

Leon's Furniture Releases Financial Results for the First Quarter Ended March 31, 2019

TORONTO, May 14, 2019 /CNW/ - Leon's Furniture Limited ("Leon's" or the "Company") (TSX: LNF), today announced financial results for the first quarter 2019.

Highlights – Q1-2019

- Revenue in the quarter was effectively at par at \$499,741,000.
- Gross profit margin improved by 46 bps to 43.26% in Q1-2019 from 42.80% in Q1-2018.
- Adjusted diluted earnings per share ⁽¹⁾⁽²⁾ grew by 21.4% to \$0.17 in Q1-2019 from \$0.14 in Q1-2018.
- Adjusted EBITDA ⁽¹⁾⁽³⁾ increased 90.7% in Q1-2019 to \$50,669,000 from \$26,576,000 in Q1-2018, excluding the impact of IFRS 16, adjusted EBITDA increased 8.1% in Q1-2019 to \$28,740,000.
- The Brick division opened two corporate stores in Q1-2019.

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

⁽²⁾ For comparative purposes to the prior year's quarter of 2018 the adjusted diluted earnings per share amount of \$0.17 in Q1-2019 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.

⁽³⁾ 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. Adjusted EBITDA in Q1-2019 (excluding the impact of IFRS 16) increased 8.1% in Q1-2019 to \$28,740,000.

Edward Leon, President and Chief Executive Officer of LFL Group commented, "I am very proud of all the Company's associates across the country for generating solid bottom line results in what was a challenging quarter in our industry. In Q1, we invested in targeted and innovative marketing initiatives from which we expect to receive further benefits throughout the year. 2019 and 2020 will be exciting years for our Company, with plans to continue to leverage our solid online and national bricks & mortar footprint into results for shareholders, while strategically growing our presence on both Canadian coasts. In Q1, our e-commerce retail channel continues to generate a double-digit growth rate thanks equally to the talent of our internal development team and the rapid and successful platform shift we initiated and completed in 2018, enabling the team to focus on value-add customization, driving traffic growth and elevating the customer experience. We continue to expand the Leon's banner in the BC market as we introduce a smaller-scale, tech forward prototype store in Coquitlam which is scheduled to open in the second half of the year. We also plan to expand the presence of The Brick division in the Maritimes with three new full line corporate stores over the next two years. I would like to thank all of our long-term shareholders for their continued support and we look forward to updating you further as the year progresses."

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

(000's of \$ except % and per share amounts)	For the three months ended March 31			
	2019	2018	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Total systemwide sales ⁽¹⁾	597,158	601,142	(3,984)	(0.7%)
Franchise sales ⁽¹⁾	97,417	100,423	(3,006)	(3.0%)
Revenue	499,741	500,719	(978)	(0.2%)
Same store sales ⁽¹⁾	485,149	490,069	(4,920)	(1.0%)
Gross profit margin as a percentage of revenue	43.26%	42.80%		
SG&A ⁽²⁾⁽³⁾	197,222	196,902	320	0.2%
SG&A ⁽²⁾⁽³⁾ as a percentage of revenue	39.46%	39.32%		
Adjusted EBITDA ⁽¹⁾⁽²⁾⁽⁴⁾	50,669	26,576	24,093	90.7%

Adjusted net income ⁽¹⁾⁽²⁾⁽⁵⁾		13,925		11,545		2,380		20.6%
Adjusted diluted earnings per share ⁽¹⁾⁽²⁾⁽⁵⁾	\$	0.17	\$	0.14	\$	0.03		21.4%
Net income ⁽²⁾		9,334		14,526		(5,192)		(35.7%)
Common share dividends declared	\$	0.14	\$	0.12	\$	0.02		16.7%

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

⁽²⁾ 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.

⁽³⁾ Selling, general and administrative expenses.

⁽⁴⁾ Adjusted EBITDA in Q1-2019 (excluding the impact of IFRS 16) increased 8.1% in Q1-2019 to \$28,740,000.

⁽⁵⁾ For comparative purposes to the prior year's quarter of 2018 the adjusted net income of \$13,925,000 and the diluted EPS amount of \$0.17 in Q1-2019 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 March 31, 2019, revenue was \$499,741,000 compared to \$500,719,000 in the prior year's first quarter.

Gross profit margin

The gross profit margin for the first quarter 2019 increased from 42.80% to 43.26% compared to the prior year's first quarter as a result of a favourable product mix of furniture sales.

Selling, general and administrative expenses

SG&A as a percentage of revenue in the current quarter was relatively flat as compared to the prior year's first quarter when normalized for the impact of IFRS 16 in the current quarter. The implementation of IFRS 16 in the quarter resulted in added depreciation and amortization expense which was approximately \$522,000 greater than the reduction in rent expense. Normalized for these impacts, the Company's SG&A as a percentage of revenue in the current quarter was 39.36% as compared to 39.32% in the prior year's quarter. This was due to effectively managing payroll costs and digital commerce expenses while at the same time increasing advertising spend in the current quarter that was targeted to drive customers to the Company's websites and retail stores.

