67 Toll Road
Holland Landing, ON, L9N 1H2
T 905 836 7676
myinscape.com

# Inscape Announces Second Quarter 2023 Financial Results

**December 9, 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 six months ended October 31, 2022.

***"Second quarter fiscal 2023 was disappointing as sales volumes did not achieve expected levels and certain orders were unable to be recognized within the quarter further diminishing revenue levels reported. Management is responding to these challenges appropriately,"*** said Eric Ehgoetz, CEO.

### Hilco's Support Agreement & Loan Agreement

On October 28, 2022, Inscape entered into a support agreement (the "Support Agreement") with HUK 121 Limited (the "Offeror"), a wholly owned subsidiary of Hilco Capital Limited UK ("Hilco"), under which the Offeror has agreed to initiate a take-over bid to acquire all of Inscape's outstanding subordinated voting shares (the "Shares") for $0.007 in cash per Share (the "Offer Price") by way of a friendly take-over bid (the "Offer"). This is an all-cash Offer.

On October 28, 2022, the Company entered into a loan agreement (the "Loan Agreement") with HUK 116 Limited, another subsidiary of Hilco, for the establishment of a new $5 million demand secured credit facility. The new credit facility will be used by the Company to finance working capital and for other corporate purposes.

### Financial Overview

Total sales revenue for the second quarter of fiscal 2023 was $8.3 million, compared to $9.7 million for the same period of fiscal 2022. The decline in the quarter was due to delays in the completion of certain projects, reduced average size of incoming orders and lower than expected order volumes related to a slower return-to-office observed throughout North America. Net loss for the second quarter of fiscal 2023 was $7.9 million or negative $0.55 per diluted share, compared to net loss of $2.6 million or negative $0.18 per diluted share for fiscal 2022. The decline is primarily attributed to lower sales volume, the impact of one-off adjustments which increased cost of goods sold in the period, failure to realize volume-driven labour cost efficiencies, and the resumption of spending on marketing and selling activities, which are expected to realize benefits in future periods. The net loss during the quarter was also the result of $1.1 million in foreign exchange expenses relating to unanticipated volatility in FX markets as a result of certain developments in the UK impacting broader currency markets during the period as well as $0.6 million of lease expenses relating to the Holland Landing sale leaseback transaction completed earlier in the calendar year which have not yet been offset by the planned footprint reduction plan. Earlier termination of Toronto showroom lease and ERP upgrade were also contributing factors. Non-GAAP Adjusted EBITDA for the second quarter was negative $4.7 million, compared to negative $2.2 million, for fiscal 2022.

Total sales revenue for the six months ended October 31, 2022 was $17.2 million, compared to $17.5 million for the same period of fiscal 2022 due to relatively flat sales volumes for the period compared with prior year. Net loss for the six months ended October 31, 2022, was $14.0 million or negative $0.98 per diluted share, compared to net loss of $6.0 million or negative $0.42 per diluted share for fiscal 2022. A number of factors contributed to the less than favourable performance, including a lower gross profit due to one-off fringe benefits and inventory reserves adjustments, higher commodity and freight costs on the Furniture business, and an increase in non-operating expenses – primarily restructuring costs and Board fees. The net loss in the six-month period was also the result of $1.0 million in foreign exchange expenses relating to unanticipated volatility in FX markets as a result of certain developments in the UK impacting broader currency markets during the period as well as $1.1 million of lease expenses relating to the Holland Landing sale leaseback transaction completed earlier in the calendar year which have not yet been offset by the planned footprint reduction plan. In addition, there were government grants and subsidies last fiscal year that were not available this year. Earlier termination of Toronto showroom lease and ERP upgrade were also contributing factors. Non-GAAP Adjusted EBITDA for the six months ended October 31, 2022 was negative $9.2 million, compared to negative $5.4 million, for fiscal 2022.

**Second Quarter Financial Highlights**

(All comparisons are relative to the three-month period ended October 31, 2021 unless otherwise stated):

- Total sales of $8.3 million, a decrease of 14.3%
- A negative gross margin of 0.7%, with gross profit declining by $2.3 million, versus gross profit margin of 22.8%
- Selling, general and administrative (SG&A) expenses of $6.2 million, an increase of $1.1 million:
  - Additional expenses of $0.9 million, primarily marketing and selling expenses incurred to recruit talent and drive business growth
  - One-time expenses of $0.5 million comprised of restructuring and Board fees ($0.3 million), accelerated depreciation due to early termination of lease ($0.2 million)
  - Loan Agreement and Support Agreement fees and related expenses ($0.2 million)
  - Partially offset by lower costs in some functional departments

- No government assistance in the current period, compared to $0.6 million recognized in the prior fiscal year
- Additional lease costs expenses of $0.6 million for Holland Landing location
- EBITDA of negative $6.4 million, compared to EBITDA of negative $1.5 million
- Adjusted EBITDA of negative $4.7 million, compared to adjusted EBITDA of negative $2.2 million
- Total cash, cash equivalents and restricted as of October 31, 2022 was $2.6 million
- The company had no borrowings on its $5 million credit facility as of October 31, 2022

