

Leon's Furniture Limited Releases Financial Results for the Third Quarter Ended September 30, 2017

TORONTO, Nov. 14, 2017 /CNW/ - Leon's Furniture Limited ("Leon's" or the "Company") (TSX: LNF), today announced financial results for the third quarter 2017.

Highlights – Q3 2017

- Total system wide sales¹ grew 4.7% to \$705,683,000 in Q3-2017 compared to \$673,897,000 in Q3-2016.
- Revenue grew 3.3% to \$594,589,000 in Q3-2017 compared to \$575,724,000 in Q3-2016.
- Adjusted net income¹ increased by 9.9% to \$34,392,000 in Q3-2017 compared to \$31,300,000 in Q3-2016.
- Adjusted EBITDA¹ increased 5.0% to \$59,029,000 in Q3-2017 compared to \$56,202,000 in Q3-2016.
- Adjusted diluted earnings per share¹ grew 7.7% to \$0.42 in Q3-2017 compared to \$0.39 in Q3-2016.

Highlights – nine months ended September 30th

- Total system wide sales¹ grew 4.9% to \$1,915,831,000 year to date September 2017 compared to \$1,826,832,000 year to date September 2016.
- Revenue grew 3.9% to \$1,616,361,000 year to date September 2017 compared to \$1,555,355,000 year to date September 2016.
- Adjusted net income¹ increased by 20.9% to \$62,902,000 year to date September 2017 compared to \$52,017,000 year to date September 2016.
- Adjusted EBITDA¹ increased 9.4% to \$123,198,000 year to date September 2017 compared to \$112,661,000 year to date September 2016.
- Adjusted diluted earnings per share¹ grew 20.0% to \$0.78 year to date September 2017 compared to \$0.65 year to date September 2016.

¹Refer to the non-IFRS financial measures section of this press release

"We are very proud of our management team and associates for generating outstanding operating performance," said Edward Leon, President and Chief Operating Officer. "Our proven strategy drove record sales in Q3, while a focus on cost control once again produced strong bottom-line growth over a solid 2016 comparison quarter. Leon's has a track record of generating results for shareholders. In over 100 years of operation, through various economic conditions, Leon's has consistently produced profits. We are even more pleased that our profits in Q3, as well as in the first nine months of 2017, are at record levels for the Company. We are well-positioned for the future with a dominant, national bricks and mortar presence (304 stores), an industry-leading distribution network and rapidly growing ecommerce business. Our home service subsidiary, Trans Global Service (TGS), with technicians from coast to coast, are well positioned to serve the current and future in-home service needs of all Canadian consumers. We have further room to grow and drive cost savings throughout our network. In October, we announced the opening of a state-of-the-art 432,000 sq. ft. distribution centre in Delta, British Columbia which we expect will generate further efficiencies as we grow our west coast presence and serve as a model for the rest of our network."

The Company also announced today the retirement of Mr. Dominic Scarangella, the current Chief Financial Officer and Executive Vice President of The Company, effective December 31, 2017. We wish to sincerely thank Dominic for thirty (30) years of service and friendship. Mr. Constantine (Costa) Pefanis, who has worked under Dominic for the past thirteen (13) years has been appointed to replace him as Chief Financial Officer effective January 1, 2018.

For a full explanation of the Company's use of non-IFRS measures, please refer to page 4 of this press release.

Summary of Financial Highlights

(000's of \$ except % and per share amounts)	For the three months ended September 30			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total systemwide sales ⁽¹⁾	705,683	673,897	31,786	4.7%
Franchise sales ⁽¹⁾	111,094	98,173	12,921	13.2%
Revenue	594,589	575,724	18,865	3.3%
Same store sales ⁽¹⁾	574,022	570,920	3,102	0.5%
Gross profit margin as a percentage of revenue	42.59%	42.54%		
SG&A ⁽²⁾ as a percentage of revenue (excluding mark-to-market impact and severance charge)	34.30%	34.56%		
Adjusted EBITDA ⁽¹⁾	59,029	56,202	2,827	5.0%
Adjusted net income ⁽¹⁾	34,392	31,300	3,092	9.9%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.48	\$ 0.44	\$ 0.04	9.1%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.42	\$ 0.39	\$ 0.03	7.7%
Common share dividends declared	\$ 0.12	\$ 0.10	\$ 0.02	20.0%

(1) Non-IFRS financial measures. Refer to "Non-IFRS Financial Measures" section in this press release for additional information.

