

# LFL Releases Financial Results for the Third Quarter Ended September 30, 2019

TORONTO, Nov. 13, 2019 /CNW/ - Leon's Furniture Limited ("LFL" or the "Company") (TSX: LNF), today announced financial results for the third quarter 2019.

## Financial Highlights – Q3-2019

- Total system wide sales <sup>(1)</sup> were \$712,522,000 in Q3-2019 compared to \$707,058,000 in Q3-2018.
- Achieved record revenue in the quarter of \$601,357,000 compared to \$592,329,000 in Q3-2018, an increase of 1.5%.
- Same-store sales <sup>(1)</sup> increased 0.6% in Q3-2019 compared to Q3-2018.
- Adjusted net income <sup>(1)</sup> increased 6.9% in Q3-2019 compared to Q3-2018 which excludes the impact of IFRS 16 in Q3-2019<sup>(3)</sup>
- Adjusted diluted earnings per share <sup>(1)(2)</sup> grew by 4.8% to \$0.44 in Q3-2019 from \$0.42 in Q3-2018 which excludes the impact of IFRS 16 in Q3-2019<sup>(3)</sup>
- Adjusted EBITDA <sup>(1)(3)</sup> increased 40% in Q3-2019 to \$80,543,000 from \$57,530,000 in Q3-2018, excluding the impact of IFRS 16<sup>(3)</sup> adjusted EBITDA increased 1.6% in Q3-2019 to \$58,466,000.
- Opened 3 new stores in the quarter, 2 corporate banner stores and 1 franchise location.
- Continued double digit growth in the quarter from our eCommerce properties, having generated more than \$100,000,000 in online orders in the last 12 months.
- Net debt totaled \$20,267,000 at September 30, 2019 compared to \$76,299,000 at September 30, 2018.
- Since acquiring The Brick Ltd. in 2013, over \$365,000,000 in total debt has been repaid.
- The Company intends to continue its common share repurchasing programme under its Normal Course Issuer bid approved by the Toronto Stock Exchange.

## Financial Highlights – Nine months ended September 30<sup>th</sup>, 2019

- Total system wide sales <sup>(1)</sup> were \$1,977,376,000 compared to \$1,961,100,000 year to date September 2018.
- Revenue increased 1.4% to \$1,661,970,000 compared to \$1,639,777,000 year to date September 2018.
- Same-store sales <sup>(1)</sup> increased 0.6% compared to year to date September 2018.
- Adjusted diluted earnings per share <sup>(1)(2)</sup> grew by 14.3% to \$0.96 year to date September 2019 compared to \$0.84 year to date September 2018, which excludes the impact of IFRS 16.

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<sup>(1)</sup> Refer to the "Non-IFRS Financial Measures" section of this press release for additional information on these measures.

<sup>(2)</sup> For comparative purposes to the prior year's results the adjusted diluted earnings per share amount of \$0.44 and \$0.96 for the three and nine months ended September 30, 2019 in the highlights above has been adjusted to exclude the impact of the implementation by the Company of IFRS 16 beginning on January 1, 2019.

<sup>(3)</sup> The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach as a result the comparative periods have not been restated. Adjusted EBITDA for the three months ended September 30, 2019 (excluding the impact of IFRS 16) increased 1.6% in Q3-2019 to \$58,466,000.

Edward Leon, President and Chief Executive Officer of LFL Group is pleased to report that, "In an environment that continues to challenge retailers in general, our team maintained its focus on delivering top line growth while generating targeted efficiencies, resulting in 14.3% growth in adjusted diluted EPS in the first nine months of the year. We are proud of our Company's historical track record of generating solid financial results and growing shareholder value and look forward to continuing doing so. While LFL is already Canada's largest retailer of furniture, mattresses,

appliances and electronics, I am confident that we have more opportunity than ever to drive results and shareholder value."

