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Inscape Announces Fourth Quarter and Full Year 2022 Financial Results

July 14, 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 fourth quarter and full year ended April 30, 2022 and announces the addition of a new Board Member.

"Fourth quarter fiscal 2022 sales levels represented our third successive quarter over quarter sales improvement since the beginning of the fiscal year. This remains an encouraging trend but must materially improve to higher quarterly sales levels ongoing to sustain the business over the long term. We are seeing sales pipeline levels build momentum quarter over quarter in line with management's expectations given the continued relative strength of the U.S. economy. During the fiscal year, management completed its efforts to monetize non-core assets, raise cash and retire debt in order to allow us to continue our work improving the efficiency of the Company's operations and improve core profitability once our sales levels return to pre-pandemic levels."
said Eric Ehgoetz, CEO.

Total sales for the fourth quarter of fiscal 2022 were $11.0 million, compared to $8.1 million for the same period of fiscal 2021. During the fiscal year, the Company experienced quarter on quarter revenue growth at an annualized growth rate of 11.8% as the economic recovery from the COVID-19 pandemic continued.

Total sales for the full year 2022 were relatively flat at $38.7 million, compared to $38.2 million for fiscal 2021. The Company's performance during fiscal 2022 was impacted by the continued effects of the pandemic on supply chain which triggered shortage of production materials, such as height adjustable bases and medium density fibre board, resulting in customer project delays and lower margins. The Company also experienced input cost increases for steel, aluminium, petroleum-based products and freight.

"During the fourth quarter, management continued its efforts to improve the business and its cost base. The successful renewal of the collective bargaining agreement with our unionized hourly furniture plant employees for a three-year term and elimination of both an incentive- based compensation system and a defined benefit pension plan will result in material operational savings in the current and future fiscal years. Coupled with the existing labour agreement secured with our unionized hourly walls plant workers last June 2021, the Company is now assured of stability for both of its manufacturing operations for the next three years. We wish to thank our valued hourly plant employees for their important contributions to the Company's success and their commitment to our business." said Eric Ehgoetz, CEO.

Net income after taxes for the fourth quarter of fiscal 2022 of $0.3 million or 2 cents per share was in line with the same period of the prior year. During the current quarter, the Company completed the sale of surplus property located at 70 Toll Road in Holland Landing, Ontario for a selling price of $1.7 million. Non-GAAP Adjusted EBITDA for the fourth quarter was negative $3.4 million, compared to negative $3.9 million, for fiscal 2021.

Net loss after taxes for the full year ended April 30, 2022, was $0.8 million or negative 6 cents per diluted share, compared to net loss of $0.9 million or negative 6 cents per diluted share for fiscal 2021. Gross profit of $6 million, disposal gains of $14.6 million from the sale and leaseback of the properties in Holland Landing, Ontario, and selling, general and administrative (SG&A) expenses of $21.0 million were the main components of the current year's results. Non-GAAP Adjusted EBITDA for the full year ended April 30, 2022 was negative $11.8 million compared to negative $8.7 million for fiscal 2021.

Fourth Quarter Financial Highlights

(All comparisons are relative to the three-month period ended April 30, 2021 unless otherwise stated.)

- Total cash on-hand and short-term investments as of April 30, 2022 was $8.3 million versus $3.7 million for prior fiscal year-end close.
- Total sales of $11.0 million, an increase of 36.5%.
- Gross profit margin of 15.7%, with a gross profit increase of $1.1 million, versus gross profit margin of 7.6%.
- EBITDA of negative $1.9 million, compared to EBITDA of negative $1.3 million.
- Adjusted EBITDA of negative $3.4 million, compared to adjusted EBITDA of negative $3.9 million.
- Net loss before taxes of $3.1 million compared to net loss before taxes of $2.4 million.
- Non-operating net gain of $1.1 million largely due to the gain of $1.6 million from the sale of surplus land at 70 Toll Road in Holland Landing, Ontario, partially offset by interest expense associated with outstanding lease obligations of $0.4 million.
- Inventory was $4.9 million compared to $4.6 million in the third quarter, an increase of $0.3 million in the quarter, and $1.4 million over same quarter last year. The latter primarily related to $1.5 million increase in the Furniture business.

