



## FGI INDUSTRIES ANNOUNCES THIRD QUARTER 2022 RESULTS

**EAST HANOVER, N.J., November 9, 2022** – FGI Industries Ltd. (Nasdaq: FGI) (“FGI” or the “Company”), a leading global supplier of kitchen and bath products, today announced results for the third quarter of 2022.

### THIRD QUARTER 2022 HIGHLIGHTS

*(As compared to the Third Quarter of 2021)*

- Total Revenues of \$38.5 million, (24.3%) y/y
- Operating Income of \$1.7 million, (7.7%) y/y
- Net Income of \$1.3 million, (8.9%) y/y
- Continued progress on core “BPC” organic growth drivers
- Significant gross margin improvement of 490 bps y/y
- Lowered full-year 2022 financial guidance

Total revenue decreased 24% on a year-over-year basis in the third quarter of 2022, driven primarily by declines in Sanitaryware and Bath Furniture, partially offset by continued growth in Other categories (including shower systems and custom kitchen cabinetry). Third quarter revenue increased modestly in Europe, while the United States and Canada decreased.

The Company reported significant progress in its gross margin initiatives, with sequential improvement in gross margin of 325 basis points versus the second quarter of 2022 and a year-over-year improvement of 490 basis points compared to the prior-year period. As a result, while revenue decreased 24% on a year-over-year basis, gross profits decreased only 1.1%.

The Company reported operating income of \$1.7 million in the third quarter of 2022, a decline of \$0.1 million versus the prior-year period, as lower revenues and incremental public company costs were partially offset by a more favorable mix and lower freight costs.

For the three months ended September 30, 2022, the Company reported GAAP net income of \$1.3 million, or \$0.11 per diluted share, versus net income of \$1.4 million, or \$0.20 per diluted share, in the third quarter of 2021.

### MANAGEMENT COMMENTARY

“We made significant progress on our margin recovery initiatives during the third quarter; however, customer de-stocking negatively impacted our top-line results during the quarter,” stated David Bruce, President and Chief Executive Officer of FGI. “End customer demand has declined modestly during 2022 owing to macroeconomic headwinds and has remained mostly in-line with our expectations entering the year; however, the decision by key customers to aggressively reduce channel inventories caused third quarter revenues to decline by 24% versus the prior-year period and fall short of expectations. The shortfall was driven primarily by our Canadian sanitaryware business and our Bath Furniture end markets. We remain encouraged by our key organic growth programs, as evidenced by the 61% growth in our Other product categories during the quarter, which includes our Jetcoat shower systems and Covered Bridge custom kitchen cabinetry businesses. Based on customer order planning, we expect our sales momentum to return once channel inventory levels normalize into 2023, as our growth initiatives remain on track despite the near-term market headwinds.”

“I am excited to announce that FGI expanded its geographic footprint into the United Kingdom and Australia,” noted Bruce. “This is an important step in further growing our international presence, which we started several years ago first in Canada and followed by Germany. We see tremendous opportunities to leverage our existing product and operational base and to successfully grow into these new geographic regions. Both the UK and Australia have highly complementary products and channel-strategies with our existing Canadian and German businesses. We were recently awarded an order program with Bunnings, the largest home-improvement retailer in Australia, and we look forward to

many years of growth with that customer, among many others. We are actively building our local talent base in both these countries and look forward to meaningful long-term growth opportunities in the years ahead.”

“I am extremely proud of the significant progress we made on our margin recovery initiatives despite the macro headwinds during the third quarter, with gross margin improving by 325 basis points on a sequential basis,” continued Bruce. “Strong growth in our newer, higher margin product lines, continued pricing momentum, and a reduction in freight costs combined to drive the strong margin performance, with gross margins quickly returning to levels witnessed prior to the supply-chain disruptions just over a year ago. We are confident in our ability to at least maintain these levels of gross margins and expect operating margins to move higher over time owing to growth in our higher margin product categories, a rebound in Bath Furniture, and operating leverage.”

“In addition to the progress we made on our margin initiatives, we also saw significant improvements to our liquidity and cash flow conversion during the third quarter following the recent supply-chain disruptions,” stated Perry Lin, Chief Financial Officer of FGI. “We were able to reduce working capital usage during the quarter, driving improved free cash flow conversion resulting in a third quarter of 2022 ending cash balance of \$6 million, which keeps us in a strong financial position and provides us with ample liquidity to support our organic growth initiatives and any potential strategic M&A.”

