



LEON'S FURNITURE LIMITED

**Management's Discussion and Analysis**

For the period ended September 30, 2020

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## 1. Preface

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The following Management's Discussion and Analysis ("MD&A") is prepared as at November 10, 2020 and is based on the unaudited interim condensed consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019. It should be read in conjunction with the fiscal year 2019 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2019 quarterly financial statements and corresponding MD&As which are published separately and available at [www.sedar.com](http://www.sedar.com).

### **Cautionary Statement Regarding Forward-Looking Statements**

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of Leon's Furniture Limited's current results and to assess the Company's future prospects. This MD&A, and in particular the section under heading "Outlook", includes forward-looking statements, which are based on certain assumptions and reflect Leon's Furniture Limited's current plans and expectations. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results and future prospects to differ materially from current expectations. Some of the factors that can cause actual results to differ materially from current expectations are: a drop in consumer confidence; dependency on product from third party suppliers, further changes to the Canadian bank lending rates; and further fluctuations of the Canadian dollar versus the US dollar. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Readers of this report are cautioned that actual events and results may vary.

### **Financial Statements Governance Practice**

Leon's Furniture Limited's unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). The amounts expressed are in Canadian dollars ("C\$"). Per share amounts are calculated using the weighted average number of shares outstanding before and after considering the potential dilutive effects of the convertible debentures for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the unaudited interim condensed consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the unaudited interim condensed consolidated financial statements and MD&A were approved on November 10, 2020.

## 2. Business Overview

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Leon's Furniture Limited is the largest network of home furniture, appliances, electronics, and mattress stores in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet and The Brick Mattress Store. As well, The Brick's Midnorthern Appliance banner alongside with the Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. Finally, the Company operates three ecommerce sites: leons.ca, thebrick.com and furniture.ca.

The Company's repair service division, Trans Global Services ("TGS"), provides household furniture, electronics and appliance repair services to its customers. TGS has contracts to support several manufacturer's warranty service work in addition to servicing a number of individual programs offered by other dealers. This division also performs work for products sold with extended warranties and is an integral part of the retail offering. These extended warranties, underwritten by the Company's wholly-owned subsidiaries are offered on appliances, electronics and furniture to provide coverage that extends beyond the manufacturer's warranty period by up to five years. The warranty contracts provide both repair and replacement service depending upon the nature of the warranty claim.

The Company's wholly-owned subsidiaries Trans Global Insurance Company ("TGI") and its sister company, Trans Global Life Insurance Company ("TGLI") also offer credit insurance on the customer's outstanding financing balances and third party customer balances. This credit insurance coverage includes life, dismemberment, disability, critical illness, and involuntary unemployment. These credit insurance policies are underwritten by TGI and TGLI as they are licensed as insurance companies in all Canadian provinces and territories.

The Company has foreign operations in Asia and the Caribbean, through its wholly-owned subsidiaries First Oceans Trading Corporation and King & State Limited, respectively. These operations relate to the Company's import and quality control program for sourcing products from Asia for resale in Canada through its retail operations, and the retail banners that sell their extended warranties on appliances and electronics to their customers, respectively.

### **COVID-19**

On March 11, 2020, the World Health Organization declared the novel coronavirus, which has the potential to cause severe respiratory illness ("COVID-19"), a global pandemic. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty. The COVID-19 pandemic has increased the uncertainties around key assumptions used by the Company in estimating the recoverable amount for the purpose of testing for impairment of property, plant and equipment, goodwill and intangible assets. These key estimates include future cash flows, margins and discount rates. Accordingly, estimates of the extent to which the COVID-19 pandemic could materially and adversely affect the Company's operations, financial results and condition in future periods, including the use of estimates and judgements described in Note 2 in the fiscal year 2019 consolidated financial statements, are also subject to significant uncertainty.