Full Year Financial Highlights
(All comparisons are relative to the full year ended April 30, 2021 unless otherwise stated.)

- The Company fully repaid and terminated the revolving credit facility with its lender, and as of April 30, 2022 the Company had no outstanding loans or restrictive covenants.
- EBITDA of positive $3.9 million, compared to EBITDA of negative $0.5 million.
- Total sales of $38.7 million, relatively flat with prior year of $38.2 million. However, the current fiscal showed progressive quarterly improvement in sales.
- Gain on disposal of $14.6 million, compared to $0.2 million. Current year gain is from the sale and leaseback of the head office and manufacturing facilities at Holland Landing, Ontario and the sale of surplus land at the same location.
- Adjusted EBITDA of negative $11.8 million, compared to adjusted EBITDA of negative $8.7 million.
- Net loss before taxes of $0.8 million compared to net loss before taxes of $3.7 million.
- Gross profit margin of 15.5% compared unfavorably to 18.2% of prior year, largely due to increasing costs for steel, MDF, aluminium and petroleum-based products, and increasing freight charges, which had to be absorbed by the Company for previously agreed contracts and other competitive pricing considerations.
- Government assistance from subsidies of $2.0 million, compared to $5.3 million.

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

	Three Months Ended April 30, 2022		2021	
Sales	**$**	**10,992**	$	8,051
Gross profit		**1,723**		614
Selling, general & administrative expenses(i)		**5,939**		5,513
Unrealized gain (loss) on foreign exchange		**15**		(488)
Other income		**(2)**		(1,916)
Unrealized loss (gain) on derivatives		**52**		(581)
(Gain) loss on sale of PP&E and intangible assets		**(1,624)**		23
Interest expense		**417**		7
Stock-based compensation(i)		**(136)**		(110)
Severance(i)		**127**		522
Net loss before taxes	**$**	**(3,065)**	$	(2,356)
Income tax expense		**(3,397)**		(2,855)
Net income	**$**	**332**	$	499
Basic and diluted income (loss) per share	**$**	**0.02**	$	(0.03)
Weighted average number of shares:				
for basic EPS calculation		**14,381**		14,381
for diluted EPS calculation		**14,398**		14,381

	Full Year Ended April 30, 2022		2021	
Sales	**$**	**38,741**	$	38,203
Gross profit		**6,007**		6,934
Selling, general & administrative expenses(i)		**20,678**		19,880
Unrealized gain on foreign exchange		**(20)**		(377)
Other income – government grant		**(1,979)**		(5,308)
Unrealized loss (gain) on derivatives		**713**		(3,997)
Gain on sale of PP&E and intangible assets		**(14,609)**		(209)
Interest expense		**1,811**		6
Stock-based compensation(i)		**28**		90
Severance(i)		**151**		566
Net loss before taxes	**$**	**(766)**	$	(3,717)
Income tax expense (recovery)		**73**		(2,826)
Net loss	**$**	**(839)**	$	(891)
Basic and diluted loss per share	**$**	**(0.06)**	$	(0.06)
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 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 loss before taxes calculated in accordance with GAAP to adjusted net loss before taxes, the non-GAAP measure:

(in thousands)	Three Months Ended April 30, 2022	Three Months Ended April 30, 2021	Full Year Ended April 30, 2022	Full Year Ended April 30, 2021
Net loss before taxes	**$ (3,065)**	$ (2,356)	**$ (766)**	$ (3,717)
Adjust non-operating or unusual items:				
Unrealized loss (gain) on derivatives	**52**	(581)	**713**	(3,997)
Unrealized loss (gain) on foreign exchange	**15**	(488)	**(20)**	(377)
(Gain) loss on disposal of PP&E & intangibles	**(1,624)**	23	**(14,609)**	(209)
Other income – government grant	**(2)**	(1,916)	**(1,979)**	(5,308)
Stock-based compensation	**(136)**	(110)	**28**	90
Severance	**127**	522	**151**	566
Adjusted net loss before taxes	**$ (4,633)**	$ (4,906)	**$ (16,482)**	$ (12,952)