(2) Selling, general and administrative expenses

Revenue

For the three months ended September 30, 2017, revenue was \$594,589,000 compared to \$575,724,000 in the prior year's third quarter. Revenue increased \$18,865,000 or 3.3% between the comparative quarters as we continued to see growth in most product categories.

Gross Profit

The gross profit for the third quarter 2017 continued to be strong as it increased from 42.54% to 42.59% compared to the prior year's third quarter.

Selling, general and administration expenses ("SG&A")

Excluding the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue decreased from 34.56% to 34.30% compared to the prior year's quarter. The reduction is due primarily from generating a higher degree of operating leverage as revenues increased 3.3% and by controlling fixed costs.

Adjusted Net Income⁽¹⁾ and Adjusted Diluted Earnings Per Share⁽¹⁾

As a result of the above, adjusted net income for the third quarter of 2017 was \$34,392,000, \$0.42 adjusted diluted earnings per share (\$31,300,000, \$0.39 adjusted diluted earnings per share in 2016), an increase of 7.7% per share.

Consolidated operating results for the nine months ended September 30, 2017 and September 30, 2016

(000's of \$ except % and per share amounts)	For the nine months ended September 30			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total systemwide sales ⁽¹⁾	1,915,831	1,826,832	88,999	4.9%
Franchise sales ⁽¹⁾	299,470	271,477	27,993	10.3%
Revenue	1,616,361	1,555,355	61,006	3.9%
Same store sales ⁽¹⁾	1,556,786	1,543,828	12,958	0.8%
Gross profit margin as a percentage of revenue	42.57%	42.22%		
SG&A ⁽²⁾ as a percentage of revenue (excluding mark-to-market impact and severance charge)	36.74%	36.95%		
Adjusted EBITDA ⁽¹⁾	123,198	112,661	10,537	9.4%
Adjusted net income ⁽¹⁾	62,902	52,017	10,885	20.9%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.87	\$ 0.73	\$ 0.14	19.2%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.78	\$ 0.65	\$ 0.13	20.0%
Common share dividends declared	\$ 0.36	\$ 0.30	\$ 0.06	20.0%

(1) Non-IFRS financial measures. Refer to "Non-IFRS Financial Measures" section in this press release for additional information.

(2) Selling, general and administrative expenses

Revenue

For the nine months ended September 30, 2017, revenue was \$1,616,361,000 compared to \$1,555,355,000 for the prior year's nine month period. Revenue increased \$61,006,000 or 3.9% for the comparative period.

Gross Profit

The gross profit for the nine months ended September 30, 2017 continued to be strong as it increased from 42.22% to 42.57% compared to the prior year's nine month period.

Selling, general and administration expenses ("SG&A")

Excluding severance payments and the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue decreased from 36.95% to 36.74%. Like the third quarter results, the reduction is due primarily from generating a higher degree of operating leverage as revenues increased 3.9% for the nine month period and by controlling fixed costs.

Adjusted Net Income⁽¹⁾ and Adjusted Diluted Earnings Per Share⁽¹⁾

As a result of the above, adjusted net income for the nine month period ending September 30, 2017 was \$62,902,000, \$0.78 adjusted diluted earnings per share (\$52,017,000, \$0.65 adjusted diluted earnings per share in 2016), an increase of 20.0%.

Dividends

As previously announced, we paid a quarterly \$0.12 dividend on October 5, 2017. Today we are happy to announce that the Directors have declared a quarterly dividend of \$0.12 per common share payable on the 8th day of January 2018 to shareholders of record at the close of business on the 8th day of December 2017. In addition, the annual dividend on the convertible non-voting preferred shares of \$0.23 will be payable on the 8th day of January 2018 to the shareholders of record at the close of business on the 8th day of December 2017. As of 2007,

dividends paid by Leon's Furniture Limited are "eligible dividends" pursuant to the changes to the Income Tax Act under Bill C-28, Canada.

