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Inscape Announces Second Quarter Fiscal 2021 Financial Results

December 10, 2020: Inscape (TSX: INQ), a leading designer and manufacturer of furnishings for the workplace, today announced its results of operations for the three and six months ended October 31, 2020 and also announces the addition of a new Board Member representing the company's largest shareholder, PenderFund Capital Management.

“Second Quarter Fiscal Year 2021 results reflect the challenging environment we find ourselves operating in given the COVID-19 pandemic,” said Eric Ehgoetz, CEO. **“Management used this environment to launch our new Aria Pronto quick ship wall product in response to the continuing expectations of increased physical separation for work environments. In addition, our team continued with its efforts during the quarter to bring a B2C solution to the work-from-home (WFH) market, culminating in the launch of myinscapehome.com on November 30th and the introduction of our RockIt @Home desk products directly to the consumer marketplace. While there continues to be significant economic headwinds, we have seen an increase in production in both our factories and expect to see stronger results in the current quarter.”** In addition, we continue our efforts to streamline operations and improve efficiencies, including the elimination of obsolete inventories, acceleration of efforts to reduce SKU's, selling idle capital equipment and expediting a significant capital investment to improve our manufacturing capabilities in early 2021.

Total sales for the second quarter of fiscal 2021 were \$7.2 million, compared to \$23.3 million for the same period of fiscal 2020. Net loss for the second quarter of fiscal 2021 was \$3.7 million or negative \$0.26 per diluted share, compared to net income of \$0.4 million or positive \$0.03 per diluted share for fiscal 2020. Non-GAAP EBITDA for the second quarter was negative \$2.7 million, compared to positive \$1.2 million, for fiscal 2020.

Total sales for the six months ended October 31, 2020 were \$18.5 million, compared to \$44.0 million for the same period of fiscal 2020. Net loss for the six month periods ended October 31, 2020 and 2019 were \$0.4 million or negative \$0.02 per diluted share for both years. Non-GAAP EBITDA for the six months ended October 31, 2020 was \$1.7 million, compared to \$1.4 million for fiscal 2020.

Second Quarter Financial Highlights

(All comparisons are relative to the three month period ended October 31, 2019 unless otherwise stated):

- EBITDA of (\$2.7) million, compared to EBITDA of \$1.2 million
- Adjusted EBITDA of (\$3.6) million, compared to adjusted EBITDA of \$1.1 million
- Net loss before taxes of \$3.7 million compared to net income before taxes of \$0.4 million. This quarter's results were lower than the comparative period mainly due to lower sales volume as a result of the COVID-19 pandemic
- Total sales of \$7.2 million, a decrease of 69.3%
- Gross profit margin of 3.2%, with gross profit down by \$6.5 million, versus gross margin of 29.0%
- SG&A expenses of \$5.1 million, a decrease of \$1.4 million versus \$6.5 million due to lower selling expenses from reduced sales volume
- Inventory of \$4.6 million, a decrease of \$1.2 million, versus \$5.8 million as at April 30, 2020

- Cash of \$2.5 million with additional borrowing capacity of \$3.2 million, versus \$5.9 million in cash with additional borrowing base of \$4.5 million as at April 30, 2020
- Government assistance from subsidies of \$0.6 million
- Cash deposit of \$0.5 million for automated laser turret press equipment which is expected to arrive in two phases beginning in February 2021

Second Quarter Year-to-Date Financial Highlights

(All comparisons are relative to the six month period ended October 31, 2019 unless otherwise stated):

- EBITDA of \$1.7 million, compared to EBITDA of \$1.4 million
- Adjusted EBITDA of (\$3.8) million, compared to adjusted EBITDA of \$0.4 million
- Net loss before taxes of \$0.3 million for both years
- Total sales of \$18.5 million, a decrease of 57.9%
- Gross profit margin of 19.8%, with gross profit down by \$8.9 million, versus gross margin of 28.5%
- SG&A expenses of \$9.5 million, a decrease of \$4.3 million versus \$13.8 million due to less selling expenses resulting from lower sales volume
- Government assistance from subsidies (including the forgivable loan) of \$2.8 million

