

Leon's Furniture Releases Financial Results for the Second Quarter Ended June 30, 2018

TORONTO, Aug. 9, 2018 /CNW/ - Leon's Furniture Limited ("**Leon's**" or the "**Company**") (TSX: LNF), today announced financial results for the second quarter 2018.

Highlights – Q2-2018

- Total system wide sales¹ grew 2% to \$650,012,000 in Q2-2018 compared to \$637,475,000 in Q2-2017.
- Revenue grew 1.5% to \$546,729,000 in Q2-2018 compared to \$538,899,000 in Q2-2017.
- Adjusted EBITDA¹ increased 5.3% to \$42,291,000 in Q2-2018 compared to \$40,163,000 in Q2-2017.
- Adjusted net income¹ increased by 13.2% to \$22,595,000 in Q2-2018 compared to \$19,968,000 in Q2-2017.
- Adjusted diluted earnings per share¹ grew 12% to \$0.28 in Q2-2018 compared to \$0.25 in Q2-2017.

Highlights – six months end June 30th

- Total system wide sales¹ grew 3.3% to \$1,251,153,000 year to date June 2018 compared to \$1,211,464,000 year to date June 2017.
- Revenue grew 2.4% to \$1,047,448,000 year to date June 2018 compared to \$1,023,088,000 year to date June 2017.
- Adjusted net income¹ increased by 19.7% to \$34,140,000 year to date June 2018 compared to \$28,511,000 year to date June 2017.
- Adjusted EBITDA¹ increased 7.3% to \$68,867,000 year to date June 2018 compared to \$64,169,000 year to date June 2017.
- Adjusted diluted earnings per share¹ grew 16.7% to \$0.42 year to date June 2018 compared to \$0.36 year to date June 2017.

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

In recognition of our record positive results and confidence in our organization, the Directors are happy to announce that the quarterly dividend will be increased by 16.7% from 12 cents to 14 cents.

"We would like to thank the entire team for their productive efforts during the first half of fiscal 2018. During this period, Leon's continued to produce significant operating leverage, driving adjusted diluted earnings per share up by 12% in Q2 and by 16.7% in the first half of the year," said Edward Leon, President and Chief Operating Officer of Leon's. "For the balance of 2018 and into 2019 our team will remain focused on select initiatives to drive traffic and average ticket, with robust cost control and efficiencies. We are well-positioned to continue to generate meaningful value for our shareholders over the next several years, leveraging our national retail bricks and mortar footprint, service related companies, real estate portfolio, successful online properties and industry-leading distribution infrastructure."

The Board is announcing today that effective October 1, 2018, Terry Leon is retiring as CEO and will become the Vice Chair of the Board. Edward Leon will become CEO in addition to his current position as President of Leon's Furniture Limited.

The Directors have also approved, subject to obtaining regulatory approvals, the reinstatement of the Company's Normal Course Issuer Bid, which last expired on September 9, 2013. Pursuant to the

bid, the Company intends, in the twelve months commencing September 10, 2018, to purchase up to the lesser of 4.99% of its Common Shares outstanding on August 31, 2018, and the amount equal to 4.99% of its Common Shares outstanding on the date the Toronto Stock Exchange accepts the notice of intention to make a normal course issuer bid.

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

Summary of Financial Highlights

(000's of \$ except % and per share amounts)	For the three months ended June 30			
	2018	2017	\$ Increase	% Increase
Total systemwide sales ⁽¹⁾	650,012	637,475	12,537	2.0%
Franchise sales ⁽¹⁾	103,283	98,576	4,707	4.8%
Revenue ⁽²⁾	546,729	538,899	7,830	1.5%
Same store sales ⁽¹⁾	536,191	533,907	2,284	0.4%
Gross profit margin as a percentage of revenue	43.13%	43.27%		
SG&A ⁽³⁾ (excluding mark-to-market impact)	203,236	202,525	711	0.4%
SG&A ⁽³⁾ as a percentage of revenue (excluding mark-to-market impact)	37.17%	37.58%		
Adjusted EBITDA ⁽¹⁾	42,291	40,163	2,128	5.3%
Adjusted net income ⁽¹⁾	22,595	19,968	2,627	13.2%
Net income	23,975	18,863	5,112	27.1%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.30	\$ 0.28	\$ 0.02	7.1%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.28	\$ 0.25	\$ 0.03	12.0%
Common share dividends declared	\$ 0.12	\$ 0.12	\$ -	0.0%

