

ZK International Group Co., Ltd. Announces Record Revenue of \$86.85 Million, an Increase of 36% for the Fiscal Year 2020

WENZHOU, China, Feb. 9, 2020 /PRNewswire/ -- ZK International Group Co., Ltd. (ZKIN) ("ZK International" or the "Company"), a designer, engineer, manufacturer, and supplier of patented high-performance stainless steel and carbon steel pipe products primarily used for water and gas supplies, today announced its audited financial results for the fiscal year ended September 30, 2020.

Financial Highlights for the Fiscal Year 2020

(\$ millions, except per share data)	For the Fiscal Year Ended September 30,		
	2020	2019	% Change
Revenue	\$86.85	\$63.88	35.9%
Gross profit	\$3.94	\$15.64	-74.8%
Gross margin	4.5%	24.5%	-19.9 percentage points
Income (loss) from operations	(\$1.88)	\$8.65	-121.7%
Operating income (loss) margin	-2.2%	13.5%	-15.7 percentage points
Net income (loss) attributable to ZK International	(\$0.83)	\$8.11	-110.2%
Diluted earnings (loss) per share	(\$0.05)	\$0.49	-110.2%
Net book value per share	\$2.72	\$2.63	3.4%

- Revenue increased by 35.9% to a record \$86.85 million primarily driven by increased sales of stainless steel coil and strip and partially offset by decreased weighted average selling prices ("ASP") offered to customers as a temporary sales strategy during the pandemic by providing one-off discount on certain products to some key customers.
- Gross profit decreased by 74.8% to \$3.94 million. Gross margin was 4.5%, compared to 24.5% for the prior fiscal year. The decreases in gross profit and gross margin were primarily due to increased sales percentage of low gross margin products such as stainless steel coil and strip and decreased sales percentage of high gross margin products such as stainless steel piping and fitting products.
- Loss from operations was \$1.88 million, compared to income from operations of \$8.65 million for the prior fiscal year. Operating loss margin was 2.2%, compared to operating profit margin of 13.5% for the prior fiscal year.
- Net loss attributable to ZK International was \$0.83 million, or net loss of \$0.05 per share. This compared to net income attributable to ZK International of \$8.11 million, or \$0.49 per share, for the prior fiscal year.
- Net book value per share was \$2.72 as of September 30, 2020, compared to \$2.63 as

of September 30, 2019.

"While the COVID-19 pandemic caused historic setbacks on the global economy and unprecedented difficulties along the stainless and carbon steel pipe value chain, we managed to grow our top line by 35.9% and achieved record revenue of \$86.85 million for the twelve months ended September 30, 2020, a testament to our strong product quality and customer recognition among our end customers. However, margins and profitability deteriorated in the fiscal year 2020 as a result of significantly decreased ASP for our products and increased sales of lower margin stainless steel coil and strip products as a percentage of total sales. We are encouraged and looking forward to the year ahead, one where we hope to continue to see not only revenue growth in our Company but an increase in profitability and margins." commented Mr. Jiancong Huang, Chairman and Chief Executive Officer of ZK International.

Financial Results for the Fiscal Year 2020

Revenue

For the fiscal year ended September 30, 2020, revenue increased by \$22.96 million, or 35.9%, to a record \$86.85 million from \$63.88 million for the prior fiscal year. The increase in revenue was primarily driven by our increased sales of stainless steel coil and strip, and partially offset by decreased weighted average selling prices offered to customers. The increased sales of stainless steel coil and strip, which is also the raw materials of our stainless steel piping and fitting products, was primarily driven by the management's decision to decrease inventory level during the Covid-19 pandemic and to strengthen Company's cash flow. The increase of sales revenue was partially offset by the decreased weighted average selling prices offered to customers as a temporary sales strategy during the pandemic by providing one-off discount on certain products to some key customers as a result of other customers not being able to fulfill their orders as they suffered from the negative impact of the COVID-19 pandemic earlier this year.