**Second Quarter Year-to-Date Financial Highlights**

(All comparisons are relative to the six-month period ended October 31, 2021 unless otherwise stated):

- Total sales of $17.2 million, a decrease of 2.2%
- Gross profit margin of 1.7%, with gross profit down by $2.5 million, versus gross margin of 16.0%
- SG&A expenses increased by $2.7 million largely due to resumption of marketing and selling activities post-pandemic ($1.8 million), non-recurring expenditures related to restructuring costs and Board fees ($0.3 million) and the upgrade of the ERP system ($0.5 million)
- No government assistance in the current period, compared to $2.0 million recognized in the prior fiscal year
- Net unrealized losses on derivatives and foreign exchange transactions increased by $1.2 million due to unfavourable exchange rates
- Additional lease cost expenses of $1.1 million for the Holland Landing location
- Loan Agreement and Support Agreement fees and related expenses ($0.2 million)
- Net loss before taxes of $14.0 million compared to net loss before taxes of $6.0 million
- EBITDA of negative $11.1 million, compared to EBITDA of negative $3.8 million
- Adjusted EBITDA of negative $9.2 million, compared to Adjusted EBITDA of negative $5.4 million

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

| | Three Months Ended October 31, | | | |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| Sales | **$** | **8,302** | $ | 9,683 |
| Gross profit | | **(61)** | | 2,207 |
| Selling, general & administrative expenses[i] | | **6,228** | | 5,063 |
| Unrealized loss (gain) on foreign exchange | | **552** | | (79) |
| Other income – government grants | | **-** | | (598) |
| Unrealized loss (gain) on derivatives | | **594** | | (24) |
| Net Interest expense | | **416** | | 443 |
| Stock-based compensation[i] | | **(28)** | | 15 |
| Severance[i] | | **(34)** | | 8 |
| Net loss before taxes | **$** | **(7,789)** | $ | (2,621) |
| Income tax expense | | **87** | | 2 |
| Net loss | **$** | **(7,876)** | $ | (2,623) |
| | | | | |
| Basic and diluted loss per share | **$** | **(0.55)** | $ | (0.18) |
| Weighted average number of shares: | | | | |
| for basic EPS calculation | | **14,381** | | 14,381 |
| for diluted EPS calculation | | **14,381** | | 14,381 |

| | Six Months Ended October 31, | | | |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| Sales | **$** | **17,160** | $ | 17,541 |
| Gross profit | | **291** | | 2,814 |
| Selling, general & administrative expenses[i] | | **12,689** | | 9,625 |
| Unrealized loss (gain) on foreign exchange | | **545** | | (178) |
| Other income – government grants | | **-** | | (1,978) |
| Unrealized loss on derivatives | | **487** | | 396 |
| Other income – lease modification | | **(93)** | | - |
| Net Interest expense | | **818** | | 809 |
| Stock-based compensation[i] | | **(145)** | | 122 |
| Severance [i] | | **(34)** | | 24 |
| Net loss before taxes | **$** | **(13,976)** | $ | (6,006) |
| Income tax expense | | **87** | | 3 |
| Net loss | **$** | **(14,063)** | $ | (6,009) |
| | | | | |
| Basic and diluted loss per share | **$** | **(0.98)** | $ | (0.42) |
| 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.

Sales for the three months ended October 31, 2022, were 14.3% lower than the same quarter of the previous year due to a 44.0% lower revenue recognized from long term projects in the Walls business, which was only partially offset by a 3.1% increase in sales for the Furniture business. Due to timing issues, there were $0.5 million of orders that were produced and shipped but could not be recognized during the quarter. Considering this, sales over the first two quarters would have remained flat on a quarter over quarter basis.

Sales volumes for the six months ended October 31, 2022, were marginally lower at 2.2%, compared to the same period of the prior year. The Walls business was the main contributor to this decline with a 14.4%

reduction, partially offset by a 3.5% improvement in the Furniture business. 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 October 31, 2022** | Three Months Ended October 31, 2021 | **Six Months Ended October 31, 2022** | Six Months Ended October 31, 2021 |
|---|---|---|---|---|
| Net loss before taxes | **$ (7,789)** | $ (2,621) | **$ (13,976)** | $ (6,006) |
| Adjust non-operating or unusual items: | | | | |
| Unrealized loss (gain) on derivatives | **594** | (24) | **487** | 396 |
| Unrealized loss (gain) on foreign exchange | **552** | (79) | **545** | (178) |
| Other income – lease modification | - | - | **(93)** | - |
| Other income – government grant | - | (598) | **-** | (1,978) |
| Stock-based compensation | **(28)** | 15 | **(145)** | 122 |
| ERP upgrade | **188** | - | **340** | - |
| Early termination of lease | **165** | - | **510** | - |
| Board fees | **150** | - | **150** | - |
| Restructuring expenses | **164** | - | **164** | - |
| Severance obligation | **(34)** | 8 | **(34)** | 24 |
| Adjusted net loss before taxes | **$ (6,038)** | $ (3,299) | **$ (12,052)** | $ (7,620) |

