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Inscape Announces Fourth Quarter and Full Year 2021 Financial Results

July 15, 2021: Inscape (TSX: INQ), a leading designer and manufacturer of furnishings and movable wall systems for the workplace, today announced its results of operations for the fourth quarter and full year ended April 30, 2021.

"Fiscal Year 2021 results reflect a full year of operations impacted by the COVID-19 pandemic and, as such, any comparison to prior fiscal years is of little value. Instead, it's important to highlight that Inscape has utilized this past fiscal year to position for the eventual recovery from the pandemic and implement the changes necessary to be a successful and growing enterprise. During the fiscal year, management successfully: (1) moved our NY state Walls plant to a new, lower cost premises; (2) eliminated surplus equipment and added a state-of-the-art laser turret press to our Holland Landing plant to improve our core manufacturing capabilities; (3) prepared for a different competitive landscape by re-assessing our competitive strengths and developed an execution plan to support both our Inscape brand and our Office Specialty brand for the new realities of the market; (4) reinvigorated new product plans to ensure relevant offerings are launched into the market during Fiscal Year 2022 and thereafter; and, (5) developed a framework to implement some of the necessary changes to the businesses core operating model and identified the other changes needed to occur in the early portion of the coming fiscal year to properly position the business for long term growth in sales and profitability. While we are pleased with the accomplishments to date, this work is not yet complete. Management continues to focus on realignment of costs while investing in both the right talent and technology to drive topline growth and profitability once the economic recovery becomes evident. " said Eric Ehgoetz, CEO.

Total sales for the fourth quarter of fiscal 2021 were $8.1 million, compared to $14.4 million for the same period of fiscal 2020. The decline in the quarter, similar to other previous quarters in the fiscal, was primarily due to COVID-19 impacts in some major markets. In addition, during the fourth quarter the Walls plant was moved from Falconer, New York to Jamestown New York, resulting in a shut down for close to a month which impacted sales and shipments. Net income for the fourth quarter of fiscal 2021 was $0.5 million or postive $0.03 per diluted share, compared to net loss of $5.1 million or negative $0.36 per diluted share for fiscal 2020. Non-GAAP EBITDA for the fourth quarter was negative $1.3 million, compared to negative $4.0 million, for fiscal 2020.

Full year 2021 total sales were $38.2 million, compared to $75.8 million for fiscal 2020. The twelve month period ended with a net loss of $0.9 million or negative $0.06 per diluted share, compared to a net loss of $5.4 million or negative $0.38 per diluted share for fiscal 2020. Non-GAAP EBITDA for 2021 was positive $0.5 million, compared to negative $1.6 million for fiscal 2020.

Fourth Quarter Financial Highlights

(All comparisons are relative to the three month period ended April 30, 2020 unless otherwise stated):

- Retirement benefit obligation decrease of $6.3 million related to favourable returns on the fair value of plan assets and actuarial gains
- Revolving credit facility loan with FrontWell Capital Partners Inc. of $15.0 million was closed and the Company drew $8.0 million as of April 30, 2021
- Tranche 2 of the US forgivable government loan was received in amount of $1.8 million (US $1.4 million)
- Asset held for sale of $5.2 million disclosure related to the planned Holland Landing property sale and leaseback
- Deferred tax assets of $2.6 million related to tax loss carry-forwards recognized due to sufficient positive evidence that they will be realized against expected profits in the foreseeable future
- SG&A expenses of $5.9 million, a decrease of $0.7 million versus $6.6 million
- EBITDA of ($1.3) million, compared to EBITDA of ($4.0) million
- Gross profit margin of 7.6%, with gross profit down by $3.3 million, versus gross profit margin of 26.8%
- Inventory write-downs of $0.2 million during the quarter

Full Year 2021 Financial Highlights

(All comparisons are relative to the full year ended ended April 30, 2020 unless otherwise stated):

- SG&A expenses of $20.5 million, a decrease of $5.8 million versus $26.4 million due to less selling expenses resulting from lower sales volume and management actions to reduce costs
- Government assistance from subsidies (including the forgivable loan) of $5.3 million
- Cash on hand of $3.7 million as at April 30, 2021 and $2.8 million in restricted cash put forth as collateral security for certain derivative financial instruments
- EBITDA of $0.5 million, compared to EBITDA of ($1.6) million
- Gross profit margin of 18.2%, with gross profit down by $13.9 million, versus gross profit margin of 27.4%
- Inventory write-downs of $1.5 million for the twelve month period
- Gross profit margin of 22.1%, excluding inventory write-downs of $1.5 million
- EBITDA of $2.0 million, excluding inventory write-down of $1.5 million