### 3. Results of Operations

#### Summary financial highlights for the three months ended September 30, 2020 and September 30, 2019

For the	Three months ended		\$ Increase (Decrease)	% Increase (Decrease)
	September 30, 2020	September 30, 2019		
<i>(C\$ in millions except %, share and per share amounts)</i>				
Total system-wide sales <sup>(1)</sup>	762.8	712.6	50.2	7.0%
Franchise sales <sup>(1)</sup>	132.0	111.2	20.8	18.7%
Revenue	630.8	601.4	29.4	4.9%
Cost of sales	352.0	342.0	10.0	2.9%
Gross profit	278.8	259.4	19.4	7.5%
Gross profit margin as a percentage of revenue	44.20%	43.13%		
Selling, general and administrative expenses <sup>(2) (3)</sup>	210.6	209.3	1.3	0.6%
SG&A as a percentage of revenue <sup>(3)</sup>	33.39%	34.80%		
Income before net finance costs and income tax expense	68.2	50.1	18.1	36.1%
Net finance costs	(4.3)	(6.1)	(1.8)	(29.5%)
Income before income taxes	63.9	44.0	19.9	45.2%
Income tax expense	14.6	11.0	3.6	32.7%
Adjusted net income <sup>(1)</sup>	49.3	33.0	16.3	49.4%
Adjusted net income as a percentage of revenue <sup>(1)</sup>	7.82%	5.49%		
After-tax mark-to-market (gain)/loss on financial derivative instruments <sup>(1)</sup>	0.2	(0.2)	0.4	
<b>Net income</b>	<b>49.1</b>	<b>33.2</b>	<b>15.9</b>	<b>47.9%</b>
Basic weighted average number of common shares	79,412,546	77,593,034		
Basic earnings per share	\$0.62	\$0.43	\$0.19	44.2%
Adjusted basic earnings per share <sup>(1)</sup>	\$0.62	\$0.43	\$0.19	44.2%
Diluted weighted average number of common shares	81,427,770	83,722,798		
Diluted earnings per share	\$0.60	\$0.40	\$0.20	50.0%
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.61	\$0.40	\$0.21	52.5%
Common share dividends declared	\$0.14	\$0.14	-	-

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

(2) Selling, general and administrative expenses ("SG&A").

(3) SG&A as a percentage of revenue for the three months ended September 30, 2020, includes the impact of the Canada Emergency Wage Subsidy (CEWS) of \$2 million or 0.3% as a percentage of revenue in the quarter. The CEWS amount included in the quarter is the residual amount from the previous quarter as the claim periods of the CEWS do not align with the Company's quarter end dates. Therefore, excluding the impact of the CEWS, the total SG&A as a percentage of revenue in the quarter amounted to 33.7%

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

For the	Three months ended		\$ Increase	% Increase
	September 30, 2020	September 30, 2019		
<i>(C\$ in millions, except %)</i>				
Same store sales <sup>(1)</sup>	616.6	590.0	26.6	4.5%

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

## Revenue

For the three months ended September 30, 2020, revenue was \$630.8 million compared to \$601.4 million in the third quarter 2019. Revenue increased \$29.4 million or 4.9% as compared to the prior year quarter due to increases in all product categories which was driven by increased consumer demand during the quarter. The Company's continued focus on eCommerce, including its live chat initiative, generated a year over year 235% increase in eCommerce initiated sales during the quarter.

The ongoing strength in eCommerce sales in the quarter also continue to validate that the Company's digital platform is quite scalable and capable of significantly contributing higher operating profit margin percentages due to its current operating cost structure. The digital platform is key to allowing the Company to attract new customers as they begin their shopping experience online and then continue in store to be assisted by our knowledgeable sales associates.

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

As Provincial Governments eliminated the retail store hour restrictions imposed in the second quarter of 2020, the Company has benefited from both increased store traffic and increased conversion rates during the quarter. This positive impact along with continually growing eCommerce sales has led to an increase in corporate same store sales in the quarter of 4.5% compared to the third quarter 2019.

## Gross Profit

The gross profit margin of 44.20% in the quarter increased by 107 basis points from the third quarter 2019. This was due to increases in gross profit margin across all the Company's product categories.

## Selling, General and Administrative Expenses ("SG&A")

SG&A as a percentage of revenue in the current quarter was down by 141 basis points due to effectively managing overall SG&A expenses throughout the quarter while at the same time adjusting advertising spend to drive traffic to both the retail stores and to the Company's websites.