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 October 31, 2022** | Three Months Ended October 31, 2021 | **Six Months Ended October 31, 2022** | Six Months Ended October 31, 2021 |
|---|---|---|---|---|
| Net loss before taxes | **$ (7,789)** | $ (2,621) | **$ (13,976)** | $ (6,006) |
| Interest expense (income) | **405** | 443 | **807** | 809 |
| Depreciation | **532** | 382 | **1,253** | 772 |
| Amortization | **388** | 295 | **800** | 590 |
| EBITDA | **$ (6,464)** | $ (1,501) | **$ (11,116)** | $ (3,835) |
| Adjust non-operating or unusual items: | | | | |
| Unrealized loss (gain) on derivatives | **594** | (24) | **487** | 396 |
| Unrealized loss (gain) on foreign exchange | **552** | (79) | **545** | (178) |
| Other income – lease modification | - | - | **(93)** | - |
| Other income – government grant | - | (598) | **-** | (1,978) |
| Stock-based compensation | **(28)** | 15 | **(145)** | 122 |
| ERP upgrade | **188** | - | **340** | - |
| Early termination of lease | **165** | - | **510** | - |
| Board fees | **150** | - | **150** | - |
| Restructuring expenses | **164** | - | **164** | - |
| Severance obligation | **(34)** | 8 | **(34)** | 24 |
| Adjusted EBITDA | **$ (4,713)** | $ (2,179) | **$ (9,192)** | $ (5,449) |

Gross profit margin as a percentage of sales was negative 0.7% for the second quarter of fiscal year 2023, compared to gross profit margin of 22.8% for the same period last year. The deterioration in the margin is due to lower sales compared to fixed overheads, one-time adjustments relating to inventory reserves and fringe benefits, and higher commodity and freight charges. The volume-driven efficiencies from the new collective labour agreement were not realized as sales volumes trended below expectation.

For the six months ended October 31, 2022, gross profit margin, as a percentage of sales was 1.7%, a decline of 1,430 basis points from the 16.0% for the same period last year, attributed to the impact of unfavourable commodity and freight costs on the Furniture business.

SG&A for the three and six months ended October 31, 2022, were 74.4% and 73.0% of sales, compared to 52.5% and 55.7% for the same periods of last year. The total SG&A expenses for the six months ended October 31, 2022, increased by $2.7 million over the comparative period, primarily due to accelerated depreciation associated with the early termination of the Toronto showroom lease, higher non-recurring Board fees and one-time restructuring fees, increased marketing and selling expenses and increased IT costs associated with the ERP upgrade. Additionally, the company incurred lease expenses related to its Holland Landing operations that did not exist in the prior fiscal period.

Net non-operating expenses for the three and six months ended October 31, 2022, were $1.6 million and $1.8 million respectively, primarily due to the impact of an unfavourable exchange rate on mark-to-market derivative investments and unrealized foreign exchange losses on revaluation of an integrated subsidiary. This compared to grant income of $0.6 million and $2.0 million, and unrealized revaluation gains of $0.1 million and unrealized revaluation losses of $0.2 million, for the same periods of the prior year, respectively.

**Credit Facility**

On October 28, 2022, the Company entered into a Loan Agreement with HUK 116 Limited, a subsidiary of Hilco, for the establishment of a new $5 million demand secured credit facility. The new credit facility will be used by the Company to finance working capital and for other corporate purposes. As of December 8, 2022, the Company had borrowings of $2,702 under the new secured credit facility with HUK 116 Limited.

The interest rate on the demand operating credit facility is Prime Rate plus 15% per annum for Canadian dollar loans. Under the terms of the credit agreement, Hilco attains a first ranking (subject to Permitted Liens, if any) security interest in all personal property of the Company.

**Going Concern**

To the extent that (a) the Company’s cash needs exceed its cash and cash equivalents, (b) the Company is unable to further draw down on the revolving demand credit facility or Hilco demands repayment of any of such facility, or (c) the Hilco take-over bid does not proceed as planned, the Company will have difficulty in meeting its financial obligations. To date, the Company has not experienced an inability to fulfill customer orders or delays in deliveries to customers.

**Financial Statements**

Financial statements are available from the Company’s 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; other factors set forth in the Company's Ontario Securities Commission reports and filings and the inevitability of the take-over bid transaction by Hilco proceeding.

**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. Inscape's 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 the Company's clients, enables the Company to stand out from the crowd. Inscape makes it simple. Inscape makes it smart. New clients wonder why they did not choose Inscape sooner.

For more information, visit www.myinscape.com

**Contact**

**Jon Szczur**, CPA, CMA
Chief Financial Officer
Inscape Corporation

T 905 952 4102
jszczur@myinscape.com