Mr. Leon continued, "In the quarter, both retail banners continued the refresh of their store network, exemplified with the Brick's 50,000 square foot West Edmonton Mall location, which re-opened in early September. The Leon's banner opened another 30,000 square foot Smart Store in Coldbrook, Nova Scotia. This concept is an example of one of the opportunities we see developing over the next several years, both to optimize existing locations and drive value from the additional space, as well as looking at selective new greenfield locations in urban markets. Both of these new store concepts feature immersive technology, including features such as: digital availability and browsing of the banner's full range of products; video walls enabling customers to view selected products in full size; and augmented reality to help with room planning. As we continue to upgrade our coast-to-coast distribution network, we will be in a position to ensure customers shopping our in-store and digital assortment will continue to have access to all our great products quickly and seamlessly. I very much look forward to continuing to update you on our progress as we execute against these initiatives to both elevate the customer experience and drive value for our shareholders."

**For a full explanation of the Company's use of non-IFRS financial measures, please refer to the section of this press release with the heading "Non-IFRS Financial Measures".**

## **Summary of Financial Highlights**

	For the three months ended September 30			
(000's of \$ except % and per share amounts)	2019	2018	\$ Increase	% Increase
Total systemwide sales <sup>(1)</sup>	712,522	707,058	5,464	0.8%
Franchise sales <sup>(1)</sup>	111,165	114,729	(3,564)	(3.1%)
Revenue	601,357	592,329	9,028	1.5%
Same store sales <sup>(1)</sup>	582,186	578,459	3,727	0.64%
Gross profit margin as a percentage of revenue	43.13%	43.62%		
SG&A <sup>(2)(3)</sup>	209,285	210,404	(1,119)	(0.5%)
SG&A <sup>(2)(3)</sup> as a percentage of revenue	34.80%	35.52%		
Adjusted EBITDA <sup>(1)(2)(4)</sup>	80,543	57,530	23,013	40.0%
Adjusted net income <sup>(1)(2)(5)</sup>	36,617	34,262	2,355	6.9%
Adjusted diluted earnings per share <sup>(1)(2)(5)</sup>	\$ 0.44	\$ 0.42	\$ 0.02	4.8%
Net income <sup>(2)</sup>	33,219	33,744	(525)	(1.6%)
Common share dividends declared	\$ 0.14	\$ 0.14	\$ -	0.0%

<sup>(1)</sup> Refer to the "Non-IFRS Financial Measures" section of this press release for additional information on these measures.

<sup>(2)</sup> The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach as a result the comparative quarter has not been restated.

<sup>(3)</sup> Selling, general and administrative expenses.

<sup>(4)</sup> Adjusted EBITDA in Q3-2019 (excluding the impact of IFRS 16) increased 1.6% to \$58,466,000.

<sup>(5)</sup> For comparative purposes to the prior year's quarter of 2018 the adjusted net income of \$36,617,000 and the diluted EPS amount of \$0.44 in Q3-2019 in the highlights table above has been adjusted and presented to exclude the impact of the implementation by the Company of IFRS 16 beginning on January 1, 2019. Refer to the "Non-IFRS Financial Measures" section of this press release.

## **Revenue**

For the three months ended September 30, 2019, revenue was \$601,357,000 compared to \$592,329,000 in the prior year's third quarter. Revenue increased \$9,028,000 in the quarter or 1.5% as compared to the prior quarter mainly due to increases in mattress sales and both retail and commercial appliance sales.

## **Same Store Sales <sup>(1)</sup>**

Overall, same store corporate sales increased 0.64% compared to the prior year's third quarter.

## **Gross Profit**

The gross profit margin for the third quarter 2019 decreased from 43.62% to 43.13% compared to the prior year's third quarter as a result of the quarter's product mix.

## Selling, general and administrative expenses

Normalized for the impacts of IFRS 16 in the current quarter, SG&A as a percentage of revenue in the current quarter was reduced by 66 basis points due to effectively managing overall SG&A expenses throughout the quarter while at the same time optimizing advertising spend to drive traffic to both the retail stores and to the Company's websites.