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

As a result of the above and a continued reduction in net finance costs, adjusted net income in the current quarter totaled \$49.3 million, an increase of \$16.3 million over the prior year's quarter. This resulted in adjusted diluted earnings per share to increase to \$0.61 per share in the current quarter, an increase of 52.5% over the prior year's quarter.

## Net Income and Diluted Earnings Per Share

Net income for the third quarter of 2020 was \$49.1 million, or \$0.60 per diluted earnings per share as compared to the net income of \$33.2 million in the prior year's quarter, or \$0.40 per diluted earnings per share.

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

**Summary financial highlights for the nine months ended September 30, 2020 and September 30, 2019**

For the	Nine months ended			
	September 30, 2020	September 30, 2019	\$ Increase (Decrease)	% Increase (Decrease)
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales <sup>(1)</sup>	1,870.6	1,977.4	(106.8)	(5.4%)
Franchise sales <sup>(1)</sup>	325.6	315.4	10.2	3.2%
Revenue	1,545.0	1,662.0	(117.0)	(7.0%)
Cost of sales	869.8	942.2	(72.4)	(7.7%)
Gross profit	675.3	719.7	(44.4)	(6.2%)
Gross profit margin as a percentage of revenue	43.71%	43.30%		
Selling, general and administrative expenses <sup>(2) (3)</sup>	520.2	610.1	(89.9)	(14.7%)
SG&A as a percentage of revenue <sup>(3)</sup>	33.67%	36.71%		
Income before net finance costs and income tax expense	155.1	109.6	45.5	41.5%
Net finance costs	(13.9)	(19.1)	(5.2)	(27.2%)
Income before income taxes	141.2	90.6	50.6	55.8%
Income tax expense	30.8	23.1	7.7	33.3%
Adjusted net income <sup>(1)</sup>	110.4	67.5	42.9	63.6%
Adjusted net income as a percentage of revenue <sup>(1)</sup>	7.15%	4.06%		
After-tax mark-to-market (gain)/loss on financial derivative instruments <sup>(1)</sup>	0.4	(0.1)	0.5	
<b>Net income</b>	<b>110.0</b>	<b>67.6</b>	<b>42.4</b>	<b>62.7%</b>
Basic weighted average number of common shares	80,149,763	77,624,221		
Basic earnings per share	\$1.37	\$0.87	\$0.50	57.5%
Adjusted basic earnings per share <sup>(1)</sup>	\$1.38	\$0.87	\$0.51	58.6%
Diluted weighted average number of common shares	82,594,209	83,826,391		
Diluted earnings per share	\$1.33	\$0.82	\$0.51	62.2%
Adjusted diluted earnings per share <sup>(1)</sup>	\$1.34	\$0.82	\$0.52	63.4%
Common share dividends declared	\$0.42	\$0.42	-	-

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

(2) Selling, general and administrative expenses ("SG&A").

(3) SG&A as a percentage of revenue for the nine months ended September 30, 2020, includes the impact of the CEWS of \$31.8 million or 2.1% as a percentage of revenue in the nine-month period. Therefore, excluding the impact of the CEWS, the total SG&A as a percentage of revenue in the nine-month period amounted to 35.73%.

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

For the	Nine months ended			
	September 30, 2020	September 30, 2019	\$ (Decrease)	% (Decrease)
(C\$ in millions, except %)				
Same store sales <sup>(1)</sup>	1,504.6	1,630.3	(125.7)	(7.7%)

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

## Revenue

For the nine months ended September 30, 2020, revenue was \$1,545 million compared to \$1,662 million in the prior year 2019, a decrease of \$117 million or 7% as compared to the prior year nine months ended. This reduction in revenue was driven by substantial reductions in physical store traffic due to COVID-19 retail store closures across the country during the months of April and May 2020. As all of the Company's physical stores reopened across Canada in early June 2020, total written merchandise sales increased significantly since that time as compared to the same prior year period.

