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## Inscape Announces Fiscal Year 2018 Second Quarter Results

**December 6, 2017:** Inscape (TSX: INQ) today announced its second quarter financial results ended October 31, 2017. Sales in the second quarter of fiscal year 2018 were \$23.2 million, 16% lower than the same quarter of the previous year.

“While this quarter’s performance was disappointing, last year’s strong second quarter performance was exceptional, driven by two large projects that were non-recurring,” said Brian Mirsky, CEO. “We remain confident that our investments in Product Development, Marketing and expanded Sales Coverage will drive topline growth. Despite these significant investments, our cash balance remains strong, demonstrating the strength of our business model.”

### Financial Results

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

	Three Months Ended October 31		Change
	Fiscal 2018	Fiscal 2017	
Sales	\$ 23,209	\$ 27,542	-15.7%
Gross profit	6,065	9,115	-33.5%
Selling, general & administrative expenses	7,179	6,601	8.8%
Unrealized (gain) loss on foreign exchange	(119)	(195)	
Unrealized (gain) loss on derivatives	1,586	1,135	
Investment income	(19)	(21)	
Income (loss) before taxes	(2,562)	1,595	
Income taxes	-	-	
Net income (loss)	\$ (2,562)	\$ 1,595	
Basic and diluted income (loss) per share	\$ (0.18)	\$ 0.11	
Weighted average number of shares (in thousands)			
for basic EPS calculation	14,381	14,381	
for diluted EPS calculation	14,436	14,621	

	<b>Six Months Ended October 31</b>		<b>Change</b>
	<b>Fiscal 2018</b>	<b>Fiscal 2017</b>	
Sales	\$ <b>46,516</b>	\$ 51,111	-9.0%
Gross profit	<b>13,258</b>	15,967	-17.0%
Selling, general & administrative expenses	<b>14,983</b>	13,526	10.8%
Unrealized (gain) loss on foreign exchange	<b>338</b>	(361)	
Unrealized (gain) loss on derivatives	<b>(2,517)</b>	2,776	
Investment income	<b>(42)</b>	(43)	
Income (Loss) before taxes	<b>496</b>	69	
Income taxes	-	-	
<b>Net Income (loss)</b>	<b>\$ 496</b>	<b>\$ 69</b>	
Basic income (loss) per share	\$ <b>0.03</b>	\$ -	
Weighted average number of shares (in thousands)			
for basic EPS calculation	<b>14,381</b>	14,381	
for diluted EPS calculation	<b>14,440</b>	14,595	

The second quarter of fiscal year 2018 ended with a net loss of \$2.6 million or 18 cents per share, compared with a net income of \$1.6 million or 11 cents per share in the same quarter of last year. Net income of both quarters included certain unrealized, non-cash expenses and one-time items that have significant impact on the net income per GAAP. With the exclusion of these items, the second quarter of fiscal 2018 had an adjusted net loss of \$0.7 million, compared with adjusted net income of \$3.2 million in the same quarter of last year.

On a year-to-date basis, the six-month period had a net income of \$0.5 million or 3 cents per share, compared to a net income of \$0.01 million, or 0 cents per share in the prior year. The current year-to-date period included certain unrealized and non-cash expense and severance obligations, which were considered as unusual operating expenses. With the exclusion of these unusual items, the year-to-date second quarter had an adjusted net loss of \$1.1 million, compared to adjusted net income of \$3.1 million in the prior year.

Adjusted net income or loss is a non-GAAP measure, which does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

The following is a reconciliation of net income and loss calculated in accordance with GAAP to the non-GAAP measure:

(in thousands)	<b>Three Months Ended October 31</b>	
	<b>Fiscal 2018</b>	Fiscal 2017
Net income (loss)	\$ (2,562)	\$ 1,595
adjust non-operating or unusual items		
Unrealized (gain) loss on derivatives	1,586	1,135
Unrealized (gain) loss on foreign exchange	(119)	(195)
(Increase) Decrease in fair value of short-term investments	-	(18)
Stock based compensation	103	519
Severance obligation	258	187
Adjusted net income (loss)	\$ (734)	\$ 3,223

(in thousands)	<b>Six Months Ended October 31</b>	
	<b>Fiscal 2018</b>	Fiscal 2017
Net income (loss)	\$ 496	\$ 69
adjust non-operating or unusual items		
Unrealized (gain) loss on derivatives	(2,517)	2,776
Unrealized loss (gain) on foreign exchange	338	(361)
(Increase) Decrease in fair value of short-term investments	-	(49)
Stock based compensation	(164)	519
Severance obligation	698	193
Adjusted net income (loss)	\$ (1,149)	\$ 3,147

Sales in the second quarter of fiscal year 2018 were \$23.2 million compared to \$27.5 million in the same quarter of the previous year. The current year's quarter was negatively impacted by foreign exchange and timing of shipments that shifted to the next quarter. In addition, the previous year quarter benefitted from two significant one-time projects which contributed \$5 million in sales. If we were to normalize sales, the second quarter sales were comparable to the same quarter of last year.

Year-to-date sales of \$46.5 million were 9% below the prior year's \$51.1 million. The decrease included \$1.4 million of foreign exchange loss and sales that were scheduled to ship in the period but were delayed. The previous year also benefitted from two one-time projects totalling \$5 million in sales. If we were to normalize sales, year-to-date second quarter sales would be higher than the prior year.

Gross profit as a percentage of sales for the second quarter of fiscal year 2018 was 26.1%, a decrease of 7 percentage points from the 33.1% of the same quarter of the previous year. Unfavorable foreign exchange and lower overhead absorption accounted for the decline.

Year-to-date gross profit percentage was 28.5%, compared to 31.2% in the prior year. Year-to-date gross profit decline of 2.7 percentage points was mainly due to unfavorable foreign exchange and lower overhead absorption.

Selling, general and administrative expenses ("SG&A") in the second quarter of fiscal year 2018 were 30.9% of sales, compared to 24.0% in the same quarter of last year. The increase \$0.6 million consisted of severance costs and increased investment in marketing, sales coverage and supply chain initiatives.

Year-to-date SG&A was 32.2% of sales, compared to 26.5% for the same period of last year. The dollar amount increase was \$1.5 million higher than the previous year due to severance costs, share based compensation and investment in marketing, sales coverage and supply chain initiatives.

At the previous fiscal year ended April 30, 2017, the Company recorded a valuation allowance of \$6.4 million to derecognize the future income tax benefit of loss carryforwards as deferred tax assets. The off-balance sheet valuation allowance was utilized to reduce the Company's income tax expense of the current period.

At the end of the quarter, the company was debt-free and had cash, cash equivalents and short-term investments totaling \$10.3 million and an unused credit facility.

## **Financial Statements**

Financial statements are available from our [website](#).

## **Second Quarter Call Details**

Inscape will host a conference call at 8:30 AM EST on Thursday, December 7, 2017 to discuss the company's quarterly results. To participate, please call 1-800-676-7402 (Reservation Number 21860631) five minutes before the start time. A replay of the conference call will also be available from December 7, 2017 after 10:30 AM EST until 11:59 PM EST on December 13, 2017. To access the rebroadcast, please dial 1-800-558-5253 (Reservation Number 21860631).

## **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**

Inscape is a design enabler. We have been saying yes since 1888 with a versatile portfolio of systems, storage, and walls products that are adaptable, and always built to last. With a wide dealer network, showrooms in both Canada and the U.S., and full service and support for all of our clients, our philosophy is to always do what we can to say Yes.

For more information, visit [www.inscapesolutions.com](http://www.inscapesolutions.com).

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