“While our strong margin performance was able to offset a portion of the headwinds faced during the third quarter, we are adjusting our fiscal 2022 guidance to reflect the significant channel inventory correction we experienced in the quarter,” continued Bruce. “However, we think it is important to note that our net income guidance is being reduced by less than \$1 million at the mid-point of the revised range on a roughly \$20 million reduction in our revenue expectation. We are disappointed by our third quarter revenue performance, but we remain confident in our strategy to drive organic growth and expect improved results as customer inventory levels adjust.”

## **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 third quarter were as follows:

- FGI continues to grow its custom kitchen cabinetry business under its Covered Bridge brand, generating strong growth in its dealer network, which increased to 126 at September 30, 2022, up from 71 at the start of the year with significant growth in the dealer channel expected to continue into 2023. The Company has also reached preliminary agreements with certain large national customers to act as their key custom kitchen suppliers, which should generate incremental growth in 2023 and beyond. As stated last quarter, FGI has invested in new manufacturing capacity to support the anticipated business development opportunities both in the dealer network and with large national customers.
- Beginning in the fourth quarter of 2022, the Company’s Jetcoat shower-wall program at Lowe’s will be co-branded with their private-label brand and will be called “Allen & Roth Shower Wall System by Jetcoat”. The new in-store point-of-purchase marketing material will make the purchase of Jetcoat walls together with FGI shower bases a much easier process while the strength of the Jetcoat brand in the market is expected to drive incremental sales into 2023.
- FGI will be launching several new product lines and brand initiatives in the fourth quarter of 2022 and first quarter of 2023 across the Company’s entire geographic footprint. FGI’s flagship Craft & Main brand will be launching new products including new electronic bidet toilets that will give the Company a more complete program of bidet toilets at various price points and features. In Canada, FGI will officially launch the Jetcoat shower wall line to the Canadian wholesale market in November, and in Germany, FGI has announced a major sanitaryware product launch that should help drive a new cycle of innovation and product development. The Company is confident that the coordinated launch of these new products will further efforts to capitalize on the “BPC” strategy as FGI continues to upgrade product offerings with features, benefits, and styles that should drive incremental sales and profit growth. FGI will be displaying many of its new products at the 2023 National

Kitchen & Bath Show in Las Vegas, NV in January 2023. FGI will have over 2,000 square feet of exhibit space, the largest exhibit in company history, and the exhibit will include all the Company's brands including Covered Bridge Kitchens, Contrac, Craft & Main bathroom products, and the Jetcoat Shower wall systems.

- Management continues to evaluate possible bolt-on acquisition opportunities to supplement its core organic growth strategy.

### **THIRD QUARTER 2022 RESULTS**

Revenue totaled \$38.5 million during the third quarter of 2022, a decrease of 24.3% compared to the prior-year period, driven by softer volume trends in Sanitaryware and Bath Furniture due largely to customer's inventory de-stocking, partially offset by continued pricing gains and a more favorable mix. Revenue was negatively impacted by a slowdown in the Pro channel in the U.S. and Canada.

- Sanitaryware revenue was \$25.5 million during the third quarter of 2022, a decrease of 18% compared to the prior-year period, primarily driven by volume weakness in the pro channel in Canada and the U.S. The revenue weakness was due in large part to inventory de-stocking, with end customer demand remaining relatively stable.
- Bath Furniture revenue was \$5.6 million during the third quarter of 2022, a decrease of 63% compared to the prior-year period. While order patterns were expected to begin to normalize in the back half of 2022, customers continue to de-stock to reduce channel inventory levels. The Company continues to expect a normalization in order patterns in the coming quarters as inventory levels adjust.
- Other revenue was \$7.4 million during the third quarter of 2022, an increase of 61% compared to the prior-year period, primarily driven by continued volume growth in the shower systems and Covered Bridge custom-kitchen cabinetry businesses.

Gross profit was \$8.0 million during the third quarter of 2022, a decrease of 1.1% compared to the prior-year period, as volume weakness was offset by pricing gains, a more favorable mix, and lower freight costs. Gross profit margin improved to 20.9% during the third quarter of 2022, up 490 basis points from the prior-year period, as measures put in place to mitigate the recent margin headwinds benefitted results. The improvement in the Company's gross margin percentage is primarily attributable to solid growth in higher margin products, such as shower systems and kitchen cabinetry, continued pricing gains, and a reduction in freight costs versus the elevated levels experienced last year. The Company expects the positive factors that drove the strong margin performance in the third quarter to continue.

Operating income was \$1.7 million during the third quarter of 2022, down from \$1.8 million in the prior-year period. The decrease in operating income was driven by the revenue decline, partially offset by a significant improvement in gross margin. As a result, operating margin was 4.3% during the third quarter, up from 3.6% in the same period last year.

