

Leon's Furniture Releases Financial Results for the Third Quarter Ended September 30, 2018

TORONTO, Nov. 14, 2018 /CNW/ - Leon's Furniture Limited ("**Leon's**" or the "**Company**") (TSX: LNF), today announced financial results for the third quarter 2018.

Highlights – Q3-2018

- Total system wide sales¹ were \$707,058,000 in Q3-2018 compared to \$706,534,000 in Q3-2017.
- Gross margin percentage increased 94 basis points to 43.62%
- Adjusted diluted earnings per share¹ of \$0.42 was maintained as compared to Q3-2017.
- Adjusted net income¹ was \$34,262,000 in Q3-2018 compared to \$34,392,000 in Q3-2017.
- Net debt including the convertible debenture totaled \$83,726,000 at September 30, 2018 compared to \$138,909,000 at December 31, 2017 and \$225,770,000 at September 30, 2017.
- On September 12, 2018, the Company commenced its common share repurchase programme on The Toronto Stock Exchange. The Company intends to repurchase for cancellation up to a maximum of 3,813,398 common shares representing 4.99% of the total number of its 76,420,803 issued and outstanding common shares at August 31, 2018.

Highlights – nine months ended September 30th, 2018

- Total system wide sales¹ grew 2.2% to \$1,961,100,000 year to date September 2018 compared to \$1,917,998,000 year to date September 2017.
- Revenue grew 1.3% to \$1,639,777,000 year to date September 2018 compared to \$1,618,528,000 year to date September 2017.
- Adjusted net income¹ increased by 8.7% to \$68,402,000 year to date September 2018 compared to \$62,902,000 year to date September 2017.
- Adjusted diluted earnings per share¹ grew 7.7% to \$0.84 year to date September 2018 compared to \$0.78 year to date September 2017.

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

"Leon's drove solid profitability in Q3 despite an overall weakness in consumer spending in the Ontario market," said Edward Leon, Chief Executive Officer and President of Leon's. "During the quarter, we made same-store-sales gains in some regional markets outside of Ontario, with stronger market share positioning and gains achieved in our franchise groups. We are proud to say that our team's efforts drove higher average tickets while maintaining profitability across the board.

On October 25, 2018 we announced an important undertaking to position our already leading e-commerce business for additional growth. All the Company's online stores have now migrated to a Shopify platform, and we have already generated additional growth in e-commerce revenue as a result. This latest step in our strategic journey will drive value from our online properties, while continuing to support our ancillary business lines and coast-to-coast real estate portfolio. Between these value creation exercises and continued solid execution at store level, we expect to build significant value for all of our long-term shareholders."

For a full explanation of the Company's use of non-IFRS financial measures, please refer to the heading "Non-IFRS Financial Measures" in this document

(000's of \$ except % and per share amounts)	For the three months ended September 30			
	2018	2017	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Total systemwide sales ⁽¹⁾⁽²⁾	707,058	706,534	524	0.1%
Franchise sales ⁽¹⁾	114,729	111,094	3,635	3.3%
Revenue ⁽²⁾	592,329	595,440	(3,111)	(0.5%)
Same store sales ⁽¹⁾	579,662	589,001	(9,339)	(1.6%)
Gross profit margin as a percentage of revenue	43.62%	42.68%		
SG&A ⁽³⁾ (excluding mark-to-market impact)	210,404	204,807	5,597	2.7%
SG&A ⁽³⁾ as a percentage of revenue (excluding mark-to-market impact)	35.52%	34.40%		
Adjusted EBITDA ⁽¹⁾	57,530	59,029	(1,499)	(2.5%)
Adjusted net income ⁽¹⁾	34,262	34,392	(130)	(0.4%)
Net income	33,744	34,338	(594)	(1.7%)
Adjusted basic earnings per share ⁽¹⁾	\$ 0.45	\$ 0.48	\$ (0.03)	(6.2%)
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.42	\$ 0.42	\$ -	-
Common share dividends declared	\$ 0.14	\$ 0.12	\$ 0.02	16.7%

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

(2) Reclassified comparative results to conform to the presentation of the three months ended September 30, 2018

(3) Selling, general and administrative expenses

Revenue

For the three months ended September 30, 2018, revenue was \$592,329,000 compared to \$595,440,000 in the prior year's third quarter. Revenue decreased by 0.5% as compared to the prior quarter mainly due to a decrease in appliance sales in certain regional markets.

Selling, general and administrative 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 increased from 34.40% to 35.52% compared to the prior year period. The change is due primarily to an anticipated increase in finance charges related to financed sales and incremental marketing spend related to targeted promotions in the quarter.

