \$1.7 million during the second quarter of 2022, down from \$3.3 million in the prior-year period. The decrease in operating income was primarily driven by gross margin pressure, investments in organic growth initiatives, and public company costs, partially offset by solid revenue growth. As a result, operating margin was 3.6% during the second quarter, down from 7.8% in the same period last year. Excluding non-recurring IPO-related compensation expense of \$0.02 million, adjusted income from operations was \$1.8 million during the second quarter of 2022, compared to adjusted income from operations of \$3.3 million in the prior-year period.

FINANCIAL RESOURCES AND LIQUIDITY

As of June 30, 2022, the Company had \$3.1 million of cash and cash equivalents, total debt of \$14.7 million and \$3.3 million of availability under its credit facility, net of letters of credit. Combined with cash and cash equivalents, total liquidity was \$6.4 million at June 30, 2022.

FINANCIAL GUIDANCE

The outlook for FGI's business and the long-term trends in the repair and remodel markets remains strong. The Company reiterates its fiscal 2022 guidance as follows:

- Total Revenue of between \$182 million and \$189 million
- Total Operating Income of between \$6.5 million and \$7.5 million
- Total Net Income of \$5.0 million to \$6.0 million

SECOND QUARTER CONFERENCE CALL

FGI will conduct a conference call on Thursday, August 11 at 8:00 am Eastern Time to discuss the quarterly results.

A webcast of the conference call and accompanying presentation materials will be available in the Investor Relations section of the Company's corporate website at <https://investor.fgi-industries.com>. To listen to a live broadcast, go to the site at least 15 minutes prior to the scheduled start time in order to register and download and install any necessary audio software.

To participate in the live teleconference:

Toll Free: 1-855-327-6837

International Live: 1-631-891-4304

To listen to a replay of the teleconference, which will be available through August 25, 2022:

Domestic Replay: 1-844-512-2921

International Replay: 1-412-317-6671

Conference ID: 10019643

ABOUT FGI INDUSTRIES

FGI Industries Ltd. (Nasdaq: FGI) is a leading global supplier of kitchen and bath products. For over 30 years, we have built an industry-wide reputation for product innovation, quality, and excellent customer service. We are currently focused on the following product categories: sanitaryware (primarily toilets, sinks, pedestals and toilet seats), bath furniture (vanities, mirrors and cabinets), shower systems, customer kitchen cabinetry and other accessory items. These products are sold primarily for repair and remodel activity and, to a lesser extent, new home or commercial construction. We sell our products through numerous partners, including mass retail centers, wholesale and commercial distributors, online retailers and specialty stores.

FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipate," "expect," "could," "may," "intend," "plan", "see" and "believe," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements regarding FGI's guidance, the Company's growth strategies, outlook and potential acquisition activity, the effect of the COVID-19 pandemic and the associated impact on the national and global economy, the effect of supply chain disruptions and freight costs. These forward-looking statements are based on currently available operating, financial, economic and other information, and are subject to a number of risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results. A variety of factors, many of which are beyond our control, could cause actual future results or events to differ materially from those projected in the forward-looking statements in this release. For a full description of the risks and uncertainties which could cause actual results to differ from our forward-looking statements, please refer to FGI's periodic filings with the Securities & Exchange Commission including those described as "Risk Factors" in FGI's annual report on Form 10-K for the year ended December 31, 2021, and in quarterly reports on Form 10-Q filed thereafter. FGI does not undertake any obligation to update forward-looking statements whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