Gross Profit

Gross profit decreased by \$11.70 million, or 74.8%, to \$3.94 million for the fiscal year 2020 from \$15.64 million for the prior fiscal year. As a result, gross margin decreased to 4.5% for the fiscal year 2020 from 24.5% for the prior fiscal year. The decrease of gross profit was primarily due to decreased weighted average selling prices we offered to customers as a temporary sales strategy during the pandemic by providing one-off discount on certain products to some key customers as a result of other customers not being able to fulfill their orders as they suffered from the negative impact of the COVID-19 pandemic earlier this year. The decrease of gross profit was also attributable to the increased sales percentage of low gross margin products such as stainless steel coil and strip and decreased sales percentage of high gross margin products such as stainless steel piping and fitting products. The gross profit of stainless steel coil products is approximately 0.15% due to the decrease of average selling price of stainless steel coil products, while our water and gas piping products generally have gross margin of 7.58% during the year ended September 30, 2020.

Operating Expenses

Selling and marketing expenses decreased by \$0.43 million, or 16.3%, to \$2.22 million for

the fiscal year 2020 from \$2.65 million for the prior fiscal year. As a percentage of sales, selling and marketing expenses was 2.6% for the fiscal year 2020, compared to 4.1% for the prior fiscal year. The decrease was primarily due to decreases in freight expenses, advertising expenses, and compensation for the sales personnel during the year.

General and administrative expenses decreased by \$0.42 million, or 14.3%, to \$2.48 million for the fiscal year 2020 from \$2.90 million for the prior fiscal year. As a percentage of sales, general and administrative expenses was 2.9% for the fiscal year 2020, compared to 4.5% for the prior fiscal year. The decrease was primarily due to decrease in travelling expenses and entertainment expenses.

Research and development expenses decreased by \$0.33 million, or 22.6%, to \$1.12 million for the fiscal year 2020 from \$1.45 million for the prior fiscal year. As a percentage of sales, research and development expenses was 1.3% for the fiscal year 2020, compared to 2.3% for the prior fiscal year. The decrease was primarily due to the decreased research and development activities as a result of the disruption caused by the pandemic.

Total operating expenses decreased by \$1.18 million, or 16.8%, to \$5.82 million for the fiscal year 2020 from \$7.00 million for the prior fiscal year. As a percentage of sales, total operating expenses was 6.7% for the fiscal year 2020, compared to 11.0% for the prior fiscal year.

Income(loss) from Operations

Loss from operations was \$1.88 million for the fiscal year 2020, compared to income from operations of \$8.65 million for the prior fiscal year. As a result, operating loss margin was 2.2% for the fiscal year 2020, compared to operating margin of 13.5% for the prior fiscal year. The decreases in operating income and operating margin were primarily related to decreased gross profit (margin) explained above and partially offset by decreased operating expenses.

Other Income (Expenses)

Interest expenses were \$1.00 million for the fiscal year 2020, compared to \$1.15 million for the prior fiscal year. Other income was \$0.33 million for the fiscal year 2020, compared to \$0.92 million for the prior fiscal year. As a result, total net other expenses were \$0.39 million for the fiscal year 2020, compared to \$0.20 million for the prior fiscal year.

Net Income (loss) and earnings (loss) per share

As a result of the factors described above, net loss was \$0.84 million for the fiscal year 2020, compared to net income of \$8.19 million for the prior fiscal year. Net loss margin was 1.0% for the fiscal year 2020, compared to net profit margin of 12.8% for the prior fiscal year.

After deducting for non-controlling interests, net loss attributable to ZK International was \$0.83 million, or net loss of \$0.05 per share, for the fiscal year 2020. This compared to net income attributable to ZK International of \$8.11 million, or \$0.49 per share, for the prior fiscal year.

Financial Condition

As of September 30, 2020, cash and cash equivalents and short-term investments totaled \$4.05 million, compared to \$3.73 million as of September 30, 2019. Short-term bank borrowings were \$17.37 million as of September 30, 2020, compared to \$16.28 million as of September 30, 2019.

Accounts receivable was \$31.39 million as of September 30, 2020, compared to \$25.12 million as of September 30, 2019. Inventories were \$21.68 million as of September 30, 2020, compared to \$20.80 million as of September 30, 2019. Accounts payable was \$10.35 million as of September 30, 2020, compared to \$4.18 million as of September 30, 2019.

Total current assets and current liabilities were \$64.78 million and \$40.88 million, respectively, leading to a current ratio of 1.58 as of September 30, 2020. This compared to total current assets and current liabilities were \$58.85 million and \$34.58 million, respectively, and current ratio of 1.70 as of September 30, 2019.