Inscape Corporation
Summary of Interim Condensed Consolidated Financial Results
(in thousands except EPS)

	Three Months Ended April 30,			
		2021		2020
Sales	**$**	**8,051**	$	14,443
Gross profit		**614**		3,877
Selling, general & administrative expenses[i]		**5,520**		6,165
Unrealized (gain) loss on derivatives		**(581)**		3,032
Unrealized (gain) loss on foreign exchange		**(488)**		224
Loss (gain) on disposal of PP&E and intangibles		**23**		(188)
Other income – government grant		**(1,916)**		(517)
Stock-based compensation[i]		**(110)**		(102)
Severance obligation[i]		**522**		500
Net loss before taxes	**$**	**(2,356)**	$	(5,237)
Income tax recovery		**(2,855)**		(41)
Net income (loss)	**$**	**499**	$	(5,196)
Basic and diluted income (loss) per share	**$**	**0.03**	$	(0.36)
Weighted average number of shares (in thousands):				
for basic EPS calculation		**14,381**		14,381
for diluted EPS calculation		**14,381**		14,381

	Years Ended April 30,			
		2021		2020
Sales	**$**	**38,203**	$	75,818
Gross profit		**6,934**		20,791
Selling, general & administrative expenses[i]		**19,886**		25,954
Unrealized (gain) loss on derivatives		**(3,997)**		1,994
Unrealized (gain) loss on foreign exchange		**(377)**		289
Loss (gain) on disposal of PP&E and intangibles		**(209)**		(1,957)
Other income – government grant		**(5,308)**		(517)
Stock-based compensation[i]		**90**		(379)
Severance obligation[i]		**566**		798
Loss before taxes	**$**	**(3,717)**	$	(5,391)
Income tax (recovery) expense		**(2,826)**		15
Net loss	**$**	**(891)**	$	(5,406)
Basic and diluted loss per share	**$**	**(0.06)**	$	(0.38)
Weighted average number of shares (in thousands):				
for basic EPS calculation		**14,381**		14,381
for diluted EPS calculation		**14,381**		14,381

[i] Stock-based compensation and severance obligations were displayed separately from selling, general and administrative (SG&A) expenses for the purpose of these tables.

Sales in the fourth quarter and fiscal 2021 were 44.3% and 49.6% lower than the same periods of the previous year primarily related to the economic impact of COVID-19 pandemic, which resulted in both shipment delays and customer order pushouts in some of our major markets. In addition, during the fourth quarter the Walls plant sales were lower due to the plant relocation.

Adjusted net loss and adjusted EBITDA are non-GAAP measures, which do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

The following is a reconciliation of net loss calculated in accordance with GAAP to adjusted net (loss) income before taxes, the non-GAAP measure:

	Three Months Ended April 30		Years Ended April 30	
(in thousands)	**2021**	2020	**2021**	2020
Net loss before taxes	**$ (2,356)**	$ (5,237)	**$ (3,717)**	$ (5,391)
Adjust non-operating or unusual items:				
Unrealized (gain) loss on derivatives	**(581)**	3,032	**(3,997)**	1,994
Unrealized (gain) loss on foreign exchange	**(488)**	224	**(377)**	289
Loss (gain) on disposal of PP&E and intangibles	**23**	(188)	**(209)**	(1,957)
Other income – government grant	**(1,916)**	(517)	**(5,308)**	(517)
Stock based compensation	**(110)**	(102)	**90**	(379)
Severance obligation	**522**	500	**566**	798
Adjusted net loss before taxes	**$ (4,906)**	$ (2,288)	**$ (12,952)**	$ (5,163)

The following is a reconciliation of net loss before taxes calculated in accordance with GAAP to EBITDA and adjusted EBITDA, the non-GAAP measures:

	Three Months Ended April 30		Years Ended April 30	
(in thousands)	**2021**	2020	**2021**	2020
Net loss before taxes	**$ (2,356)**	$ (5,237)	**$ (3,717)**	$ (5,391)
Interest	**149**	191	**303**	184
Depreciation	**496**	602	**1,972**	2,158
Amortization	**385**	457	**1,963**	1,440
EBITDA	**$ (1,326)**	$ (3,987)	**$ 521**	$ (1,609)
Adjust non-operating or unusual items:				
Unrealized (gain) loss on derivatives	**$ (581)**	$ 3,032	**$ (3,997)**	$ 1,994
Unrealized (gain) loss on foreign exchange	**(488)**	224	**(377)**	289
Loss (gain) on disposal of PP&E and intangibles	**23**	(188)	**(209)**	(1,957)
Other income – government grant	**(1,916)**	(517)	**(5,308)**	(517)
Stock based compensation	**(110)**	(102)	**90**	(379)
Severance obligation	**522**	500	**566**	798
Adjusted EBITDA	**$ (3,876)**	$ (1,038)	**$ (8,714)**	$ (1,381)

Gross profit margin for the fourth quarter and fiscal 2021 decreased by 19.2 and 9.2 percentage points, respectively, over the same periods last year as a result of the lower sales volume due to the economic impact of the COVID-19 pandemic. In addition, for the fourth quarter and fiscal year 2021, inventory totaling $0.2 million and $1.5 million, respectively, relating to discontinued product lines and obsolescence were written off. The Company continues to identify initiatives to achieve cost efficiencies and improved margins as sales levels return to normal. However, gross profit margins without the effects of the excess inventory write-offs would have been 9.7% for the fourth quarter and 22.1% for the twelve months period ending April 30, 2021.

SG&A for the fourth quarter and fiscal 2021 were 73.6% and 53.8% of sales, compared to 45.5% and 34.8% for the same periods of last year. Despite the higher ratio percentages, the $0.6 million and $5.8 million actual decrease in SG&A expenses resulted from workforce reductions, decrease in marketing initiatives and lower selling, travel and entertainment expenses, partially offset by the non-recurring severance expense of $0.5 million. Collectively, these actions are largely the results of measures adopted by management to manage expenses during COVID-19. In the current fiscal, lower sales volumes impacted the overall higher SG&A to sales ratio.

At the end of the quarter, the Company had cash totaling $3.7 million, restricted cash of $2.8 million set as collateral security for certain derivative financial instruments, $8 million drawn on the new credit facility with FrontWell Capital Partners Inc. and an unused authorized balance of over $6.0 million available.

Financial Statements

Financial statements are available from our website as of this press release.

Fourth Quarter Call Details

Inscape will host a conference call at 8:30 AM EST on Friday, July 16, 2021 to discuss the Company's quarterly results. To participate, please call 1-800-891-8357 (Reservation Number 21995014) about 10 - 15 minutes before the start time. A replay of the conference call will also be available from July 16, 2021 after 10:30 AM EST until 11:59 PM EST on August 15, 2021. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21995014).

Going forward, in accordance with National Instrument 51-110, interim financial statements will continue to be filed on or before the 45 days after the end of the interim period and 90 days for the year end period, however investor calls will be discontinued. Investors are encouraged to reach out to Inscape if they have questions about the financial results moving forward.

Forward-looking Statements

Certain of the above statements are forward-looking statements that involve risks and uncertainties. Actual results could differ materially as a result of many factors including, but not limited to, further changes in market conditions and changes or delays in anticipated product demand. In addition, future results may also differ materially as a result of many factors, including: fluctuations in the Company's operating results due to product demand arising from competitive and general economic and business conditions in North America; length of sales cycles; significant fluctuations in international exchange rates, particularly the U.S. dollar exchange rate; restrictions in access to the U.S. market; changes in the Company's markets, including technology changes and competitive new product introductions; pricing pressures; dependence on key personnel; and other factors set forth in the Company's Ontario Securities Commission reports and filings.

About Inscape

Since 1888, Inscape has been designing products and services that are focused on the future, so businesses can adapt and evolve without investing in their workspaces all over again. Our versatile portfolio includes systems furniture, storage, and walls – all of which are adaptable and built to last. Inscape's wide dealer network, showrooms in the United States and Canada, along with full service and support for all of our clients, enables us to stand out from the crowd. We make it simple. We make it smart. We make our clients wonder why they didn't choose us sooner.

For more information, visit www.myinscape.com

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