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

| | Three Months Ended October 31, | |
|---|---------------------------------------|-------------|
| | 2020 | 2019 |
| Sales | \$ 7,157 | \$ 23,322 |
| Gross profit | 232 | 6,765 |
| Selling, general & administrative expenses ⁽ⁱ⁾ | 4,892 | 6,537 |
| Unrealized (gain) loss on foreign exchange | (39) | 25 |
| Other income – government grant | (589) | - |
| Unrealized gain on derivatives | (519) | (184) |
| Loss on disposal of PP&E and intangibles | - | 24 |
| Stock-based compensation ⁽ⁱ⁾ | 212 | (80) |
| Investment income | (1) | (2) |
| Severance obligation ⁽ⁱ⁾ | 3 | 50 |
| Net (loss) income before taxes | \$ (3,727) | \$ 395 |
| Income taxes | 5 | 3 |
| Net (loss) income | \$ (3,732) | \$ 392 |
| Basic and diluted (loss) income per share | \$ (0.26) | \$ 0.03 |
| Weighted average number of shares (in thousands) for basic EPS calculation | 14,381 | 14,381 |
| for diluted EPS calculation | 14,381 | 14,381 |

| | Six Months Ended October 31, | |
|---|-------------------------------------|-------------|
| | 2020 | 2019 |
| Sales | \$ 18,527 | \$ 43,999 |
| Gross profit | 3,662 | 12,543 |
| Selling, general & administrative expenses ⁽ⁱ⁾ | 9,519 | 13,834 |
| Unrealized gain on foreign exchange | 295 | 56 |
| Other income – government grant | (2,782) | - |
| Unrealized gain on derivatives | (3,257) | (1,032) |
| Loss on disposal of PP&E and intangibles | - | 52 |
| Stock-based compensation ⁽ⁱ⁾ | 202 | (350) |
| Investment income | (1) | (7) |
| Severance obligation ⁽ⁱ⁾ | 31 | 286 |
| Loss before taxes | \$ (345) | \$ (296) |
| Income taxes | 7 | 56 |
| Net loss | \$ (352) | \$ (352) |
| Basic and diluted loss per share | \$ (0.02) | \$ (0.02) |
| 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 for the three and six months ended October 31, 2020 were 69.3% and 57.9% lower than the same periods of the previous year due to the economic impact of the COVID-19 pandemic, which resulted in lower Furniture sales of 67.4% and 59.0% and lower Walls sales of 74.5% and 54.7%, respectively.

Adjusted net (loss) income 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) income calculated in accordance with GAAP to adjusted net (loss) income before taxes, the non-GAAP measure:

| (in thousands) | Three Months Ended October 31 | |
|--|--------------------------------------|-------------|
| | 2020 | 2019 |
| Net (loss) income before taxes | \$ (3,727) | \$ 395 |
| Adjust non-operating or unusual items: | | |
| Unrealized gain on derivatives | (519) | (184) |
| Unrealized (gain) loss on foreign exchange | (39) | 25 |
| Loss on disposal of PP&E and intangibles | - | 24 |
| Other income – government grant | (589) | - |
| Stock based compensation | 212 | (80) |
| Severance obligation | 3 | 50 |
| Adjusted net (loss) income before taxes | \$ (4,659) | \$ 230 |

| (in thousands) | Six Months Ended October 31 | |
|--|-----------------------------|------------|
| | 2020 | 2019 |
| Net loss before taxes | \$ (345) | \$ (296) |
| Adjust non-operating or unusual items: | | |
| Unrealized gain on derivatives | (3,257) | (1,032) |
| Unrealized loss on foreign exchange | 295 | 56 |
| Other income – government grant | (2,782) | - |
| Loss on disposal of PP&E and intangibles | - | 52 |
| Stock based compensation | 202 | (350) |
| Severance obligation | 31 | 286 |
| Adjusted net loss before taxes | \$ (5,856) | \$ (1,284) |