Net cash provided by operating activities was \$0.46 million for the fiscal year 2020, compared to \$8.46 million for the prior fiscal year. Net cash used in investing activities was \$1.16 million for the fiscal year 2020, compared to \$0.89 million for the prior fiscal year. Net cash provided by financing activities was \$0.76 million for the fiscal year 2020, compared to net cash used in financing activities of \$11.73 million for the prior fiscal year.

Recent Developments

On January 19, 2021, the Company announced its ETF-like decentralized fund and platform, which was the second DeFi project in xSigma's ecosystem.

On January 12, 2021, the Company announced that xSigma Corporation, a subsidiary of the Company, had published the whitepaper for its DeFi protocol which revealed the key technical details of its future product.

On January 4, 2021, the Company announced that xSigma Corporation, a blockchain R&D lab and a subsidiary of the Company, was in the process of securing initial liquidity from institutional and individual blockchain investors for its DeFi project.

On December 28, 2020, the Company announced that xSigma Corporation, a subsidiary of the Company, had completed the smart contract development of xSigma's DeFi platform.

On December 23, 2020, the Company announced that it hosted a delegation led by Mr. James Heller, Consul General at the U.S. Consulate General in Shanghai on December 14, 2020 during its visit in Wenzhou and the Company.

On December 21, 2020, the Company announced that xSigma Corporation, a subsidiary of the Company, had appointed Jesse Brauner as Senior Engineer.

On December 10, 2020, the Company announced that it signed a letter of intent with Tuopeng Industrial, a prominent construction and real estate company, to form a joint venture that would bid on the construction of a navigation and hydropower project with a total cost estimated to be 4.9 Billion RMB (approximately USD 0.7 Billion).

On November 30, 2020, the Company announced the official launch of the decentralized finance (DeFi) project.

On November 30, 2020, the Company announced that its subsidiary, xSigma Corporation, had selected Dentoro Alliance LP, as software development partner for the development and implementation of a decentralized finance protocol application.

On November 25, 2020, the Company announced that its subsidiary, xSigma Corporation, was launching a Decentralized Finance ("DeFi") protocol which aimed to provide a new level of transparency and legitimacy to decentralized financial blockchain-based smart contracts.

On November 23, 2020, the Company announced that it planned to fund its subsidiary, xSigma Corporation, to develop and deploy disruptive blockchain solutions.

On November 19, 2020, the Company announced the official approval of a new national standard for water conservation in China.

On November 9, 2020, the Company announced that its subsidiary, xSigma Corporation, had signed a letter of intent with Dentoro Alliance LP.

On October 22, 2020, the Company announced it had been approved as a Qualified Supplier for the Suning Real Estate Co., Ltd, which in 2019, Suning Real Estate ranked among the TOP 5 of China's Top 100 Commercial Real Estate Enterprises, the TOP 20 of China's Most Valuable Real Estate Brands and the TOP 50 of China's Top 100 Chinese Real Estate Enterprises.

On September 24, 2020, the Company announced that it had set the terms of a convertible note financing for aggregate gross proceeds up to \$1.4 million.

About ZK International Group Co., Ltd.

ZK International Group Co., Ltd. is a China-based designer, engineer, manufacturer, and supplier of patented high-performance stainless steel and carbon steel pipe products that require sophisticated water or gas pipeline systems. The Company owns 33 patents, 21 trademarks, 2 Technical Achievement Awards, and 10 National and Industry Standard Awards. ZK International is Quality Management System Certified (ISO9001), Environmental Management System Certified (ISO1401), and a National Industrial Stainless Steel Production Licensee that is focused on supplying steel piping for the multi-billion dollar industries of Gas and Water sectors. ZK has supplied stainless steel pipelines for over 2,000 projects, including the Beijing National Airport, the "Water Cube", and "Bird's Nest", which were venues for the 2008 Beijing Olympics. Emphasizing superior properties and durability of its steel piping, ZK International is providing a solution for the delivery of high quality, highly sustainable, environmentally sound drinkable water not only to the China market but also to international markets such as Europe, East Asia, and Southeast Asia.

For more information please visit www.ZKInternationalGroup.com. Additionally, please follow the Company on [Twitter](#), [Facebook](#), [YouTube](#), and [Weibo](#). For further information on the Company's SEC filings please visit www.sec.gov.