## Adjusted EBITDA <sup>(1)</sup>

Adjusted EBITDA increased \$23,013,000 in the quarter, an increase of 40% as compared to the prior year's quarter. This increase was driven primarily by two factors, the first is the implementation of IFRS 16 by the Company commencing on January 1, 2019 on a modified retrospective approach, which results in the prior year's quarter to not be restated, and the second was due to a reduction in net finance costs that exclude the impact of IFRS 16. Under the new lease standard, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of the lease. Therefore excluding the impact of implementing the new lease standard, adjusted EBITDA increased \$936,000 in the quarter, an increase of 1.6% over the prior year's quarter, with the remainder of the overall increase of \$22,077,000 driven by the change in the lease standard implemented by the Company on January 1, 2019.

## Adjusted Net Income <sup>(1)</sup> and Adjusted Diluted Earnings Per Share <sup>(1)</sup>

Excluding the impact of the implementation of IFRS 16 in the current quarter, adjusted net income for the third quarter of 2019 totaled \$36,617,000 an increase of \$2,355,000 or 6.9% over the prior year's quarter. The Company's adjusted diluted earnings per share therefore increased by \$0.02 to \$0.44 per share, an increase of 4.8% over the prior year's quarter.

<sup>(1)</sup> Refer to the "Non-IFRS Financial Measures" section of this press release

## Consolidated operating results for the nine months ended September 30, 2019 and September 30, 2018

(000's of \$ except % and per share amounts)	For the nine months ended September 30			
	2019	2018	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Total systemwide sales <sup>(1)</sup>	1,977,376	1,961,100	16,276	0.8%
Franchise sales <sup>(1)</sup>	315,406	321,323	(5,917)	(1.8%)
Revenue	1,661,970	1,639,777	22,193	1.4%
Same store sales <sup>(1)</sup>	1,611,451	1,602,479	8,972	0.56%
Gross profit margin as a percentage of revenue	43.31%	43.21%		
SG&A <sup>(2)(3)</sup>	610,103	610,542	(439)	(0.1%)
SG&A <sup>(2)(3)</sup> as a percentage of revenue	36.71%	37.23%		
Adjusted EBITDA <sup>(1)(2)(4)</sup>	202,576	126,397	76,179	60.3%
Adjusted net income <sup>(1)(2)(5)</sup>	79,278	68,402	10,876	15.9%
Adjusted diluted earnings per share <sup>(1)(2)(5)</sup>	\$ 0.96	\$ 0.84	\$ 0.12	14.3%
Net income <sup>(2)</sup>	67,595	72,245	(4,650)	(6.4%)
Common share dividends declared	\$ 0.42	\$ 0.38	\$ 0.04	10.5%

<sup>(1)</sup> Refer to the "Non-IFRS Financial Measures" section of this press release for additional information on these measures.

<sup>(2)</sup> The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach as a result the comparative period has not been restated.

<sup>(3)</sup> Selling, general and administrative expenses.

<sup>(4)</sup> Adjusted EBITDA for year to date September 2019 (excluding the impact of IFRS 16) increased 7.8% to \$136,312,000.

<sup>(5)</sup> For comparative purposes to the prior year's year to date September 2018 the adjusted net income of \$79,278,000 and the diluted EPS amount of \$0.96 for year to date September 2019 in the highlights table above has been adjusted and presented to exclude the impact of the implementation by the Company of IFRS 16 beginning on January 1, 2019. Refer to the "Non-IFRS Financial Measures" section of this press release.

## Revenue

For the nine months ended September 30, 2019, revenue was \$1,661,970,000 compared to \$1,639,777,000 in the prior year's nine-month period. Revenue increased \$22,193,000, an increase of 1.4%, as we continue to see growth in most product categories.