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

Same store corporate sales decreased 7.7% compared to the nine months ended September 30, 2019. Since the Company has over 50% of its retail store count in Ontario and Quebec, the mandatory store closures during the months of April and May in these two provinces had a profound impact on the Company's ability to generate positive same store sales growth. However, by the end of May, the provincial governments of Ontario and Quebec had lifted their restrictions to open retail storefronts, which had a very positive impact on the Company's sales for the period following the end of May 2020.

## Gross Profit

The gross profit margin increased slightly from 43.30% for the nine months ended September 30, 2019 to 43.71% in the nine-month period ended September 30, 2020. This was due primarily to increases in gross profit margin across all product categories.

## Selling, General and Administrative Expenses

As a result of COVID-19, and the ensuing rapid deterioration of customer traffic that began quickly near the end of March 2020 and continued during most of the second quarter, the Company undertook the necessary steps to right-size its operations and preserve its liquidity.

In the second quarter, the Government of Canada announced the Canadian Emergency Wage Subsidy (CEWS) in order to help employers return and keep their employees on their payrolls. The Company determined that it met the eligibility criteria and applied for the CEWS in order to be better positioned to return most of its valued associates back to work by the end of the third quarter.

Excluding the CEWS, the Company's SG&A as a percentage of revenue for the nine months ended September 30, 2020 was 35.73%, a decrease of 98 basis points over the prior year nine months ended of 36.71%. Including the CEWS, the Company's SG&A as a percentage of revenue was 33.67%, an improvement of 304 basis points over the prior year nine months ended.

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

Including the impact of the CEWS, adjusted net income for the nine months ended September 30, 2020 totaled \$110.4 million an increase of \$42.9 million or 63.6% over the prior year. Adjusted diluted earnings per share for the Company increased by \$0.52 to \$1.34 per share, an increase of 63.4% over the prior year nine months.

Excluding the impact of the CEWS, adjusted net income for the nine months ended September 30, 2020 totaled \$87.0 million an increase of \$19.5 million or 28.9% over the prior year nine months ended. Adjusted diluted earnings per share for the Company increased by \$0.24 to \$1.06 per share, an increase of 29.3% over the prior year nine months.

## Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the third quarter of 2020 was \$110 million, \$1.33 per diluted earnings per share (net income \$67.6 million, \$0.82 per diluted earnings per share in 2019).

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

## 4. Store Network

The Company has 305 retail stores in Canada at September 30, 2020. The following table illustrates the Company's store count continuity from December 31, 2019 to September 30, 2020 by retail banner:

Banner	Number of stores as at At December 31, 2019	Opened	Closed	Number of stores as at September 30, 2020
<b>Corporate Stores</b>				
Leon's	52	2	-	54
Appliance Canada	5	-	-	5
The Brick <sup>(1)</sup>	115	4	(2)	117
The Brick Mattress Store	24	-	(2)	22
Brick Outlet	9	-	(2)	7
Corporate Subtotal	205	6	(6)	205
<b>Franchise Stores</b>				
Leon's	34	1	-	35
The Brick	65	1	(1)	65
Franchise Subtotal	99	2	(1)	100
<b>Total Corporate &amp; Franchise Stores</b>	<b>304</b>	<b>8</b>	<b>(7)</b>	<b>305</b>

(1) Includes the Midnorthern Appliance banner.

## 5. Summary of Consolidated Quarterly Results

The table below highlights the variability of quarterly results and the impact of seasonality on the Company's results. The Company's profitability is typically lower in the first half of the year, since retail sales are traditionally higher in the third and fourth quarters.

For the quarter ended	September 30		June 30		March 31		December 31	
(C\$ in millions)	2020	2019	2020	2019	2020	2019	2019	2018
Total system-wide sales <sup>(1)</sup>	762.8	712.6	509.9	667.7	598.1	597.2	751.3	726.5
Franchise sales <sup>(1)</sup>	132.0	111.2	93.2	106.8	100.5	97.4	129.8	124.9
Revenue	630.8	601.4	416.7	560.9	497.6	499.7	621.4	601.7
Net income	49.1	33.2	47.2	25.0	13.7	9.3	39.3	38.8
Adjusted net income <sup>(1)</sup>	49.3	33.0	47.2	25.0	13.9	9.4	39.4	38.3
Basic earnings per share	\$0.62	\$0.43	\$0.59	\$0.32	\$0.17	\$0.12	\$0.51	\$0.51
Diluted earnings per share	\$0.60	\$0.40	\$0.58	\$0.30	\$0.17	\$0.12	\$0.48	\$0.48
Adjusted basic earnings per share <sup>(1)</sup>	\$0.62	\$0.43	\$0.59	\$0.32	\$0.17	\$0.12	\$0.51	\$0.50
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.61	\$0.40	\$0.58	\$0.30	\$0.16	\$0.12	\$0.48	\$0.47

