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## **Inscape Announces First Quarter 2022 Financial Results**

**Sept 9, 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 first quarter ended July 31, 2021.

*“The results we are reporting for the first quarter of fiscal 2022 do not yet capture the impact of previous and ongoing actions taken by management to better position the business going forward. Controllable events, such as securing a new five-year labour agreement for our Jamestown, New York, Walls Plant will immediately lower our hourly labor costs and are not yet reflected. Furthermore, benefits related to the full integration of the dual automation tower, which arrived in May, with the the new Laser Turret Press, which arrived last February in our Holland Landing, Ontario, Furniture Plant have not been recognized during this quarter. Both of these initiatives will enhance margins of our existing products.”* said Eric Ehgoetz, CEO. *“Similarly, new products to be introduced and manufactured later this fiscal are expected to improve our sales but won’t impact our results until subsequent quarters. Additionally, key sales and marketing talent, and new distribution channels which were also secured during the quarter are expected to improve our sales pipeline in future periods.”*

Total sales revenue for the first quarter of fiscal 2022 was \$7.9 million, compared to \$11.4 million for the same period of fiscal 2021. The decline in the quarter, related to some customer sales pushouts from the first quarter to future quarters, which largely related to the availability of material supply and timing of certain projects. Net loss for the first quarter of fiscal 2022 was \$3.4 million or negative \$0.24 per diluted share, compared to net income of \$3.4 million or positive \$0.24 per diluted share for fiscal 2021. The decline was largely due to lower sales of \$3.5 million, a decrease in net non-operating income by \$3.9 million due to the adverse movement in market-to-market valuation on derivative instruments and a lower level of government grant and subsidies. Non-GAAP EBITDA for the first quarter was negative \$2.3 million, compared to positive \$4.4 million, for fiscal 2021.

*“Non-controllable events, such as significant customer orders moving out to the second quarter and unanticipated supply chain disruptions also impacted our sales performance in the first quarter. These events continue to be driven by the pandemic and its effect on customer preferences and supply lines. We have initiated new procedures to help mitigate the ongoing supply chain disruptions being experienced globally in order to better deliver for our customers. Current visibility suggests the second quarter will begin to reflect an improved financial profile but exact timing to achieve normalized profitability levels remains dependent on a more fulsome economic recovery and management’s continued efforts to streamline operations and costs.”* said Eric Ehgoetz, CEO.

## First Quarter Financial Highlights

(All comparisons are relative to the three month period ended July 31, 2020 unless otherwise stated):

- The Company's borrowings under its revolving credit facility with its lender were \$9.3 million as of July 31, 2021. Including cash, net borrowings were \$4.9 million at quarter end versus nil the prior period.
- Government assistance subsidy recognized in income during the quarter was \$1.4 million, with \$0.8 million received in cash during the period
- EBITDA of \$(2.3) million, compared to EBITDA of \$4.4 million
- Adjusted EBITDA of \$(3.3) million, compared to adjusted EBITDA of (\$0.2) million
- Total cash on hand as of July 31, 2021 was \$4.4 million versus last quarter of \$6.5 million
- Gross profit margin of 7.7%, with gross profit down by \$2.8 million, versus gross profit margin of 30.2%
- Total sales of \$7.9 million, a decrease of 30.9%
- SG&A expenses of \$4.9 million, a slight increase of \$0.3 million versus \$4.6 million

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

	Three Months Ended July 31,	
	2021	2020
Sales	\$ 7,858	\$ 11,370
Gross profit	607	3,430
Selling, general & administrative expenses <sup>(i)</sup>	4,928	4,627
Unrealized (gain) loss on foreign exchange	(99)	334
Other income – government grant	(1,380)	(2,193)
Unrealized loss (gain) on derivatives	420	(2,738)
Stock-based compensation <sup>(i)</sup>	107	(9)
Severance obligation <sup>(i)</sup>	16	27
Net (loss) income before taxes	\$ (3,385)	\$ 3,382
Income tax expense	1	2
Net (loss) income	\$ (3,386)	\$ 3,380
Basic and diluted (loss) income per share	\$ (0.24)	\$ 0.24
Weighted average number of shares (in thousands):		
for basic EPS calculation	14,381	14,381
for diluted EPS calculation	14,381	14,381

<sup>(i)</sup> 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 first quarter of fiscal 2022 were 30.9% lower than the same quarter of the previous year due to the economic impact of the COVID-19 pandemic ("COVID-19"), which resulted from declined Furniture sales of 22.8% and declined Walls sales of 47.6%. The Company experienced some customer sales pushouts from the first quarter to future quarters. This relates largely due to availability of material supply and timing of certain projects.

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

(in thousands)	Three Months Ended July 31,	
	2021	2020
Net (loss) income before taxes	\$ (3,385)	\$ 3,382
Adjust non-operating or unusual items:		
Unrealized loss (gain) on derivatives	420	(2,738)
Unrealized (gain) loss on foreign exchange	(99)	334
Other income – government grant	(1,380)	(2,193)
Stock based compensation	107	(9)
Severance obligation	16	27
Adjusted net loss before taxes	\$ (4,321)	\$ (1,197)

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 July 31,	
	2021	2020
Net (loss) income before taxes	\$ (3,385)	\$ 3,382
Interest	366	-
Depreciation	390	479
Amortization	295	533
EBITDA	\$ (2,334)	\$ 4,394
Adjust non-operating or unusual items:		
Unrealized loss (gain) on derivatives	\$ 420	\$ (2,738)
Unrealized (gain) loss on foreign exchange	(99)	334
Other income – government grant	(1,380)	(2,193)
Stock based compensation	107	(9)
Severance obligation	16	27
Adjusted EBITDA	\$ (3,270)	\$ (185)

Gross profit margin as a percentage of sales was at 7.7% for the first quarter of fiscal year 2022 which showed a decline of 22.5 basis points over the 30.2% for the same period last year. This decrease was a result of lower sales volume associated with the COVID-19 pandemic. The Company will continue to identify initiatives to achieve cost efficiencies and improve margins as sales levels recover.

SG&A for the quarter was 59.6% of sales, compared to 40.9% for the same quarter of last year. The SG&A expenses for the quarter were relatively flat with the comparative quarter of the prior financial year, due to compensating cost movements. During the current quarter the benefits accruing from a lower headcount was largely offset by higher consulting and professional services fees.

Net non-operating income for the quarter decreased by \$3.9 million largely due to unrealized loss on derivatives of \$0.4 million compared to unrealized gains of \$2.7 million in the prior year; and a lower level of government grant of \$1.4 million, compared to \$2.2 million in the prior year.

At the end of the quarter, the Company had cash totaling \$1.6 million, restricted cash of \$2.8 million set as collateral security for certain derivative financial instruments, \$9.5 million drawn on its credit facility and an unused authorized balance of over \$4.9 million available.

## **Financial Statements**

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

## **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](http://www.myinscape.com)

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