Store Network

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below:

Banner	Number of Stores as at December 31,			Number of Stores as at September 30,
	2016	Opened	Closed	2017
Leon's banner corporate stores	50	—	—	50
Leon's banner franchise stores	36	—	—	36
Appliance Canada banner stores	4	—	—	4
The Brick banner corporate stores ¹	114	—	—	114
The Brick banner franchise stores	64	1	(1)	64
The Brick Mattress Store banner locations	24	1	(1)	24
Brick Outlet ²	13	—	(1)	12
Total number of stores	305	2	(3)	304

¹Includes the Mdnorthern Appliance banner

²UFW banner stores were converted to Brick Outlets in August 2017

Non-IFRS Financial Measures

The Company uses financial measures that do not have standardized meaning under IFRS and may not be comparable to similar measures presented by other entities. The Company calculates the non-IFRS measures by adjusting certain IFRS measures for specific items the Company believes are significant, but not reflective of underlying operations in the period, as detailed below:

Non-IFRS Measure	IFRS Measure
Adjusted net income	Net income
Adjusted income before income taxes	Income before income taxes
Adjusted earnings per share – basic	Earnings per share – basic
Adjusted earnings per share – diluted	Earnings per share – diluted
Adjusted EBITDA	Net income

For a reconciliation of the Company's non-IFRS measures please refer to the Company's MD&A for the quarter ended September 30, 2017, which is available on SEDAR at www.sedar.com

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of:

- the mark-to-market adjustments included in the Company's selling, general and administration ("SG&A") income statement line item, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility;
- severance charges in the period, a non-recurring expense included in the Company's SG&A.

Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better aligns the intent and financial effect of these contracts with the underlying cash flows. Similarly, excluding from income the effect of non-recurring expenses better reflects Leon's normalized SG&A as a percentage of revenue in the period.

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustment due to the changes in the fair value of the Company's financial derivative instruments and non-recurring charges to income ("Adjusted EBITDA") is a non-IFRS financial measure used by the Company. The Company considers Adjusted EBITDA to be an effective measure of profitability on an operational basis and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Adjusted EBITDA is a non-IFRS financial measure used by the Company. The Company's Adjusted EBITDA may not be comparable to the Adjusted EBITDA measure of other entities, but in management's view appropriately reflects Leon's specific financial condition. This measure is not intended to replace net income, which, as determined in accordance with IFRS, is an indicator of operating performance.

Same Store Sales

Same store sales are defined as sales generated by stores that have been open or closed for more than 12 months on a fiscal basis. Same store sales is not an earnings measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Same store sales as discussed in this press release may not be comparable to similar measures presented by other issuers, however this measure is commonly used in the retail industry. We believe that disclosing this measure is meaningful to investors because it enables them to better understand the level of growth of our business.

Total System Wide Sales

Total system wide sales refer to the aggregation of revenue recognized in the Company's consolidated financial statements plus the franchise sales occurring at franchise stores to their customers which are not included in the revenue figure presented in the Company's consolidated financial statements. Total system wide sales is not a measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, total system wide sales as discussed in this press release may not be comparable to similar measures presented by other issuers. We believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's overall store network, which ultimately impacts financial performance.

Franchise Sales

Franchise sales figures refer to sales occurring at franchise stores to their customers which are not included in the revenue figures presented in the Company's consolidated financial statements, or in the same store sales figures in this press release. Franchise sales is not a measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, franchise sales as discussed in this press release may not be comparable to similar measures presented by other issuers. Once again we believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's brands, which ultimately impacts financial performance.

About Leon's Furniture Limited

Leon's Furniture Limited is the largest retailer of furniture, mattresses, appliances and electronics in Canada. Our retail banners include: Leon's; The Brick; The Brick Mattress Store; and The Brick Outlet. Finally, with the Midnorthern Appliance banner alongside the Appliance Canada banner, we are also the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. The Company has 304 retail stores from coast to coast in Canada under various banners. As well, the Company operates three ecommerce sites: leons.ca, thebrick.com and our newest site, furniture.ca.

Forward-Looking Statements

Information in this press release that is not current or historical factual information may constitute forward-looking information within the meaning of securities laws, including future-oriented financial information and financial outlooks. This information is based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking information is subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Company currently expects. These risks, uncertainties and other factors include, but are not limited to: credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates, the timing and market acceptance of future products, and competition in the Company's markets.

To the extent any forward-looking information in this press release constitutes future-oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on assumptions and subject to risks, uncertainties and other factors. Actual results may differ materially from what the Company currently expects. Other than as required under applicable securities laws, the Company does not undertake to update any forward-looking information at any particular time. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. All forward-looking information contained in this press release is expressly qualified in its entirety by this cautionary statement.

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