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

As we continue to pay down debt, we have reduced our net debt finance charges by \$1,068,000 between the comparative quarters. As a result of the factors above, adjusted net income for the third quarter of 2018 was \$34,262,000. This resulted in an adjusted diluted earnings per share of \$0.42 in the quarter (\$34,392,000, \$0.42 adjusted diluted earnings per share in 2017).

Consolidated operating results for the nine months ended September 30, 2018 and September 30, 2017

(000's of \$ except % and per share amounts)	For the nine months ended September 30			
	2018	2017	\$ Increase	% Increase
Total systemwide sales ⁽¹⁾⁽²⁾	1,961,100	1,917,998	43,102	2.2%
Franchise sales ⁽¹⁾	321,323	299,470	21,853	7.3%
Revenue ⁽²⁾	1,639,777	1,618,528	21,249	1.3%
Same store sales ⁽¹⁾	1,607,818	1,602,265	5,553	0.3%
Gross profit margin as a percentage of revenue	43.21%	42.65%		
SG&A ⁽³⁾ (excluding mark-to-market impact)	610,542	595,979	14,563	2.4%
SG&A ⁽³⁾ as a percentage of revenue (excluding mark-to-market impact)	37.23%	36.82%		
Adjusted EBITDA ⁽¹⁾	126,397	123,198	3,199	2.6%
Adjusted net income ⁽¹⁾	68,402	62,902	5,500	8.7%
Net income	72,245	61,814	10,431	16.9%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.90	\$ 0.87	\$ 0.09	10.5%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.84	\$ 0.78	\$ 0.06	7.7%
Common share dividends declared	\$ 0.38	\$ 0.36	\$ 0.02	5.6%

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

(2) Reclassified comparative results to conform to the presentation of the six months ended June 30, 2018

(3) Selling, general and administrative expenses

Revenue

For the nine months ended September 30, 2018, revenue was \$1,639,777,000 compared to \$1,618,528,000 for the prior year's nine-month period. Revenue increased \$21,249,000 or 1.3% for the comparative quarters as we continue to see growth in certain product categories.

Selling, general and administrative 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 was higher at 37.23%, an increase of 41 basis points over the prior year's nine-month period, due to increases in advertising expenditures and increases to finance charges related to financed sales.

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

As we continue to reduce our debt this has enabled us to reduce our net debt finance charges by \$2,803,000 between comparative periods. As a result of the factors above, adjusted net income for the nine-month period ending September 30, 2018 was \$68,402,000. This resulted in an adjusted diluted earnings per share of \$0.84 (\$62,902,000, \$0.78 adjusted diluted earnings per share in 2017), an increase of 7.7%.

Dividends

As previously announced, we paid a quarterly 14¢ dividend on 5th day of October 2018. Today we are happy to announce that the Directors have declared a quarterly dividend of 14¢ per common share payable on the 7th day of January 2019 to shareholders of record at the close of business on the 7th day of December 2018. In addition, the annual dividend on the convertible non-voting preferred shares of \$0.25 will be payable on the 7th day of January 2019 to the shareholders of record at the close of business on the 7th day of December 2018. 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.

Outlook

Overall, despite the challenging retail conditions in certain markets, we were able to maintain our profitability in the third quarter of 2018. We have demonstrated our commitment to deleveraging the balance sheet since we acquired The Brick in March 2013, which will continue to allow us to focus on increasing market share in existing and new markets going forward. We are pleased with our recent replatforming of our three eCommerce properties, leons.ca, thebrick.com and furniture.ca as we believe our commitment to continuously invest in digital innovation will drive more customers to both our online eCommerce presence and our 304 physical locations.

Store Network

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below which also includes 100 franchise locations. Including our franchises, we have over 10,000 employees across Canada.

Banner	Number of Stores as at December 31,			Number of Stores as at September 30,	
	2017	Opened	Closed	2018	
Leon's banner corporate stores	50	—	—	50	
Leon's banner franchise stores	36	—	—	36	
Appliance Canada banner stores	4	1	—	5	
The Brick banner corporate stores ¹	114	—	—	114	
The Brick banner franchise stores	65	—	(1)	64	
The Brick Mattress Store banner locations	23	1	—	24	
Brick Outlet	12	—	(1)	11	
Total number of stores	304	2	(2)	304	

¹Includes the Midnorthern Appliance banner

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 financial 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:

<u>Non-IFRS Measure</u>	<u>IFRS Measure</u>
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 financial measures please refer to the Company's MD&A for the quarter ended September 30, 2018, 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 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;

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 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, appliances and electronics in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet; and The Brick Mattress Store. Finally, with The Brick's Midnorthern Appliance banner alongside with the Appliance Canada banner, this makes the Company 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. The Company operates three websites: leons.ca, thebrick.com and 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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