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Inscape Announces Third Quarter 2022 Financial Results

March 10, 2022: 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 three and nine months ended January 31, 2022.

"Third quarter fiscal 2022 sales levels represented our second successive quarter over quarter sales improvement since the beginning of the fiscal year. While these reported sales levels to date are not yet satisfactory or adequate to sustain the business over the long term, we see these increasing sales levels as evidence of a recovery from the depths of decline brought about by the pandemic and exacerbated by related supply chain challenges. Sales pipeline levels continue to show improving activity levels / conversion, and align with the various indicators of a strengthening US economy. Management continues to execute additional initiatives that will further lower our breakeven sales level so that the anticipated acceleration in sales volumes will result in an improved level of profitability and a stronger financial profile."
said Eric Ehgoetz, CEO.

Net income after taxes for the third quarter of fiscal 2022 of $4.8 million or 34 cents per share compared to net loss of $1.0 million or negative 7 cents per share resulting from extraordinary gains derived from the substantial completion of management's initiative to sell real properties. During the quarter, the Company completed the sale and leaseback of its Holland Landing property, realizing net gains of $13.0 million. Non-GAAP Adjusted EBITDA for the third quarter was negative $2.9 million, compared to negative $1.2 million, for fiscal 2021.

Net loss after taxes for the nine months ended January 31, 2022, was $1.2 million or negative 8 cents per diluted share, compared to net loss of $1.4 million or negative 10 cents per diluted share for fiscal 2021. The marginally improved performance in the current fiscal period was largely driven by an extraordinary gain of $13.0 million from disposal of the Holland Landing property, partially offset by deferred tax expenses of $3.5 million, lower sales revenues of $2.4 million and a net decrease in other non-operating income of $6.9 million. Non-GAAP Adjusted EBITDA for the nine months ended January 31, 2022 was negative $8.4 million, compared to negative $5.0 million, for fiscal 2021.

Total sales revenue for the third quarter of fiscal 2022 was $10.2 million, compared to $11.6 million for the same period of fiscal 2021. The reduction in the current quarter related primarily to the impact of supply chain disruptions, which limited the availability of height adjustable bases and medium density fibre board, and negatively impacted the Company's ability to fulfill orders. During the quarter, Walls sales were relatively flat, while Furniture sales declined by 15.3% over the same quarter of prior year.

Total sales revenue for the nine months ended January 31, 2022 was $27.7 million, compared to $30.2 million for the same period of fiscal 2021. Sales volumes for the period were relatively flat compared to the same period of the prior year due to a slower-than-expected North American economic recovery, supply chain disruptions which were more pronounced in this fiscal year than the prior period and the effects of a strengthened Canadian dollar on the Company's primarily US dollar denominated sales.

Third Quarter Financial Highlights
(All comparisons are relative to the three-month period ended January 31, 2021 unless otherwise stated.)

- Total cash on hand as of January 31, 2022 was $14.6 million versus $0.9 million for last quarter (October 31, 2021), and $3.7 million for prior fiscal year-end close
- EBITDA of positive $9.6 million, compared to EBITDA of negative $4.0 thousand
- Adjusted EBITDA of negative $2.9 million, compared to adjusted EBITDA of negative $1.2 million
- Net income before taxes of $8.3 million compared to net loss before taxes of $1.0 million
- Total sales of $10.2 million, a decrease of 12.2%
- Gross profit margin of 14.4%, with gross profit down by $1.2 million, versus gross profit margin of 22.9%
- Non-operating income of $12.0 million due to the gain of $13.0 million from the sale of the Holland Landing property, versus $1.2 million
- Inventory was $4.6 million, compared to $5.0 million last quarter, a decrease of $0.4 million

Third Quarter Year-to-Date Financial Highlights
(All comparisons are relative to the nine-month period ended January 31, 2021 unless otherwise stated.)

- The Company fully repaid and terminated the revolving credit facility with its lender; as of January 31, 2022 the Company had no outstanding loans or debt
- EBITDA of positive $5.8 million, compared to EBITDA of positive $1.7 million
- Adjusted EBITDA of negative $8.4 million, compared to adjusted EBITDA of negative $5.0 million
- Net income before taxes of $2.3 million compared to net loss before taxes of $1.4 million
- Total sales of $27.7 million, a decrease of 8.0%
- Gross profit margin of 15.4%, with gross profit down by $2.0 million, versus gross profit margin of 21.0%
- Government assistance from subsidies of $2.0 million, compared to $3.4 million.
- Gain on disposal of $13.0 million, compared to $0.2 million

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

	Three Months Ended January 31, 2022	2021
Sales	**$ 10,208**	$ 11,625
Gross profit	**1,470**	2,658
Selling, general & administrative expenses[i]	**5,114**	4,849
Unrealized gain (loss) on foreign exchange	**143**	(184)
Other expense (income)	**1**	(610)
Unrealized loss (gain) on derivatives	**265**	(159)
Gain on sale of PP&E and intangible assets	**(12,985)**	(232)
Interest expense	**585**	-
Stock-based compensation[i]	**42**	(3)
Severance obligation[i]	**-**	13
Net income (loss) before taxes	**$ 8,305**	$ (1,016)
Income tax expense	**3,467**	22
Net income (loss)	**$ 4,838**	$ (1,038)
Basic and diluted income (loss) per share	**$ 0.34**	$ (0.07)
Weighted average number of shares:		
for basic EPS calculation	**14,381**	14,381
for diluted EPS calculation	**14,415**	14,381