Safe Harbor Statement

This news release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of

1995. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are not guarantee of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict and many of which are beyond the control of ZK International. Actual results may differ from those projected in the forward-looking statements due to risks and uncertainties, as well as other risk factors that are included in the Company's filings with the U.S. Securities and Exchange Commission. Although ZK International believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking statements will be realized. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by ZK International or any other person that their objectives or plans will be achieved. ZK International does not undertake any obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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ZK INTERNATIONAL GROUP CO., LTD
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
IN U.S. DOLLARS, EXCEPT SHARE DATA)

	For the year ended September 30,		
	2020	2019	2018
Revenues	\$ 86,846,791	\$ 63,883,520	\$ 54,884,381
Cost of sales	(82,903,989)	(48,239,478)	(36,593,792)
Gross profit	3,942,802	15,644,042	18,290,589
Operating expenses:			
Selling and marketing expenses	2,215,651	2,647,429	2,949,204
General and administrative expenses	2,482,972	2,897,995	4,071,116
Research and development costs	1,123,555	1,452,061	1,652,633
Total operating expenses	5,822,178	6,997,485	8,672,953
Operating Income (loss)	(1,879,376)	8,646,557	9,617,636
Other income (expenses):			
Interest expenses	(1,000,554)	(1,151,045)	(1,239,170)

Interest income	7,192	24,437	10,702
Gain on disposal of subsidiary, net	536,612	-	-
Loss on investment	(256,937)	-	-
Other income, net	327,845	921,973	112,099
Total other expenses, net	(385,842)	(204,635)	(1,116,369)
Income (loss) before income taxes	(2,265,218)	8,441,922	8,501,267
Income tax recovery (expense)	1,428,202	(248,228)	(1,398,210)
Net (loss) income	\$ (837,016)	\$ 8,193,694	\$ 7,103,057
Net (loss) income attributable to non-controlling interests	11,402	(86,828)	(84,943)
Net (loss) income attributable to ZK International Group Co., Ltd.	(825,614)	8,106,866	\$ 7,018,114
Net (loss) income	(837,016)	\$ 8,193,694	\$ 7,103,057
Other comprehensive income (loss):			
Foreign currency translation adjustment	2,319,048	(1,694,278)	(818,468)
Total comprehensive income	\$ 1,482,032	\$ 6,499,416	\$ 6,284,589
Comprehensive loss (income) attributable to non-controlling interests	(6,136)	(73,919)	(75,719)
Comprehensive income attributable to ZK International Group Co., Ltd.	\$ 1,475,896	\$ 6,425,497	\$ 6,208,870
Basic and diluted earnings (loss) per share			
Basic	\$ (0.05)	\$ 0.49	\$ 0.52
Diluted	(0.05)	0.49	0.51
Weighted average number of shares outstanding			
Basic	16,558,037	16,551,708	13,610,046
Diluted	16,558,037	16,551,708	13,629,517

ZK INTERNATIONAL GROUP CO., LTD
CONSOLIDATED BALANCE SHEETS
(IN U.S. DOLLARS)

	As of September 30,	
	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 3,759,535	\$ 3,451,138
Short-term Investment	294,568	279,810
Accounts receivable, net of allowance for doubtful accounts of \$2,020,373 and \$1,919,152, respectively	31,393,289	25,115,040

Notes receivable	192,819	385,519
Other receivables	3,337,634	1,866,321
Due from related parties	47,135	110,990
Inventories	21,679,258	20,796,075
Advance to suppliers	4,078,256	6,848,143
Total current assets	64,782,494	58,853,036
Property, plant and equipment, net	7,870,680	6,595,704
Intangible assets, net	929,021	918,717
Deferred tax assets	724,612	289,756
Long-term deposit	11,836,860	11,453,690
Long-term investment	306,837	291,464
TOTAL ASSETS	\$ 86,450,504	\$ 78,402,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,351,880	\$ 4,182,530
Accrued expenses and other current liabilities	4,172,781	4,438,570
Accrued payroll and welfare	1,555,705	1,340,060
Advance from customers	2,345,891	2,422,776
Due to related parties	1,315,803	1,446,461
Short-term bank borrowings	17,372,894	16,281,461
Other borrowing - short term portion	420,741	-
Notes payables	153,175	296,267
Income tax payable	3,188,615	4,176,537
Total current liabilities	40,877,485	34,584,662
Other borrowing - long term portion	269,290	-
TOTAL LIABILITIES	\$ 41,146,775	\$ 34,584,662
Equity		
Common stock, no par value, 50,000,000 shares authorized, 16,558,037 and 16,558,037 shares issued and outstanding, respectively		
Additional paid-in capital	18,049,630	18,049,630
Statutory surplus reserve	2,904,699	2,904,699
Retained earnings	23,546,921	24,372,535
Accumulated other comprehensive income (loss)	492,685	(1,808,825)
Total equity attributable to ZK International Group Co., Ltd.	44,993,935	43,518,039
Equity attributable to non-controlling interests	309,794	299,666
Total equity	45,303,729	43,817,705
TOTAL LIABILITIES AND EQUITY	\$ 86,450,504	\$ 78,402,367