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, 2022	Three Months Ended April 30, 2021	Full Year Ended April 30, 2022	Full Year Ended April 30, 2021
Net loss before taxes	**$ (3,065)**	$ (2,356)	**$ (766)**	$ (3,717)
Interest	**417**	149	**1,811**	303
Depreciation	**378**	496	**1,521**	1,972
Amortization	**409**	385	**1,342**	1,963
EBITDA	**$ (1,861)**	$ (1,326)	**$ 3,908**	$ 521
Adjust non-operating or unusual items:				
Unrealized loss (gain) on derivatives	**$ 52**	$ (581)	**$ 713**	$ (3,997)
Unrealized loss (gain) on foreign exchange	**15**	(488)	**(20)**	(377)
(Gain) loss on disposal of PP&E & intangibles	**(1,624)**	23	**(14,609)**	(209)
Other income – government grant	**(2)**	(1,916)	**(1,979)**	(5,308)
Stock-based compensation	**(136)**	(110)	**28**	90
Severance	**127**	522	**151**	566
Adjusted EBITDA	**$ (3,429)**	$ (3,876)	**$ (11,808)**	$ (8,714)

Gross profit margin as a percentage of sales was 15.7% for the fourth quarter of fiscal year 2022, a 805 basis point increase over prior year's gross margin of 7.6%. The improved margins are attributable to a higher level of sales for fixed manufacturing cost absorption and lower write-downs during the period. The Company expects continued gross margin improvements due to the impact of the April price increases and further production efficiency gains.

For the full year ended April 30, 2022, gross profit margin was 15.5%, a decline of 264 basis points from the 18.2% for the same period last year. This was primarily attributed to the impact of increasing costs of raw material and freight which could not be passed on to customers, and the impact of unfavourable exchange rates on the Company's U.S. denominated sales.

SG&A expenses for the three-month period and full year ended April 30, 2022, were 53.9% and 53.8% of sales, compared to 73.6% and 53.8% for the same periods of last year. The SG&A expenses are primarily fixed costs that do not vary with sales. The spike in SG&A expenses as a percentage of sales in the fourth quarter of last year related to lower sales and one-off expenses related to severance.

Net non-operating income for the three-month period and full year were $1.1 million and $14.1 million compared to $2.8 million and $9.9 million for the same periods of last year. In the current fiscal year, the Company recognized gain on disposal of $1.6 million and $14.6 million for the three-month period and full year, respectively.

At the end of the quarter, the Company had cash and cash equivalents totaling $8.3 million, restricted cash of $3.2 million set as collateral security for certain derivative financial instruments, and long term deposits with lessors of $2.7 million classified as other assets in the Consolidated Statements of Financial Position. At April 30, 2022, the Company had no outstanding debt or restrictive covenants.

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 the recognition of a gain on disposal of $13.0 million in the Consolidated Statements of Operations.

The Company used part of the proceeds received to settle in full its debt obligations under the revolving credit facility with FrontWell Capital Partners Inc. and close the facility. Management and the Board remain committed to putting the Company back on solid, sustainable footing and creating future stakeholder value.

Sale of Surplus Land

On April 29, 2022, the Company completed a sale of surplus land located at 70 Toll Road in Holland Landing, Ontario to a third party. The sale resulted in gross proceeds of $1.7 million and the recognition of a gain on disposal of $1.6 million in the Consolidated Statements of Operations. The cash related to the sale was received subsequent to the year end.

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 Neil McDonnell has joined the Inscape Board of Directors as of July 14, 2022. Neil is an experienced director with demonstrated success in building successful global businesses during a career spanning more than thirty years.

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 U.S. 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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