## Same Store Sales <sup>(1)</sup>

Overall, same store corporate sales increased 0.56% compared to the prior year's nine months ended September 30, 2018.

## Gross Profit

The gross profit margin for the nine months ended September 30, 2019 was 43.31% as compared to 43.21% in the prior year's nine months period, an increase of 10 bps.

## Selling, general and administrative expenses

Excluding the impact of IFRS 16, the Company's SG&A as a percentage of revenue for the nine months ended was 36.71% as compared to 37.23% in prior year's nine months ended, a reduction of 52 bps. This was primarily due to effectively managing the Company's payroll costs, ecommerce and digital smart technology expenses and due to the continued effectiveness of maintaining robust operating leverage.

## Adjusted EBITDA <sup>(1)</sup>

Adjusted EBITDA increased \$76,179,000 during the nine months ended September 30, 2019, an increase of 60.3% as compared to the prior year's nine months period. This increase has been driven primarily by two factors, the first is the implementation of IFRS 16 by the Company commencing on January 1, 2019 on a modified retrospective approach, which results in the prior year nine-month period to not be restated, and the second was due to improvement in gross margin percentage in the current nine-month period aided by a higher degree of operating leverage and a reduction in net finance costs that exclude the impact of IFRS 16. Under the new lease standard, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of the lease. Excluding the impact of implementing the new lease standard, adjusted EBITDA increased \$9,915,000 in the nine-month period, an increase of 7.8% over the nine months ended September 30, 2018, with the remainder of the overall increase of \$66,264,000 driven by the change in the lease standard implemented by the Company on January 1, 2019.

## Adjusted Net Income <sup>(1)</sup> and Adjusted Diluted Earnings Per Share <sup>(1)</sup>

Excluding the impact of the implementation of IFRS 16, adjusted net income in the nine-month period ending September 30, 2019 totaled \$79,278,000 an increase of \$10,876,000 or 15.9% over the nine-month period ending September 30, 2018. The Company's adjusted diluted earnings per share therefore increased \$0.12 to \$0.96 per share, an increase of 14.3% over prior year-to-date adjusted diluted earnings per share.

## Dividends

As previously announced, we paid a quarterly 14¢ dividend on October 7, 2019. Today we are happy to announce that the Directors have declared a quarterly dividend of 14¢ per common share payable on the 6<sup>th</sup> day of January, 2020 to shareholders of record at the close of business on the

6<sup>th</sup> day of December 2019. 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

Despite the uncertainty over certain key economic indicators, we believe that the overall economy remains relatively strong. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain confident that our sales and profitability will increase. Given the Company's strong financial position, our principal objective is to increase market share and profitability. We remain focused on our commitment to continuously invest in digital innovation that will drive more customers to both our online eCommerce presence and our 304 physical locations across Canada.

(1) Refer to the "Non-IFRS Financial Measures" section of this press release

## Store Network

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below which also includes 99 franchise locations. Including our franchises, there are over 10,000 employees across Canada.

The following table illustrates the Company's store count continuity from June 30, 2019 to September 30, 2019 by retail banner:

	At June 30, 2019	Opened	Closed	At September 30, 2019
<b>Corporate Stores</b>				
Leon's	51	1	—	52
Appliance Canada	5	—	—	5
The Brick <sup>(1)</sup>	114	1	(1)	114
The Brick Mattress Store	25	—	(1)	24
Brick Outlet	10	—	—	10
<b>Corporate Subtotal</b>	<b>205</b>	<b>2</b>	<b>(2)</b>	<b>205</b>
<b>Franchise Stores</b>				
Leon's	34	—	—	34
The Brick	64	1	—	65
<b>Franchise Subtotal</b>	<b>98</b>	<b>1</b>	<b>—</b>	<b>99</b>
<b>Total Corporate &amp; Franchise Stores</b>	<b>303</b>	<b>3</b>	<b>(2)</b>	<b>304</b>

