

Inscape Announces Fiscal Year 2020 Third Quarter Results

March 6, 2020: Inscape (TSX: INQ), a leading designer and manufacturer of furnishings for the workplace, today announced its third quarter financial results ended January 31, 2020. Sales in the third quarter of fiscal year 2020 were \$17.4 million and adjusted EBITDA was a deficit of \$0.7 million.

Third Quarter Highlights:

- Third quarter sales were 40% less than the same quarter of the previous year. A year ago, sales were driven by an unusually large number of calendar year end projects implemented by our Platinum customers. In addition, Q3/F'20 results were impacted by several large projects moving out to future quarters and the exit of unprofitable Walls sales.
- Gross profit for the third quarter decreased to \$4.4 million (25.2%) compared to \$8.2 million (28.5%) in the previous year's quarter. Manufacturing efficiencies realized were offset by unfavourable product mix and lower sales volume in the quarter.
- Selling, general and administrative expenses ("SG&A") declined by \$1.2 million compared to the same quarter of the previous year due to cost reduction initiatives implemented in fiscal 2020.
- Gain from disposal of \$1.8 million was realized in the third quarter as Inscape restructured its U.S. based Walls operating facilities. This included the sale and leaseback of the Falconer property and realized gross proceeds of \$4.4 million.
- Net income for the third quarter was \$0.1 million.
- At the end of the quarter, the company was debt-free and had cash totaling \$2.7 million.

"Third quarter results were mixed. We were disappointed in our sales performance after posting 6 consecutive quarters of organic growth. However, we continue to make progress on improving our margins through our cost savings and plant restructuring initiatives," said Brian Mirsky, CEO. "Our focus remains on driving profitable sales growth. We are encouraged with a number of recent wins with both our existing and new customers and the strength of our sales pipeline."

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

	Three Months Ended January 31	
	Fiscal 2020	Fiscal 2019
Sales	\$ 17,376	\$ 28,878
Gross Profit	4,371	8,240
Selling, general & administrative expenses	6,047	7,219
Unrealized loss on foreign exchange	9	8
Unrealized gain on derivatives	(6)	(282)
Gain on disposal of capital assets & intangibles	(1,821)	-
Interest income	-	(5)
Income before taxes	\$ 142	\$ 1,300
Income taxes	-	-
Net income	\$ 142	\$ 1,300
Basic and diluted income per share	\$ 0.01	\$ 0.09
Weighted average number of shares (in thousands) for basic EPS calculation	14,381	14,381
for diluted EPS calculation	14,381	14,382

	Nine Months Ended January 31	
	Fiscal 2020	Fiscal 2019
Sales	\$ 61,375	\$ 71,954
Gross Profit	16,914	20,292
Selling, general & administrative expenses	19,817	23,888
Unrealized loss (gain) on foreign exchange	65	(3)
Unrealized (gain) loss on derivatives	(1,038)	1,054
Gain on disposal of capital assets & intangibles	(1,769)	(295)
Interest income	(7)	(26)
Loss before taxes	\$ (154)	\$ (4,326)
Income taxes	56	-
Net loss	\$ (210)	\$ (4,326)
Basic and diluted loss per share	\$ (0.01)	\$ (0.30)
Weighted average number of shares (in thousands) for basic EPS calculation	14,381	14,381
for diluted EPS calculation	14,381	14,385

The third quarter of fiscal year 2020 ended with net income of \$0.1 million or 1 cent per share, compared with a net income of \$1.3 million or 9 cents per share in the same quarter of last year. Net income of both quarters included certain unrealized, non-cash expenses and one-time items that have significant impact on the net income per GAAP. With the exclusion of these items, the third quarter of fiscal 2020 had an adjusted net loss before taxes of \$1.5 million, compared with an adjusted net income before taxes of \$1.1 million in the same quarter of last year. This represents a reduction in net income of \$1.2 million compared to the prior year driven by lower sales volumes.

The nine-month period of fiscal year 2020 ended with a net loss of \$0.2 million or 1 cent per share, compared with a net loss of \$4.3 million or 30 cents per share for the same period of last year. Net losses of both periods included certain unrealized, non-cash expenses and one-time items that have significant impact on the net loss per GAAP. With the exclusion of these items, the nine-month period of fiscal year 2020 had an adjusted net loss before taxes of \$2.9 million, compared with an adjusted net loss before taxes of \$3.5 million for the same period of the previous year. Realized manufacturing efficiencies and lower SG&A expense contributed to the \$0.6 million improvement in net results. Furthermore, the sale and leaseback of the Falconer Facility which currently manufactures Inscap's branded Walls products; and sale of the DC Rollform integrated metal fabrication business resulted in net gains of \$1.8 million being recognized in the third quarter.

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

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

(in thousands)	Three Months Ended January 31	
	Fiscal 2020	Fiscal 2019
Net income before taxes	\$ 142	\$ 1,300
adjust non-operating or unusual items:		
Unrealized gain on derivatives	(6)	(282)
Unrealized loss on foreign exchange	9	8
Gain on disposal of capital assets & intangibles	(1,821)	-
Stock based compensation	73	(55)
Severance obligation	12	84
Adjusted net (loss) income before taxes	\$ (1,591)	\$ 1,055
Depreciation & Amortization	853	556
Interest Income	-	(5)
Adjusted EBITDA	(738)	1,606

(in thousands)	Nine Months Ended January 31	
	Fiscal 2020	Fiscal 2019
Net loss before taxes	\$ (154)	\$ (4,326)
adjust non-operating or unusual items:		
Unrealized (gain) loss on derivatives	(1,038)	1,054
Unrealized loss (gain) on foreign exchange	65	(3)
Gain on disposal of capital assets & intangibles	(1,769)	(295)
Stock based compensation	(277)	(16)
Severance obligation	298	84
Adjusted net loss before taxes	\$ (2,875)	\$ (3,502)
Depreciation & Amortization	2,540	1,543
Interest Income	(7)	(26)
Adjusted EBITDA	(342)	(1,985)

Gross profit margin as a percentage of sales for the third quarter of fiscal year 2020 at 25.2% was 330 basis points lower than the same quarter of last year's gross profit of 28.5%. Manufacturing efficiencies realized were offset by unfavourable product mix and lower sales volume in the quarter.

For the nine-month period of fiscal year 2020 gross profit as a percentage of sales of 27.6%, was 60 basis points lower than the same period of the previous year. Higher fixed and variable cost of sales contributed to the gross profit margin decrease.

SG&A in the third quarter of fiscal year 2020 were 34.8% of sales, compared to 25.0% in the same quarter of last year. The dollar amount decreased by \$1.2 million compared to the same quarter of last year as the previous year included incremental investments in marketing, sales coverage and supply chain initiatives. Lower sales volumes impacted the overall increased SG&A ratio to sales as compared to the prior year.

SG&A for the nine-month period of fiscal year 2020 were 32.3% of sales, compared to 33.2% in the same period of the previous year. The current nine-month period SG&A of \$19.8 million was \$4.1 million lower than the same period of last year, mainly due to reductions in incremental investments in marketing, sales coverage and supply chain initiatives.

At the end of the quarter, the company was debt-free and had cash totaling \$2.7 million.

Financial Statements

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

Third Quarter Call Details

Inscape will host a conference call at 8:30 AM EST on Friday, March 6, 2020 to discuss the company's quarterly results. To participate, please call 1-800-754-1336 five minutes before the start time. A replay of the conference call will also be available from March 9, 2020 after 10:30 AM EST until 11:59 PM EST on April 8, 2020. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21952730).

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 our clients, enable 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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