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

| (in thousands) | Three Months Ended October 31 | |
|--|-------------------------------|----------|
| | 2020 | 2019 |
| Net (loss) income before taxes | \$ (3,727) | \$ 395 |
| Interest | (1) | (2) |
| Depreciation | 505 | 529 |
| Amortization | 525 | 318 |
| EBITDA | \$ (2,698) | \$ 1,240 |
| Adjust non-operating or unusual items: | | |
| Unrealized gain on derivatives | \$ (519) | \$ (184) |
| Unrealized (gain) loss on foreign exchange | (39) | 25 |
| Loss on disposal of PP&E and intangibles | - | 24 |
| Other income – government grant | (589) | - |
| Stock based compensation | 212 | (80) |
| Severance obligation | 3 | 50 |
| Adjusted EBITDA | \$ (3,630) | \$ 1,075 |

| (in thousands) | Six Months Ended October 31 | |
|--|-----------------------------|------------|
| | 2020 | 2019 |
| Net loss before taxes | \$ (345) | \$ (296) |
| Interest | (1) | (7) |
| Depreciation | 984 | 1,052 |
| Amortization | 1058 | 635 |
| EBITDA | \$ 1,696 | \$ 1,384 |
| Adjust non-operating or unusual items: | | |
| Unrealized gain on derivatives | \$ (3,257) | \$ (1,032) |
| Unrealized loss on foreign exchange | 295 | 56 |
| Loss on disposal of PP&E and intangibles | - | 52 |
| Other income – government grant | (2,782) | - |
| Stock based compensation | 202 | (350) |
| Severance obligation | 31 | 286 |
| Adjusted EBITDA | \$ (3,815) | \$ 396 |

Gross profit margin for the three and six months ended October 31, 2020 decreased by 25.8 and 8.7 percentage points, respectively, over the same periods last year as a result of the lower sales volume due to COVID-19. In addition, for the three and six months ended October 31, 2020, excess inventory totaling \$602 and \$689, respectively, relating to discontinued product lines and obsolescence were written off during the periods. The Company will continue to identify initiatives to achieve cost efficiencies and improved margins as sales levels return to normal.

SG&A for the three and six months ended October 31, 2020 were 71.4% and 52.6% of sales, compared to 27.9% and 31.3% for the same periods of last year. The \$1.4 million and \$4.0 million decrease in SG&A results from workforce reductions, decrease in marketing initiatives and lower selling, travel and entertainment expenses. Cumulatively, these results are largely the effect of measures adopted to manage costs during COVID-19. Lower sales volumes impacted the overall higher SG&A to sales ratio.

At the end of the quarter, the Company had cash totaling \$2.5 million, no debt and an unused credit facility with borrowing availability of \$3.2 million based on the credit terms.

Financial Statements

Financial statements are available from our [website](#) as of this press release.

Appointment of a Board Member

Inscape is also pleased to announce that Tracy Tidy has joined the Inscape Board of Directors as of December 9, 2020 as the board nominee of PenderFund Capital Management Ltd. PenderFund is the majority shareholder of Inscape Corporation. PenderFund's stated objective for its business is to protect and grow wealth for investors over time while exploiting inefficient parts of the investing universe to achieve their goal.

Tracy joined PenderFund's investment team as an Equity Analyst in January 2019. She began her investing career in 1996. Prior to joining PenderFund she was an Associate Vice President at a national investment firm from 2006.

Tracy holds a Bachelor of Business Administration degree from Simon Fraser University and is a CFA charterholder.

"We are delighted to have Tracy join our Board," said Bart Bull, Chair. "Tracy's extensive investment and finance experience will bring added value to Inscape."

Second Quarter Call Details

Inscape will host a conference call at 8:30 AM EST on Friday, December 11, 2020 to discuss the Company's quarterly results. To participate, please call 1-888-722-1094 about 10 - 15 minutes before the start time. A replay of the conference call will also be available from December 11, 2020 after 10:30 AM EST until 11:59 PM EST on January 10, 2021. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21971997).

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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