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

## 6. Financial Position

As at	September 30, 2020	December 31, 2019	September 30, 2019
(C\$ in millions)			
Total assets	2,350.0	2,129.9	2,078.7
Total non-current liabilities	569.2	643.2	671.9

### Assets

Total assets at September 30, 2020 of \$2,350 million were \$220.1 million higher than the \$2,129.9 million reported at December 31, 2019. The majority of this change was driven by an increase in cash and cash equivalents which was offset by a decrease in inventory and trade receivables.

### Non-Current Liabilities

Non-current liabilities of \$569.2 million were \$74 million lower than the \$643.2 million reported at December 31, 2019. This is primarily as a result of the conversion of \$49 million of the convertible debenture to 3,854,511 common shares at the holder's option.

### Net Debt

The table below reflects the Company's net debt balances, excluding its lease liabilities and restricted marketable securities as at September 30, 2020.

As at	September 30, 2020	September 30, 2019	\$ Change
(C\$ in millions)			
Term debt	90.0	115.0	(25.0)
Convertible debenture	1.3	48.7	(47.4)
<b>Total long-term debt (excluding lease liabilities)</b>	<b>91.3</b>	<b>163.7</b>	<b>(72.4)</b>
Less: Cash, cash equivalents, debt and equity instruments	467.1	137.6	329.5
<b>Net cash balance <sup>(1)</sup></b>	<b>375.8</b>	<b>(26.1)</b>	<b>401.9</b>

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

At September 30, 2020, the Company's total net debt balance, excluding its lease liabilities, continues to reflect a net positive cash position of \$375.8 million. This positive result was achieved in the quarter mainly due to generating over \$400 million in free cash flow in the nine months ended September 30, 2020.

## 7. Liquidity and Capital Resources

### Liquidity Risk Management

The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at September 30, 2020, unrestricted liquidity was \$637.8 million comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

In response to the COVID-19 pandemic, the Company has taken the following actions to support its current operating environment and its liquidity position:

- In order to protect the health and safety of our customers and associates, the Company introduced several measures in the quarter to provide support to our associates and customers. These measures included: reduced store hours, contactless home delivery and customer pickup protocols, enhanced cleaning protocols and actions to support physical distancing including limiting the number of customers allowed in-store. The Company continued to operate its distribution centres and warehouse locations across the country with enhanced safety protocols.
- During the year the Company exercised its \$125 million credit accordion available under its Senior Secured Credit Agreement, thereby increasing its total revolving credit facility to \$175 million. No amounts have been borrowed under this revolving credit facility. This revolving credit facility will not expire until May 31, 2024. As at September 30, 2020, the Company's unrestricted liquidity is \$637.8 million, excluding its unencumbered real estate portfolio comprising of land and buildings.

### Consolidated Cash Flow Movements

The following table provides a summarized statement of cash flows for the three and nine months ended September 30, 2020 and September 30, 2019:

For the	Three months ended			Nine months ended		
	September 30, 2020	September 30, 2019	\$ Increase (Decrease)	September 30, 2020	September 30, 2019	\$ Increase (Decrease)
(C\$ in millions)						
Cash provided by operating activities before changes in operating working capital items	78.4	68.9	9.5	196.6	167.6	29.0
Changes in operating working capital items	145.8	8.9	136.9	242.7	(61.1)	303.8
Cash provided by operating activities	224.2	77.8	146.4	439.3	106.5	332.8
Cash used in investing activities	(2.1)	(17.6)	15.5	(33.1)	(32.1)	(1.0)
Cash used in financing activities	(65.8)	(49.0)	(16.8)	(145.6)	(132.2)	(13.4)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>156.3</b>	<b>11.2</b>	<b>145.1</b>	<b>260.6</b>	<b>(57.8)</b>	<b>318.4</b>

### Cash Provided By Operating Activities

Cash from operating activities consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization and the effect of changes in non-cash working capital items, primarily receivables, inventories, deferred acquisition costs, accounts payable and customers' deposits.