(1) Includes the Mdnorthern Appliance banner

During the third quarter, the Company opened three new stores, a Leon's corporate store in Coldbrook, Nova Scotia, a Brick corporate store relocation in the West Edmonton Mall, Alberta and a Brick Franchise store in Meadow Lake, Saskatchewan. In addition to closing the former location of The Brick in the West Edmonton Mall, a Brick Mattress store in Edmonton, Alberta was closed in the quarter

The following table illustrates the Company's store count continuity from December 31, 2018 to September 30, 2019 by retail banner:

	At December 31, 2018	Opened	Closed	At September 30, 2019
<b>Corporate Stores</b>				
Leon's	50	2	—	52
Appliance Canada	5	—	—	5
The Brick <sup>(1)</sup>	113	2	(1)	114
The Brick Mattress Store	25	—	(1)	24
Brick Outlet	10	—	—	10
<b>Corporate Subtotal</b>	<b>203</b>	<b>4</b>	<b>(2)</b>	<b>205</b>
<b>Franchise Stores</b>				
Leon's	36	—	(2)	34

The Brick	64	2	(1)	65
<b>Franchise Subtotal</b>	<b>100</b>	<b>2</b>	<b>(3)</b>	<b>99</b>
<b>Total Corporate &amp; Franchise Stores</b>	<b>303</b>	<b>6</b>	<b>(5)</b>	<b>304</b>

<sup>1</sup>Includes 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:

<b>Non-IFRS Measure</b>	<b>IFRS Measure</b>
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, 2019, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Adjusted Net Income**

Leon's calculates comparable measures by excluding the effect of changes in fair value of derivative instruments, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility. The Company uses forward currency contracts to manage the risk associated with its USD-denominated purchases and an interest rate swap to manage interest rate risk on its term credit facility in accordance with the Company's corporate treasury policy. 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.

The following two tables reconcile reported net income and earnings per share as stated in the Company's interim condensed consolidated statement of income to adjusted net income and earnings per share excluding the impact of IFRS 16. As the Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach, the amounts listed in the table below related to the three and nine months ended September 30, 2019 reflect lease accounting under IFRS 16 for net income, adjusted net income, basic and diluted earnings per share, and adjusted basic and adjusted diluted earnings per share. The comparative quarter of 2018 has not been restated. See Section 10, "Recent Accounting Pronouncements", of the Company's MD&A for additional information on the implementation of IFRS 16.

(\$ in thousands except per share amounts)	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
<b>Net Income</b> <sup>(1)</sup>	<b>33,219</b>	33,744	<b>67,595</b>	72,245
After-tax mark-to-market (gain)/loss on financial derivative instruments	<b>(200)</b>	518	<b>(125)</b>	(3,843)
<b>Adjusted net income</b> <sup>(1)</sup>	<b>33,019</b>	34,262	<b>67,470</b>	68,402
Impact of IFRS 16 on an after-tax basis	<b>3,598</b>	-	<b>11,808</b>	-
<b>Adjusted Net Income excluding impact of IFRS 16</b>	<b>36,617</b>	34,262	<b>79,278</b>	68,402

<sup>(1)</sup> The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's three and nine months ended September 30, 2019 reflects lease accounting under IFRS 16, the comparative periods have not been restated.

	For the three months ended				For the nine months ended			
	September 30				September 30			
	IFRS 16		IFRS 16		IFRS 16		IFRS 16	
	2019 <sup>(1)</sup>	Adjustments	2019 <sup>(2)</sup>	2018 <sup>(1)</sup>	2019	Adjustments	2019 <sup>(2)</sup>	2018
Basic earnings per share	\$ 0.43	\$ 0.04	\$ 0.47	\$ 0.44	\$ 0.87	\$ 0.15	\$ 1.02	\$ 0.95
Diluted earnings per share	\$ 0.40	\$ 0.04	\$ 0.44	\$ 0.41	\$ 0.82	\$ 0.14	\$ 0.96	\$ 0.88
Adjusted basic earnings per share	\$ 0.43	\$ 0.04	\$ 0.47	\$ 0.45	\$ 0.87	\$ 0.15	\$ 1.02	\$ 0.90
Adjusted diluted earnings per share	\$ 0.40	\$ 0.04	\$ 0.44	\$ 0.42	\$ 0.82	\$ 0.14	\$ 0.96	\$ 0.84

