

Inscape Announces Fourth Quarter and Full Year 2020 Financial Results

June 25, 2020: Inscape (TSX: INQ), a leading designer and manufacturer of furnishings for the workplace, today announced its results of operations for the fourth quarter and full year ended April 30, 2020.

“Fiscal Year 2020 results were disappointing and, similar to our entire industry, our fourth quarter in particular was significantly impacted by the COVID-19 pandemic. While safeguarding the well-being of employees is the Company’s primary concern, we have taken the necessary steps to respond to these circumstances through aggressive actions to build cash, manage expenses and invest in rapid payback opportunities in order to position the business for growth and profitability as the general economy recovers from these effects.” said Eric Ehgoetz, CEO. **“Specifically, several measures designed to ensure continued operations have been implemented to date, including employee terminations and workshare initiatives, wage reductions for senior executives and senior employees, reductions in non-essential spending and deferral of other expenses and payments where realistic. The Company continues to evaluate and assess further actions we feel are required under the circumstances while managing customer demand.”**

Total sales for the fourth quarter of 2020 were \$14.4 million compared to \$18.6 million for the same period in 2019. The decline in the quarter was primarily due to COVID-19 which resulted in both shipment delays and customer order pushouts in some of our major markets. These challenges were partially offset by gross profit improvements and SG&A expense reductions. Net loss for the fourth quarter of 2020 was \$5.2 million or \$0.36 per diluted share, compared to a net loss of \$4.4 million or \$0.31 per diluted share. Non-GAAP adjusted EBITDA for the fourth quarter was negative \$1.0 million, compared to negative \$2.7 million, for 2019.

Full year 2020 total sales were \$75.8 million, compared to \$90.6 million for 2019. Net loss for 2020 was \$5.4 million, or \$0.38 per diluted share, compared to \$8.7 million, or \$0.61 per diluted share, for 2019. Non-GAAP adjusted EBITDA for 2020 was negative \$1.4 million, compared to negative \$4.7 million, representing an improvement of \$3.3 million over 2019, despite the impact of COVID-19 in the fourth quarter.

Fourth Quarter Financial Highlights

(All comparisons are relative to the three-month period ended April 30, 2019 unless otherwise stated):

- Adjusted EBITDA of (\$1.0) million, compared to adjusted EBITDA of (\$2.7) million
- Gross margin of 26.8%, versus gross margin of 22.0%
- At April 30, 2020, Inscape had \$5.9 million in cash with additional borrowing capacity of \$4.5 million versus \$3.3 million in cash in prior year and \$2.7 million in cash in the prior quarter
- Net increase in working capital of \$4.1 million, versus \$3.3 million the prior year quarter.
- Secured \$1.8 million Small Business Administration loan from US government which is forgivable subject to the terms of the Paycheck Protection Program
- Total sales of \$14.4 million, a decrease of 22.5%
- Net loss before taxes of \$5.2 million compared to net loss before taxes of \$4.4 million. This quarter’s results were impacted by significant unrealized losses on derivatives and foreign exchange representing an increase of \$2.6 million as well as increase in severances totaling \$0.3 million, offset by both a gain on disposal of PP&E and intangibles, stock based compensation and government grant income totaling \$0.8 million

Full Year Financial Highlights

(All comparisons are relative to the full fiscal year ended April 30, 2019 unless otherwise stated):

- Adjusted EBITDA of (\$1.4) million, compared to Adjusted EBITDA of (\$4.7) million
- Gross margin of 27.4%, with gross profit up by 0.5% versus the prior year
- Net increase in working capital of \$0.4 million versus \$1.2 million the prior year
- Net loss before taxes of \$5.4 million as compared to a net loss before taxes of \$8.7 million. This year's results were impacted by unrealized losses on derivatives and foreign exchange representing an increase of \$0.6 million as well as an increase in severances of \$0.6 million, offset by a gain on disposal of PP&E and intangibles, stock compensation and government grant income totaling \$2.9 million
- Total sales of \$75.8 million, a decrease of 16.3%

“We are continuing our efforts to bring new products to the market in the coming year in response to the new COVID-19 world which has been impacted by both physical distancing and movement to less dense office environments.” said Eric Ehgoetz, CEO. **“Inscap continues its initiatives to simplify its product offerings, reduce complexity within the business as well as continue to expand geographically into new market verticals.”**

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

	Three Months Ended April 30	
	Fiscal 2020	Fiscal 2019
Sales	\$ 14,443	\$ 18,629
Gross profit	3,877	4,090
Selling, general & administrative expenses	6,565	7,879
Unrealized loss (gain) on foreign exchange	224	(78)
Unrealized loss on derivatives	3,032	692
(Gain) loss on disposal of capital assets & intangibles	(188)	1
Other income – government grant	(517)	-
Investment income	(2)	(4)
Loss before taxes	\$ (5,237)	\$ (4,400)
Income taxes (recovery)	(41)	20
Net loss	\$ (5,196)	\$ (4,420)
Basic and diluted loss per share	\$ (0.36)	\$ (0.31)
Weighted average number of shares (in thousands) for basic EPS calculation	14,381	14,381
for diluted EPS calculation	14,381	14,381