For the three months ended September 30, 2020, cash provided by operating activities increased by \$146.4 million compared to the prior year's quarter. This movement is primarily driven by an increase in customers' deposits and trade and other payables of \$99.8 million and \$59 million respectively. This is offset by an increase in trade receivables of \$14.5 million.

For the nine months ended September 30, 2020, cash provided by operating activities increased by \$332.8 million compared to the prior year nine months ended. This movement is primarily driven by an increase in customers' deposits and trade and other payables of \$176.1 million \$68.7 million respectively as well as a decrease in inventories of \$49.9 million.

### Cash Used In Investing Activities

Investing activities relate primarily to capital expenditures and the purchase and sale of debt and equity instruments.

For the three months ended September 30, 2020, cash used in investing activities decreased by \$15.5 million compared to the prior year's quarter. This change is driven by an increase in the proceeds on the sale of debt and equity instruments of \$11.5 million. There is also a decrease in the purchase of property plant and equipment of \$6.6 million in the three month period. This is offset by an increase in the purchase of debt and equity instruments of \$3.1 million.

For the nine months ended September 30, 2020, cash used in investing activities increased by \$1 million compared to the prior year nine months ended. This change is a result of an increase in the purchase of property plant and equipment and the purchase of debt and equity instruments of \$11.4 million and \$6.2 million respectively. This is offset by an increase in the proceeds on the sale of debt and equity instruments and the proceeds on the sale of property plant and equipment of \$14.4 million and \$1 million respectively.

### Cash Used in Financing Activities

Financing activities consist primarily of cash used to pay dividends, loans and borrowings and lease liabilities.

For the three months ended September 30, 2020, cash used in financing activities increased by \$16.8 million compared to the prior year's quarter. The movement is primarily driven by the reduction in the repayment of the term loan of \$15 million offset by an increase in the repurchase of common shares of \$32.2 million.

For the nine months ended September 30, 2020, cash used in financing activities increased by \$13.4 million compared to the prior year nine months ended. The movement is driven by a reduction in the repayment of the term loan of \$25 million. This is offset by an increase in the repurchase of common shares of \$36.8 million.

### Adequacy of Financial Resources

At September 30, 2020, the Company's current assets exceeded its current liabilities by \$144.9 million and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$469.4 million compared to \$203 million at December 31, 2019. Under the Company's Senior Secured Credit Agreement, the Company had unused borrowing capacity of \$174 million as at September 30, 2020 (\$49.4 million as at December 31, 2019). The Company believes that its existing financing resources together with cash flow provided from its current operations and its expanded revolving credit facility will provide a sound liquidity and working capital position throughout the next twelve months.

### Contractual Obligations

As at September 30, 2020

(C\$ in millions)	Payments Due by Period						
Contractual Obligations	Total	2020	2021	2022	2023	2024	2025 & Beyond
Loans and borrowings	92.4	0.3	1.2	90.9	-	-	-
Convertible debentures	1.4	-	-	1.4	-	-	-
Lease liability	462.8	22.2	84.1	68.9	66.4	64.5	156.7
<b>Total Contractual Obligations</b>	<b>556.6</b>	<b>22.5</b>	<b>85.3</b>	<b>161.2</b>	<b>66.4</b>	<b>64.5</b>	<b>156.7</b>

## 8. Outlook

In the short term, the duration and full financial effect of COVID-19 is unknown, as is the efficacy of government and central bank interventions to curb the spread of COVID-19 and stimulate the economy. Federal and provincial governments have instituted social distancing requirements, bans on non-essential travel and other measures that have directly led to uncertainty regarding customer demand. The Company continues to actively monitor the situation and will continue to respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, our customer and employee reactions and any further government actions, none of which can be predicted with any degree of certainty.