### **FINANCIAL RESOURCES AND LIQUIDITY**

As of September 30, 2022, the Company had \$6 million of cash and cash equivalents, total debt of \$13 million and \$5 million of availability under its credit facility, net of letters of credit. Combined with cash and cash equivalents, total liquidity was \$11 million at September 30, 2022.

### **FINANCIAL GUIDANCE**

The outlook for FGI's business and the long-term trends in the repair and remodel markets remain attractive; however, the inventory de-stocking and near-term macro pressures are weighing on results. As a result, the Company revised its fiscal 2022 guidance as follows:

- Total Revenue of between \$164 million and \$168 million
- Total Operating Income of between \$6.0 million and \$6.5 million
- Total Net Income of \$4.5 million to \$5.0 million

## **THIRD QUARTER CONFERENCE CALL**

FGI will conduct a conference call on Thursday, November 10 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: 1-844-826-3035  
International Live: 1-412-317-5195

To listen to a replay of the teleconference, which will be available through November 24, 2022:

Domestic Replay: 1-844-512-2921  
International Replay: 1-412-317-6671  
Conference ID: 10172085

## **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 Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	USD	USD	USD	USD
REVENUES	\$ 38,544,062	\$ 50,886,390	\$ 129,928,316	\$ 129,752,437
COST OF REVENUES	30,503,452	42,757,388	105,942,167	105,117,467
GROSS PROFIT	8,040,610	8,129,002	23,986,149	24,634,970
OPERATING EXPENSES				
Selling and distribution	4,268,355	4,606,648	13,308,414	12,635,857
General and administrative	1,865,325	1,517,753	5,801,294	4,500,692
Research and development	238,638	197,032	788,054	486,156
Total operating expenses	6,372,318	6,321,433	19,897,762	17,622,705
INCOME FROM OPERATIONS	1,668,292	1,807,569	4,088,387	7,012,265
OTHER INCOME (EXPENSES)				
Interest income	306	(68)	439	10,710
Interest expense	(159,033)	(120,560)	(398,225)	(287,855)
Other income (loss), net	71,750	(59,393)	104,521	1,445,554
Total other (expenses) income, net	(86,977)	(180,021)	(293,265)	1,168,409
INCOME BEFORE INCOME TAXES	1,581,315	1,627,548	3,795,122	8,180,674
PROVISION FOR INCOME TAXES				
Current	254,917	256,077	724,716	1,089,607
Deferred	54,256	(24,343)	97,541	225,938
Total provision for income taxes	309,173	231,734	822,257	1,315,545
NET INCOME	1,272,142	1,395,814	2,972,865	6,865,129
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	(879,727)	(354,891)	(1,006,323)	(29,655)
COMPREHENSIVE INCOME	\$ 392,415	\$ 1,040,923	\$ 1,966,542	\$ 6,835,474
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES				
Basic*	9,280,220	7,000,000	9,280,220	7,000,000
Diluted*	11,902,473	7,000,000	11,902,473	7,000,000
EARNINGS PER SHARE				
Basic*	\$ 0.14	\$ 0.20	\$ 0.32	\$ 0.98
Diluted*	\$ 0.11	\$ 0.20	\$ 0.25	\$ 0.98

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

\* The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**FGI INDUSTRIES LTD.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	As of September 30, 2022 USD	As of December 31, 2021 USD
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 5,981,019	\$ 3,883,896
Accounts receivable, net	18,182,819	26,350,650
Inventories, net	15,987,667	21,263,961
Prepayments and other current assets	2,647,841	1,546,623
Prepayments and other receivables – related parties	5,715,890	3,119,822
Total current assets	48,515,236	56,164,952
PROPERTY AND EQUIPMENT, NET	1,592,582	387,655
<b>OTHER ASSETS</b>		
Intangible assets	—	42,683
Operating lease right-of-use assets, net	9,631,504	8,087,969
Deferred tax assets, net	1,369,937	1,478,589
Other noncurrent assets	2,333,399	2,989,012
Total other assets	13,334,840	12,598,253
Total assets	\$ 63,442,658	\$ 69,150,860
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term loans	\$ 13,007,649	\$ 14,657,280
Accounts payable	13,752,256	32,009,851
Accounts payable – related parties	614,633	—
Income tax payable	172,790	1,220,939
Operating lease liabilities – current	1,238,857	1,315,848
Accrued expenses and other current liabilities	4,017,469	5,512,438
Total current liabilities	32,803,654	54,716,356
<b>OTHER LIABILITIES</b>		
Operating lease liabilities – noncurrent	8,491,300	6,884,794
Total liabilities	41,294,954	61,601,150
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preference Shares (\$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding as of September 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 September 30, 2022 and December 31, 2021*)	950	700
Parent's net investment	—	7,549,010
Additional paid-in capital	20,834,944	—
Retained earnings	2,972,865	—
Accumulated other comprehensive loss	(1,661,055)	—
Total shareholders' equity	22,147,704	7,549,710
Total liabilities and shareholders' equity	\$ 63,442,658	\$ 69,150,860