Twelve months Ended April 30
Fiscal 2020 **Fiscal 2019**

Sales	\$	75,818	\$	90,583
Gross profit		20,791		24,382
Selling, general & administrative expenses		26,382		31,767
Unrealized loss (gain) foreign exchange		289		(81)
Unrealized loss on derivatives		1,994		1,746
Gain on disposal of capital assets & intangibles		(1,957)		(294)
Other income – government grant		(517)		-
Investment income		(9)		(30)
Loss before taxes	\$	(5,391)	\$	(8,726)
Income taxes		15		20
Loss	\$	(5,406)	\$	(8,746)
Basic and diluted loss per share	\$	(0.38)	\$	(0.61)
Weighted average number of shares (in thousands)				
for basic EPS calculation		14,381		14,381
for diluted EPS calculation		14,381		14,381

Sales in the fourth quarter were 22.5% lower than the same quarter of last year. The decline in the fourth quarter is primarily due to the economic impact of the COVID-19 pandemic which resulted in both shipment delays and customer order pushouts in some of our major markets.

The fiscal 2020 annual sales of \$75.8 million were 16.3% lower than the previous year's sales of \$90.6 million, due to the timing of major customer projects in the prior year and reduced sales demand in the latter half of this year.

Adjusted net loss, EBITDA 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 before taxes, the non-GAAP measure:

(in thousands)	Three Months Ended April 30		Years Ended April 30	
	2020	2019	2020	2019
Net loss before taxes	\$ (5,237)	\$ (4,400)	\$ (5,391)	\$ (8,726)
Adjust non-operating or unusual items:				
Unrealized loss on derivatives	\$ 3,032	\$ 692	\$ 1,994	\$ 1,746
Unrealized loss (gain) on foreign exchange	\$ 224	\$ (78)	\$ 289	\$ (81)
(Gain) loss on disposal of PP&E and intangibles	\$ (188)	\$ 1	\$ (1,957)	\$ (294)
Other income – government grant	\$ (517)	\$ -	\$ (517)	\$ -
Stock based compensation	\$ (102)	\$ 272	\$ (379)	\$ 256
Severance obligation	\$ 500	\$ 164	\$ 798	\$ 248
Adjusted net loss before taxes	\$ (2,288)	\$ (3,349)	\$ (5,163)	\$ (6,851)

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

(in thousands)	Three Months Ended April 30		Years Ended April 30	
	2020	2019	2020	2019
Net loss before taxes	\$ (5,237)	\$ (4,400)	\$ (5,391)	\$ (8,726)
Interest	\$ 191	\$ (4)	\$ 184	\$ (30)
Depreciation	\$ 602	\$ 630	\$ 2,158	\$ 2,171
Amortization	\$ 457	\$ -	\$ 1,440	\$ -
EBITDA	\$ (3,987)	\$ (3,774)	\$ (1,609)	\$ (6,585)
Adjust non-operating or unusual items:				
Unrealized loss on derivatives	\$ 3,032	\$ 692	\$ 1,994	\$ 1,746
Unrealized loss (gain) on foreign exchange	\$ 224	\$ (78)	\$ 289	\$ (81)
(Gain) loss on disposal of PP&E and intangibles	\$ (188)	\$ 1	\$ (1,957)	\$ (294)
Other income – government grant	\$ (517)	\$ -	\$ (517)	\$ -
Stock based compensation	\$ (102)	\$ 272	\$ (379)	\$ 256
Severance obligation	\$ 500	\$ 164	\$ 798	\$ 248
Adjusted EBITDA	\$ (1,038)	\$ (2,723)	\$ (1,381)	\$ (4,710)

The fourth quarter gross profit as a percentage of sales of 26.8% was 4.8 percentage points higher than the same quarter of last year, largely due to favourable product mix, improvements in quality expenses and cost efficiencies in the Walls business segment.

Fiscal year 2020 gross profit as a percentage of sales increased by 0.5 percentage points from last year's 26.9% to the current year's 27.4%. SG&A for the quarter was 45.5% of sales compared to last year's 42.3%. The current quarter's SG&A of \$6.6 million was \$1.3 million lower than the same quarter of last year. This is attributable to reduced headcount levels, a decrease in marketing initiatives and lower selling and marketing expenses.

SG&A for the year was 34.8% of sales versus 35.1% last year. The SG&A expense of \$26.4 million was \$5.4 million or 17.0% lower than last year as a result of reduction in marketing initiatives, lower variable and fixed selling expenses, headcount reductions and cost savings from the exit of an unprofitable business unit.

At the end of the quarter, the Company had cash totaling \$5.9 million versus \$3.3 million in prior year and \$2.7 million in the prior quarter. There was no debt as at April 30, 2020 and an unused credit facility of \$4.5 million.

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 EDT on Friday, June 26, 2020 to discuss the Company's quarterly results. To participate, please call 1-800-676-1873 about 10 - 15 minutes before the start time. A replay of the conference call will also be available from June 29, 2020 after 10:30 AM EDT until 11:59 PM EDT on July 29, 2020. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21964529).

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, 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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