Adjusted EBITDA⁽¹⁾

Adjusted EBITDA increased \$24,093,000 in the quarter, an increase of 90.7% as compared to the prior year's quarter. 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's quarter to not be restated, and the second was due to improvement in gross margin percentage in the current quarter aided by keeping operating expenses in check and a reduction in net finance costs that exclude the impact of IFRS 16. Under the new lease standard, the depreciation and amortization 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 implementing the new lease standard, adjusted EBITDA increased \$2,164,000 in the quarter, an increase of 8.1% over the three months ended March 31, 2018, with the remainder of the overall increase of \$21,929,000 driven solely by the change in the lease standard implemented by the Company on January 1, 2019.

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

Normalized for the quarter-over-quarter after tax impact of \$4,511,000 due to a net increase in depreciation and amortization expense and lease interest expense offset by a reduction in rent expense related to the IFRS 16 implementation in the current quarter, adjusted net income in the current quarter totaled \$13,925,000 an increase of \$2,380,000 or 20.6% over the prior year's quarter. As a result of these adjustments, adjusted diluted earnings per share for the Company increased by \$0.03 to \$0.17 per share, an increase of 21.4% over the prior year's quarter.

Dividends

As previously announced, we paid a quarterly 14¢ dividend on April 8, 2019. Today we are happy to announce that the Directors have declared a quarterly dividend of 14¢ per common share payable on the 8th day of July 2019 to shareholders of record at the close of business on the 7th day of June 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 302 physical locations across Canada.

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

Store Network

The Company has 302 retail stores from coast to coast in Canada under the various banners indicated below which also includes 97 franchise locations. Including our franchises, there are over 10,000 employees across Canada.

Banner	Number of Stores as at December 31,			Number of Stores as at March 31,
	2018	Opened	Closed	2019
Leon's banner corporate stores	50	—	—	50
Leon's banner franchise stores	36	—	(2)	34
Appliance Canada banner stores	5	—	—	5
The Brick banner corporate stores ¹	113	1	—	114
The Brick banner franchise stores	64	—	(1)	63
The Brick Mattress Store banner locations	25	1	—	26
Brick Outlet	10	—	—	10
Total number of stores	303	2	(3)	302

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 March 31, 2019, which is available on SEDAR at 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 first quarter of 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 March 31	
	2019	2018
Net Income ⁽¹⁾	9,334	14,526
After-tax mark-to-market (gain)/loss on financial derivative instruments	80	(2,981)
Adjusted net income ⁽¹⁾	9,414	11,545
Impact of IFRS 16 on an after-tax basis	4,511	-
Adjusted Net Income excluding impact of IFRS 16	13,925	11,545

⁽¹⁾ The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's first quarter of 2019 reflects lease accounting under IFRS 16, the comparative quarter has not been restated.

	For the three months ended March 31			
	IFRS 16		2019 ⁽²⁾	2018 ⁽¹⁾
	2019 ⁽¹⁾	Adjustments		
Basic earnings per share	\$ 0.12	\$ 0.06	\$ 0.18	\$ 0.19
Diluted earnings per share	\$ 0.11	\$ 0.06	\$ 0.17	\$ 0.18
Adjusted basic earnings per share	\$ 0.12	\$ 0.06	\$ 0.18	\$ 0.15
Adjusted diluted earnings per share	\$ 0.11	\$ 0.06	\$ 0.17	\$ 0.14

⁽¹⁾ As reported in the Company's Q1 2019 Interim Condensed Consolidated Statements of Income for basic and diluted earnings per share amounts

⁽²⁾ 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 first quarter of 2019 results reflected lease accounting under IFRS 16. Prior year 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	
	March 31	
	2019 ⁽¹⁾	2018
Net Income ⁽¹⁾	9,334	14,526
Income tax expense ⁽¹⁾	3,204	5,104
Net finance costs ⁽¹⁾	6,297	1,848
Depreciation and amortization ⁽¹⁾	31,724	9,160
Mark-to-market (gain)/loss on financial derivative instruments	110	(4,062)
Adjusted EBITDA ⁽¹⁾	50,669	26,576

⁽¹⁾ The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's first quarter of 2019 reflects lease accounting under IFRS 16, while the comparative quarter has not been restated.

Adjusted EBITDA excluding the impact of IFRS 16

(\$ in thousands)	For the three months ended	
	March 31	
	2019	2018
Adjusted EBITDA ⁽¹⁾	50,669	26,576
Impact of IFRS 16 (net)	(21,929)	-
Adjusted EBITDA excluding the impact of IFRS 16	28,740	26,576

⁽¹⁾ The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's first quarter of 2019 reflects lease accounting under IFRS 16, while the comparative quarter has not been restated.

Under IFRS 16, the depreciation and amortization 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 year-over-year impact of increased depreciation, amortization and lease interest expenses due to the implementation of IFRS 16 on January 1, 2019, adjusted EBITDA increased \$2,164,000 in the quarter, an increase of 8.1% over the three months ended March 31, 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. 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

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 302 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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