ZK INTERNATIONAL GROUP CO., LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN U.S. DOLLARS)

For the year ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:			
Net income	\$ (837,016)	\$ 8,193,694	\$ 7,103,057

Adjustments to reconcile net income to net cash used in operating activities:

Depreciation expense	438,467	375,286	395,604
Amortization expense	11,366	13,638	12,137
Loss on disposal of fixed assets	7,608	2,244	-
Bad debt expense	-	-	286,606
Inventory provision	103,942	-	-
Write-off of advance to suppliers	100,684	102,523	-
Deferred tax benefits	(406,637)	(1,958)	(37,311)
Non-cash service expense	-	50,679	-
Gain on disposal of subsidiary	(536,612)	-	-
Loss on investment	214,114	-	-
Change in unrecognized tax benefits	(1,021,565)	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(4,800,889)	995,327	(7,151,260)
Other receivables	(793,936)	680,970	(1,215,167)
Notes receivable	206,465	13,119	(216,478)
Inventories	103,123	(3,846,722)	(9,065,712)
Advance to suppliers	2,933,852	596,380	1,580,700
Accounts payable	5,582,787	2,593,103	861,192
Notes payable	(153,824)	308,005	(380,000)
Accrued expenses and other current liabilities	(484,477)	(1,314,005)	1,698,015
Accrued payroll and welfare	140,497	506,894	600,619
Advance from customers	(198,358)	(887,934)	1,563,693
Income tax payable	(149,386)	83,250	1,349,310
Net cash provided (used in) operating activities	<u>460,205</u>	<u>8,464,493</u>	<u>(2,614,995)</u>
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(1,168,322)	(880,289)	(467,138)
Proceed from disposal of property, plant and equipment	6,281	5,963	-
Disposal of intangible asset	-	-	257,863
Purchases of intangible assets	-	(11,149)	(501,000)
Net cash used in investing activities	<u>(1,162,041)</u>	<u>(885,475)</u>	<u>(710,275)</u>
Cash Flows from Financing activities:			
Net proceeds released from (placed into) short-term investment	-	559,030	(893,945)
Net proceeds received from (placed into) long-term deposit	-	(7,682,151)	(4,444,170)
Net proceeds released from restricted cash	-	-	539,381
Proceeds from short-term bank borrowings	18,061,979	25,875,962	24,056,279
Repayments of short-term bank borrowings	(17,836,445)	(28,199,497)	(25,529,488)
Net proceeds received from (repaid to) related parties	(133,007)	(2,279,911)	5,665,914
Proceed from other borrowing	775,951	-	-
Repayment of other borrowing	(107,195)	-	-
Net cash provided by (used in) financing activities	<u>761,283</u>	<u>(11,726,567)</u>	<u>(606,029)</u>

Effect of exchange rate changes on cash	248,950	(83,902)	335,413
Net change in cash and cash equivalents	308,397	(4,231,451)	(3,595,886)
Cash and cash equivalents at the beginning of year	3,451,138	7,682,589	11,278,475
Cash and cash equivalents at the end of year	<u>\$ 3,759,535</u>	<u>\$ 3,451,138</u>	<u>\$ 7,682,589</u>
Supplemental disclosures of cash flows information:			
Non-cash financing activities	\$ -	\$ -	\$ 9,842,676
Cash paid for income taxes	\$ 149,291	\$ 170,331	\$ 38,218
Cash paid for interest expenses	\$ 991,319	\$ 1,197,504	\$ 1,218,757

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