	Nine Months Ended January 31, 2022	2021
Sales	**$ 27,749**	$ 30,152
Gross profit	**4,284**	6,320
Selling, general & administrative expenses[i]	**14,739**	14,368
Unrealized (gain) loss on foreign exchange	**(35)**	111
Other income – government grant	**(1,977)**	(3,392)
Unrealized loss (gain) on derivatives	**661**	(3,416)
Gain on sale of PP&E and intangible assets	**(12,985)**	(232)
Interest expense (income)	**1,394**	(1)
Stock-based compensation[i]	**164**	199
Severance obligation[i]	**24**	44
Net income (loss) before taxes	**$ 2,299**	$ (1,361)
Income tax expense	**3,470**	29
Net loss	**$ (1,171)**	$ (1,390)
Basic and diluted loss per share	**$ (0.08)**	$ (0.10)
Weighted average number of shares:		
for basic EPS calculation	**14,381**	14,381
for diluted EPS calculation	**14,381**	14,381

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

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

(in thousands)	Three Months Ended January 31, 2022	2021	Nine Months Ended January 31, 2022	2021
Net income (loss) before taxes	**$ 8,305**	$ (1,016)	**$ 2,299**	$ (1,361)
Adjust non-operating or unusual items:				
Unrealized loss (gain) on derivatives	**265**	(159)	**661**	(3,416)
Unrealized loss (gain) on foreign exchange	**143**	(184)	**(35)**	111
Gain on disposal of PP&E & intangibles	**(12,985)**	(232)	**(12,985)**	(232)
Other expense (income) – government grant	**1**	(610)	**(1,977)**	(3,392)
Stock-based compensation	**42**	(3)	**164**	199
Severance obligation	**-**	13	**24**	44
Adjusted net loss before taxes	**$ (4,229)**	$ (2,191)	**$ (11,849)**	$ (8,047)

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

(in thousands)	Three Months Ended January 31, 2022	2021	Nine Months Ended January 31, 2022	2021
Net income (loss) before taxes	**$ 8,305**	$ (1,016)	**$ 2,299**	$ (1,361)
Interest	**585**	-	**1,394**	(1)
Depreciation	**371**	492	**1,143**	1,476
Amortization	**343**	520	**933**	1,578
EBITDA	**$ 9,604**	$ (4)	**$ 5,769**	$ 1,692
Adjust non-operating or unusual items:				
Unrealized loss (gain) on derivatives	**$ 265**	$ (159)	**$ 661**	$ (3,416)
Unrealized loss (gain) on foreign exchange	**143**	(184)	**(35)**	111
Gain on disposal of PP&E & intangibles	**(12,985)**	(232)	**(12,985)**	(232)
Other expense (income) – government grant	**1**	(610)	**(1,977)**	(3,392)
Stock-based compensation	**42**	(3)	**164**	199
Severance obligation	**-**	13	**24**	44
Adjusted EBITDA	**$ (2,930)**	$ (1,179)	**$ (8,379)**	$ (4,994)

Gross profit margin as a percentage of sales was 14.4% for the third quarter of fiscal year 2022, a significant decrease of 850 basis points over the 22.9% for the same period last year. This declined margin was a result of lower sales, as noted previously, and inventory write-downs during the period. The Company continues to identify initiatives to achieve cost efficiencies and improve margins as sales levels improve.

For the nine months ended January 31, 2022, gross profit margin, as a percentage of sales was 15.4%, a decline of 560 basis points from the 21.0% for the same period last year. This was primarily attributed to the impact of unfavourable exchange rates on the Company's US denominated sales and lower sales generally, for the reasons mentioned above.

SG&A expenses for the three and nine months ended January 31, 2022, were 50.5% and 53.8% of sales, compared to 41.8% and 48.5% for the same periods of last year. The total SG&A expenses for the three and nine months ended January 31, 2022, were relatively flat with the comparative period, due to the high fixed cost component of the SG&A expenses. However, lower sales values in the current fiscal accounted for the deteriorating percentages.

Net non-operating income for the three-month period was nearly ten times higher and for the nine-month period 86.8% higher than the comparative periods in prior year. This is primarily attributed to the gain realized from sale of the Holland Landing property in the current quarter.

At the end of the quarter, the Company had cash totaling $14.6 million, restricted cash of $3.2 million set as collateral security for certain derivative financial instruments, $2.7 million in long-term deposits held under lease agreements (other assets) and no outstanding loan or debt balances.

Holland Landing Sale and Leaseback Transaction

On January 25, 2022, the Company completed a sale and leaseback of the land and buildings ("the property") at 67 Toll Road in Holland Landing, Ontario to a third party. The property, which was included in assets held for sale immediately prior to sale, had a carrying value of $5.2 million. The leaseback resulted in the recognition of right-of-use assets of $2.7 million and lease liabilities of $16.7 million. The right-of-use assets value reflects the proportion of the property, plant and equipment retained for a period of ten years, with two five-year extension periods. The lease liability reflects the net present value of future lease payments. The sale generated cash proceeds of $32.8 million and resulted in a net gain of $13.0 million.

The Company used part of the proceeds received to settle and fully repay all of its debt obligations under its authorized credit facility which was then terminated, with the remainder available to support the Company's continued operations. The Board of Directors (the Board) will continue to assess alternative uses of excess cash, including but not limited to, potential share buybacks, cash dividends, merger and acquisition opportunities and capital expenditures. Management and the Board remain committed to putting the Company back on solid sustainable footing and creating future stakeholder value.

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

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