INVESTOR CONTACT

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FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30,	
	2022	2021	2022	2021
	USD	USD	USD	USD
REVENUES	\$ 47,809,014	\$ 42,490,357	91,384,254	\$ 78,866,047
COST OF REVENUES	39,388,061	33,301,420	75,438,715	62,360,079
GROSS PROFIT	8,420,953	9,188,937	15,945,539	16,505,968
OPERATING EXPENSES				
Selling and distribution	4,362,707	4,088,739	9,040,059	8,029,209
General and administrative	2,093,162	1,623,917	3,935,969	2,982,939
Research and development	235,735	155,356	549,416	289,124
Total operating expenses	6,691,604	5,868,012	13,525,444	11,301,272
INCOME FROM OPERATIONS	1,729,349	3,320,925	2,420,095	5,204,696
OTHER INCOME (EXPENSES)				
Interest income	102	2,578	133	10,778
Interest expense	(107,440)	(85,983)	(239,192)	(167,295)
Other income, net	(66,074)	(101,295)	32,771	1,504,947
Total other (expenses) income, net	(173,412)	(184,700)	(206,288)	1,348,430
INCOME BEFORE INCOME TAXES	1,555,937	3,136,225	2,213,807	6,553,126
PROVISION FOR (BENEFIT OF) INCOME TAXES				
Current	298,300	528,571	469,799	833,530
Deferred	87,107	99,753	43,285	250,281
Total provision for income taxes	385,407	628,324	513,084	1,083,811
NET INCOME	1,170,530	2,507,901	1,700,723	5,469,315
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	(69,416)	325,637	(126,596)	325,236
COMPREHENSIVE INCOME	\$ 1,101,114	\$ 2,833,538	1,574,127	\$ 5,794,551
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES				
Basic*	9,168,508	7,000,000	9,168,508	7,000,000
Diluted*	11,662,293	7,000,000	11,662,293	7,000,000
EARNINGS PER SHARE				
Basic*	\$ 0.13	\$ 0.36	\$ 0.19	\$ 0.78
Diluted*	\$ 0.10	\$ 0.36	\$ 0.15	\$ 0.78

* Shares and per share data are presented on a retroactive basis to reflect the reorganization on January 27, 2022.

FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>As of</u> <u>June 30, 2022</u>	<u>As of</u> <u>December 31, 2021</u>
	<u>USD</u>	<u>USD</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,126,305	\$ 3,883,896
Accounts receivable, net	25,068,641	26,350,650
Inventories, net	18,681,768	21,263,961
Prepayments and other current assets	2,630,749	1,546,623
Prepayments and other receivables – related parties	8,638,531	3,119,822
Total current assets	<u>58,145,994</u>	<u>56,164,952</u>
PROPERTY AND EQUIPMENT, NET	<u>333,503</u>	<u>387,655</u>
OTHER ASSETS		
Intangible assets	—	42,683
Operating lease right-of-use assets, net	7,455,006	8,087,969
Deferred tax assets, net	1,424,193	1,478,589
Other noncurrent assets	<u>3,102,234</u>	<u>2,989,012</u>
Total other assets	11,981,433	12,598,253
Total assets	<u>\$ 70,460,930</u>	<u>\$ 69,150,860</u>
LIABILITIES AND PARENT'S NET INVESTMENT		
CURRENT LIABILITIES		
Short-term loans	\$ 14,690,048	\$ 14,657,280
Accounts payable	21,203,868	32,009,851
Income tax payable	875,797	1,220,939
Operating lease liabilities – current	1,155,559	1,315,848
Accrued expenses and other current liabilities	<u>4,485,430</u>	<u>5,512,438</u>
Total current liabilities	<u>42,410,702</u>	<u>54,716,356</u>
OTHER LIABILITIES		
Operating lease liabilities – noncurrent	<u>6,410,859</u>	<u>6,884,794</u>
Total liabilities	<u>48,821,561</u>	<u>61,601,150</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preference Shares (\$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding as of June 30, 2022 and December 31, 2021)	—	—
Ordinary shares (\$0.0001 par value, 200,000,000 shares authorized, 9,500,000 and 7,000,000 shares issued and outstanding as of June 30, 2022 and December 31, 2021*)	950	700
Parent's net investment	—	7,549,010
Additional paid-in capital	20,719,024	—
Retained earnings	1,700,723	—
Accumulated other comprehensive income	<u>(781,328)</u>	<u>—</u>
Total shareholders' equity	<u>21,639,369</u>	<u>7,549,710</u>
Total liabilities and shareholders' equity	<u>\$ 70,460,930</u>	<u>\$ 69,150,860</u>

* Shares and per share data are presented on a retroactive basis to reflect the reorganization on January 27, 2022.

FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2022	2021
	USD	USD
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,700,723	\$ 5,469,315
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	138,213	142,248
Share-based compensation	144,733	—
Provision for doubtful accounts	75,940	14,749
(Reversal of) provision of defective return	(637,879)	3,108,807
Foreign exchange transaction loss	2,850	94,316
Interest expenses	239,192	167,295
Gain on Forgiveness of PPP loan	—	(1,680,900)
Deferred income taxes	54,397	233,846
Loss on disposal of property and equipment	—	(3,000)
Changes in operating assets and liabilities		
Accounts receivable	1,843,947	(1,852,844)
Inventories	2,582,193	(4,366,126)
Prepayments and other current assets	(1,470,609)	(175,021)
Prepayments and other receivables – related parties	(5,348,158)	(23,294)
Other noncurrent assets	(113,223)	(3,841,292)
Right-of-use assets	632,963	565,630
Income taxes	(345,143)	598,290
Accounts payable	(10,805,982)	360,438
Accounts payable-related parties	—	807,902
Operating lease liabilities	(634,224)	(581,649)
Accrued expenses and other current liabilities	(1,050,269)	1,591,062
Net cash used in operating activities	<u>(12,990,336)</u>	<u>629,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	—	3,000
Purchase of property and equipment	(42,752)	(4,751)
Net cash used in investing activities	<u>(42,752)</u>	<u>(1,751)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (repayments of) revolving credit facility	32,768	6,358,188
Net proceeds from issuance of ordinary shares in IPO	12,370,800	—
Net changes in parent company investment	—	(7,430,516)
Net cash provided by (used in) financing activities	<u>12,403,568</u>	<u>(1,072,328)</u>
EFFECT OF EXCHANGE RATE FLUCTUATION ON CASH	<u>(128,071)</u>	<u>226,359</u>
NET CHANGES IN CASH	(757,591)	(217,948)
CASH, BEGINNING OF PERIOD	3,883,896	4,018,558
CASH, END OF PERIOD	<u>\$ 3,126,305</u>	<u>\$ 3,800,610</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for interest	(240,183)	(163,956)
Cash paid during the period for income taxes	(808,048)	(251,354)
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Net changes in parent company investment	—	(7,430,516)

NON-GAAP FINANCIAL MEASURES

In addition to the measures presented in our unaudited condensed consolidated financial statements, we use the following non-GAAP measures to evaluate our business, measure our performance, identify trends affecting our business and assist us in making strategic decisions. Our non-GAAP measures are: Adjusted Income from Operations, Adjusted Net Income and Adjusted Net Income Per Share. These non-GAAP financial measures are not prepared in accordance with GAAP. They are supplemental financial measures of our performance only, and should not be considered substitutes for net income, income from operations or any other measure derived in accordance with GAAP and may not be comparable to similarly titled measures reported by other entities.

We define Adjusted Income from Operations as GAAP income from operations excluding the impact of certain non-recurring expenses, including IPO-related compensation and stock-based compensation expense and expenses related to COVID-19 protocols. We define Adjusted Net Income as GAAP net income excluding the tax-effected impact of certain non-recurring expenses and income, such as IPO-related compensation and stock-based compensation expense, expenses related to COVID-19 protocols and the impact of our PPP loan. We define Adjusted Net Income Per Share as GAAP net income per share excluding one-time expenses and income, including IPO-related compensation and stock-based compensation expense, expenses related to COVID-19 protocols and the impact of our PPP loan.

We use these non-GAAP measures, along with U.S. GAAP measures, to evaluate our business, measure our financial performance and profitability and our ability to manage expenses, after adjusting for certain one-time expenses, identify trends affecting our business and assist us in making strategic decisions. We believe these non-GAAP measures, when reviewed in conjunction with U.S. GAAP financial measures, and not in isolation or as substitutes for analysis of our results of operations under U.S. GAAP, are useful to investors as they are widely used measures of performance, and the adjustments we make to these non-GAAP measures provide investors further insight into our profitability and additional perspectives in comparing our performance over time on a consistent basis.

The following table reconciles Income from Operations to Adjusted Income from Operations, as well as net income to Adjusted Net Income and net income per share to Adjusted Net Income Per Share for the periods presented.

	For the quarter ended June 30,	
	2022	2021
Income from operations	1,729,349	3,320,925
<u>Adjustments:</u>		
Non-recurring IPO-related compensation and stock-based compensation expense.....	23,559	—
Adjusted income from operations	1,752,907	3,320,925

	For the quarter ended June 30,	
	2022	2021
Net Income	1,170,530	2,507,901
<u>Adjustments:</u>		
Non-recurring IPO-related compensation and stock-based compensation expense.....	23,559	—
Total	1,194,089	2,507,901
Tax impact of adjustment at 18% effective rate	4,241	—
Adjusted net income	1,189,848	2,507,901

Net income per share	0.10	0.36
<u>Adjustments:</u>		
Non-recurring IPO-related compensation and stock-based compensation expense.....	0.00	—
Adjusted net income per share	0.10	0.36