Management anticipates that actions taken to date have positioned the Company strongly to weather the current crisis and to take advantage of any accretive opportunities that may arise. Several of the Company's existing attributes are expected to function as operating positions of strength which will act as offsets in the current environment:

- The essential nature of some of the Company's products and services. Household appliances that are necessary to cook and clean have been deemed essential by provincial governments. The Company also owns the largest third-party appliance service company in Canada, Transglobal Service, that has been operating across the country with enhanced health and safety protocols to protect both our customers and our technicians.
- Rapid scalability of our eCommerce business. The Company's eCommerce initiated sales have continued to grow significantly in the third quarter. Since the Company moved its online stores to the Shopify Plus platform, the eCommerce offering has become a better customer experience and a more interactive offering. The platform has resulted in improved scalability and enabled significant operating leverage, which has and continues to provide a competitive advantage to the Company.
- Unencumbered ownership of substantial real estate assets across the country. The Company owns 4.4 million square feet (office, retail, industrial) of approximately 13 million square feet in use today by the Company. This is a significant competitive advantage in the current environment, resulting in a far lower carrying cost for closed stores or other properties than similar leased properties. In addition, the value inherent in this portfolio would enable the Company to readily access additional liquidity to support existing operations and take advantage of accretive opportunities as they arise.

- A strong balance sheet as evidenced by the Company's commitment to deleveraging over \$440 million in various forms of debt. The Company has unrestricted liquidity of approximately \$638 million as at September 30, 2020, with room to expand further if necessary.

On a longer-term basis, we still believe that the underlying Canadian economy remains relatively strong. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain cautiously optimistic that our sales and profitability will increase. Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce sites and our 305 store locations across Canada.

## 9. Outstanding Common Shares

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At September 30, 2020, there were 79,047,873 common shares issued and outstanding. During the quarter ended September 30, 2020 there were no convertible shares converted into common shares. For details on the Company's commitments related to its redeemable share liability please refer to Note 11 of the of the unaudited interim condensed consolidated financial statements.

## 10. Related Party Assumptions

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For the nine months ended September 30, 2020, we had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

## 11. Critical Assumptions

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### **Use of Estimates and Judgments**

Management has exercised judgment in the process of applying the Company's accounting policies. The preparation of interim condensed consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting period. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the interim condensed consolidated financial statements.

### **Extended warranty revenue recognition**

The Company offers extended warranties on certain merchandise. Management has applied judgment in determining the basis upon and period over which to recognize deferred warranty revenue.

### **Inventories**

The Company estimates the net realizable value as the amount at which inventories are expected to be sold by taking into account fluctuations of retail prices due to prevailing market conditions. If required, inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining sales prices.

Reserves for slow moving and damaged inventory are deducted in the Company's valuation of inventories. Management has estimated the amount of reserve for slow moving inventory based on the Company's historic retail experience.

### **Impairment of property, plant and equipment**

The Company exercises judgment in the determination of cash-generating units ("CGUs") for purposes of assessing any impairment of property, plant and equipment, as well as in determining whether there are indicators of impairment present. Should indicators of impairment be present, management estimates the recoverable amount of the relevant CGU. This estimation requires assumptions about future cash flows, margins and discount rates.

### **Impairment of goodwill and intangible assets**

The Company tests goodwill and indefinite life intangible assets at least annually and reviews other long-lived intangible assets for any indication that the asset might be impaired. Significant judgments are required in determining the CGUs or groups of CGUs for purposes of assessing impairment. Significant judgments are also required in determining whether to allocate goodwill to CGUs or groups of CGUs. When performing impairment tests, the Company estimates the recoverable amount of the CGUs or groups of CGUs to which goodwill and indefinite life intangible assets have been allocated using a discounted cash flow model that requires assumptions about future cash flows, margins and discount rates.

### **Provisions**

The Company exercises judgment in the determination of recognizing a provision. The Company recognizes a provision when it has a present legal or constructive obligation as a result of a past event and a reliable estimate of the obligation can be made. Significant judgments are required to be made in determining what the probable outflow of resources will be required to settle the obligation.