(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 June 30, 2018

(3) Selling, general and administrative expenses

Revenue

For the three months ended June 30, 2018, revenue was \$546,729,000 compared to \$538,899,000 in the prior year's second quarter. Revenue increased \$7,830,000 or 1.5% between the comparative quarters as we continued to see growth in most 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 decreased from 37.58% to 37.17% compared to the prior year's quarter. The reduction is due primarily from generating continued operating leverage as revenues increased 1.5% for the three month period.

Adjusted Net Income and Adjusted Diluted Earnings Per Share

As we continue to reduce our debt this has enabled us to reduce our net finance charges by \$896,000 between the comparative quarters. As a result of the factors above, adjusted net income for the second quarter of 2018 was \$22,595,000. This resulted in an adjusted diluted earnings per share of \$0.28 in the quarter (\$19,968,000, \$0.25 adjusted diluted earnings per share in 2017), an increase of 12% per share.

Consolidated operating results for the six months ended June 30, 2018 and June 30, 2017

(000's of \$ except % and per share amounts)	For the six months ended June 30			
	2018	2017	\$ Increase	% Increase
Total systemwide sales ⁽¹⁾	1,251,153	1,211,464	39,689	3.3%
Franchise sales ⁽¹⁾	203,705	188,376	15,329	8.1%
Revenue ⁽²⁾	1,047,448	1,023,088	24,360	2.4%

Same store sales ⁽¹⁾	1,028,156	1,013,264	14,892	1.5%
Gross profit margin as a percentage of revenue	42.97%	42.63%		
SG&A ⁽³⁾ (excluding mark-to-market impact)	400,138	391,171	8,967	2.3%
SG&A ⁽³⁾ as a percentage of revenue (excluding mark-to-market impact)	38.20%	38.23%		
Adjusted EBITDA ⁽¹⁾	68,867	64,169	4,698	7.3%
Adjusted net income ⁽¹⁾	34,140	28,511	5,629	19.7%
Net income	38,501	27,477	11,024	40.1%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.45	\$ 0.40	\$ 0.05	12.5%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.42	\$ 0.36	\$ 0.06	16.7%
Common share dividends declared	\$ 0.24	\$ 0.24	\$ -	0.0%

(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 six months ended June 30, 2018, revenue was \$1,047,448,000 compared to \$1,023,088,000 in the prior year's second quarter. Revenue increased \$24,360,000 or 2.4% for the comparative period.

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

Excluding the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forward and fixed interest rate swap, SG&A as a percentage of revenue was marginally lower at 38.2% due to the continued effectiveness of controlling costs.

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 finance charges by \$1,735,000 between comparative periods. As a result of the factors above, adjusted net income for the six month period ending June 30, 2018 was \$34,140,000. This resulted in an adjusted diluted earnings per share of \$0.42 (\$28,511,000, \$0.36 adjusted diluted earnings per share in 2017), an increase of 16.7%.

Dividends

As previously announced, we paid a quarterly 12¢ dividend on July 6, 2018. Today we are happy to announce that the Directors have declared an increase of the quarterly dividend to 14¢ per common share payable on the 5th day of October 2018 to shareholders of record at the close of business on the 5th day of September 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, we are pleased that we were able to improve our financial results in the second quarter of 2018. We remain focused on increasing our promotional activities on a selective basis for the second half of the year, while maintaining gross margins and continuing to drive efficiencies.

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.

Number of Stores
as at December 31,

Number of Stores
as at June 30,

Banner	2017	Opened	Closed	2018
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	65	—	(1)	64
The Brick Mattress Store banner locations	23	1	—	24
Brick Outlet	12	—	—	12
Total number of stores	304	1	(1)	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:

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 financial measures please refer to the Company's MD&A for the quarter ended June 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 Leon's 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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CNW 13:48e 09-AUG-18