\* Shares and per share data are presented on a retroactive basis to reflect the reorganization on January 27, 2022.  
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**FGI INDUSTRIES LTD.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>USD</b>	<b>USD</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,972,865	\$ 6,865,129
Adjustments to reconcile net income to net cash provided by (used) in operating activities		
Depreciation and amortization	182,404	213,281
Share-based compensation	260,652	—
Provision for doubtful accounts	102,842	35,200
(Reversal of) provision of defective return	(1,456,022)	2,133,028
Foreign exchange transaction loss	(58,901)	289,406
Interest expenses	398,225	287,855
Gain on Forgiveness of PPP loan	—	(1,680,900)
Deferred income taxes	108,653	226,356
Loss on disposal of property and equipment	—	(3,000)
Changes in operating assets and liabilities		
Accounts receivable	9,521,011	(10,444,328)
Inventories	5,276,294	(10,695,034)
Prepayments and other current assets	146,324	(500,787)
Prepayments and other receivables – related parties	(3,895,562)	(13,736)
Other noncurrent assets	655,614	(3,316,292)
Income taxes	(1,048,150)	621,442
Right-of-use assets	(1,543,534)	910,468
Accounts payable	(18,257,595)	14,070,256
Accounts payable-related parties	614,633	140,208
Operating lease liabilities	1,529,515	(934,063)
Accrued expenses and other current liabilities	(1,841,239)	2,656,952
Net cash provided by (used in) operating activities	<u>(6,331,971)</u>	<u>861,442</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of property and equipment	400	3,000
Purchase of property and equipment	(55,450)	(13,261)
Prepayment for purchase of building and sub-lease of land	(1,295,924)	—
Net cash used in investing activities	<u>(1,350,974)</u>	<u>(10,261)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from (repayments of) revolving credit facility	(1,649,631)	4,198,817
Net proceeds from issuance of ordinary shares in IPO	12,370,800	—
Net changes in parent company investment	—	(5,550,149)
Net cash provided by (used in) financing activities	<u>10,721,169</u>	<u>(1,351,332)</u>
EFFECT OF EXCHANGE RATE FLUCTUATION ON CASH	<u>(941,101)</u>	<u>(318,011)</u>
NET CHANGES IN CASH	2,097,123	(818,162)
CASH, BEGINNING OF PERIOD	3,883,896	4,018,558
CASH, END OF PERIOD	<u>\$ 5,981,019</u>	<u>\$ 3,200,396</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	(395,987)	(285,344)
Cash paid during the period for income taxes	(1,755,531)	(470,111)
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Net changes in parent company investment	—	(5,550,149)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## Non-GAAP 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 Operating Margins and Adjusted Net Income. 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 Operating Margins as adjusted income from operations divided by revenue.

We use these non-GAAP measures, along with 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 GAAP financial measures, and not in isolation or as substitutes for analysis of our results of operations under 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 and Adjusted Operating Margins, as well as Net income to Adjusted Net Income for the periods presented.

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
<b>Income from operations</b>	1,668,292	1,807,569	4,088,387	7,012,265
Adjustments:				
Non-recurring IPO-related compensation	—	—	255,871	—
COVID one-time expenses	—	—	—	115,900
<b>Adjusted income from operations</b>	1,668,292	1,807,569	4,344,258	7,128,165
Revenue	38,554,062	50,886,390	129,928,316	129,752,437
<b>Adjusted operating margins</b>	4.3 %	3.6 %	3.3 %	5.5 %

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
<b>Net Income</b>	1,272,142	1,395,814	2,972,865	6,865,129
Adjustments:				
Non-recurring IPO-related compensation	—	—	255,871	—
Other income (PPP Loan)	—	—	—	(1,680,900)
COVID one-time expenses	—	—	—	115,900
Total	1,272,142	1,395,814	3,228,736	5,300,129
Tax impact of adjustment at 18% effective rate	—	—	(46,057)	281,700
<b>Adjusted net income</b>	1,272,142	1,395,814	3,182,679	5,581,829