<sup>(1)</sup> As reported in the Company's Q3 2019 Interim Condensed Consolidated Statements of Income for basic and diluted earnings per share amounts

<sup>(2)</sup> These amounts exclude the impact of IFRS 16 adjustments in the current quarter

In 2016, the IASB issued IFRS 16, "Leases", replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard on January 1, 2019 using the modified retrospective approach. As a result, the Company's three and nine month periods ended September 30, 2019 results reflected lease accounting under IFRS 16. Prior period results have not been restated. See Section 10, "Recent Accounting Pronouncements", in the Company's MD&A for more information on the implementation of IFRS 16.

The implementation of IFRS 16 significantly increased the assets and liabilities of the Company's balance sheet and changed the timing and presentation of lease-related expenses in the Company's financial results. The Company recorded a right-of-use asset of \$430,480,000 and a lease liability of \$414,940,000 under this new standard. Under IFRS 16, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease.

## **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 any 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 currently 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 companies, 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.

The following is a reconciliation of reported net income to adjusted EBITDA:

(\$ in thousands)	For the three months ended		For the nine months ended	
	September 30		September 30	
	2019 <sup>(1)</sup>	2018	2019 <sup>(1)</sup>	2018
<b>Net Income</b>	<b>33,219</b>	33,744	<b>67,595</b>	72,245
Income tax expense	11,052	11,778	23,130	25,565
Net finance costs	6,112	1,732	19,071	5,383
Depreciation and amortization	30,433	9,570	92,950	28,441
Mark-to-market (gain)/loss on financial derivative instruments	(273)	706	(170)	(5,237)
<b>Adjusted EBITDA</b>	<b>80,543</b>	57,530	<b>202,576</b>	126,397

<sup>(1)</sup> The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's three and nine month periods ended September 30, 2019 reflects lease accounting under IFRS 16, the comparative periods have not been restated.

## **Adjusted EBITDA excluding the impact of IFRS 16**

(\$ in thousands)	For the three months ended		For the nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Adjusted EBITDA <sup>(1)</sup>	80,543	57,530	202,576	126,397
Impact of IFRS 16 (net)	(22,077)	-	(66,264)	-
Adjusted EBITDA excluding the impact of IFRS 16	58,466	57,530	136,312	126,397

<sup>(1)</sup> The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's three and nine month periods ended September 30, 2019 reflects lease accounting under IFRS 16, the comparative periods have not been restated.

Under IFRS 16, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of the lease. Normalized for the impact of increased depreciation and lease interest expenses due to the implementation of IFRS 16 on January 1, 2019, adjusted EBITDA increased \$936,000 in the quarter, an increase of 1.6% over the three months ended September 30, 2018 and increased \$9,915,000 in the year, an increase of 7.8% increase over the nine months ended September 30, 2018.

### **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 and include online sales. 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 MD&A 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 MD&A 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 MD&A. 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 MD&A 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**

LFL 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. LFL has 304 retail stores from coast-to coast in Canada under various banners. As well, the Company operates three e-commerce sites: [leons.ca](http://leons.ca), [thebrick.com](http://thebrick.com) and its newest site, [furniture.ca](http://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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**For further information:** Constantine Pefanis, Chief Financial Officer, Leon's Furniture Limited, Tel: (416) 243-4073; Jonathan Ross, LodeRock Advisors, Leon's Investor Relations, [jon.ross@loderockadvisors.com](mailto:jon.ross@loderockadvisors.com), Tel: (416) 283-0178

CO: Leon's Furniture Limited

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