### **Leases**

Management exercises judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis. Management considers many factors including any events that create an economic incentive to exercise a renewal option including store performance, expected future performance and past business practice. Renewal options are only included if Management are reasonably certain that the option will be renewed.

### **Government grants**

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in prepaid and other assets on the interim condensed consolidated statement of financial position. The Company recognizes government grants in the interim condensed consolidated statement of income in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in profit or loss in the period in which it becomes receivable.

### **Materiality**

In preparing this MD&A and the information contained herein, management considers the likelihood that a reasonable investor's decision would be influenced to buy or not buy, or to sell or hold securities of the Company if such information were omitted, misstated or obscured in any way. This concept of materiality is consistent with the notion of materiality applied to financial statements and contained in IFRS.

### **Recent Accounting Pronouncements**

#### **Adoption of new accounting standards and amendments**

The Company has adopted the new IFRS accounting standards listed below as at January 1, 2020, in accordance with the transitional provisions outlined in the respective standard.

#### **Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") and IAS 8, *Changes in Accounting Estimates and Errors* ("IAS 8") – Definition of Material**

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to make it easier to understand. The definition of material in IAS 8 has been replaced by a definition of material in IAS 1. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The adoption of this amendment did not have a material impact on the interim condensed consolidated financial statements.

### **Amendments to IFRS 16, Leases ("IFRS 16")**

The amendments to IFRS 16 provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification, and instead require lessees that apply the exemption to account for COVID-19 related rent concessions as if they were not lease modifications. The amendment is effective for annual reporting periods beginning on or after June 1, 2020 and is to be applied retrospectively.

The Company has adopted the amendment effective June 1, 2020 and elected to apply the practical expedient to all rent concessions that have met the criteria under the amendment.

### **Accounting standards and amendments issued but not yet adopted**

#### **IFRS 17, Insurance Contracts ("IFRS 17")**

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4, Insurance Contracts ("IFRS 4"). IFRS 17 establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 applies to all types of insurance contracts regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for annual periods beginning on or after January 1, 2023. Retrospective application is required. The Company plans to adopt the new standard on the effective date. The Company is currently analyzing the impact these standards will have on its financial statements.

#### **Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")**

In January 2020, IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

## **12. Risks and Uncertainties**

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Careful consideration should be given to the following risk factors. These descriptions of risks are not the only ones facing the Company. Additional risks and uncertainties not presently known to Leon's, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity, and results of operations of the Company could be materially adversely affected.

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated February 26, 2020, which provides information on the risk factors facing the Company. The February 26, 2020 AIF can be found online at [www.sedar.com](http://www.sedar.com).

For additional potential risks associated with COVID-19 refer to section 2 in this MD&A.

### **Sensitivity to General Economic Conditions**

The household furniture, mattress, appliance and home electronics retailing industry in Canada has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. The Company's sales are impacted by the health of the economy in Canada as a whole, and in the regional markets in which the Company operates.

The Company's sales and financial results are subject to numerous uncertainties. Weakness in sales or consumer confidence could result in an increasingly challenging operating environment.

### **Maintaining Profitability & Managing Growth**

There can be no assurance that the Company's business and growth strategy will enable it to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including (i) the Company's ability to continue to successfully execute its strategic initiatives, (ii) the level of competition in the household furniture, mattress, appliance and home electronics retailing industry in the markets in which the Company operates, (iii) the Company's ability to remain a low-cost retailer, (iv) the Company's ability to realize increased sales and greater levels of profitability through its retail stores, (v) the effectiveness of the Company's marketing programs, (vi) the Company's ability to successfully identify and respond to changes in fashion trends and consumer tastes in the household furniture, mattress, appliance and home electronics retailing industry, (vii) the Company's ability to maintain cost effective delivery of its products, (viii) the Company's ability to hire, train, manage and retain qualified retail store management and sales professionals, (ix) the Company's ability to continuously improve its service to achieve new and enhanced customer benefits and better quality, and (x) general economic conditions and consumer confidence.

### **Financial Condition of Commercial Sales Customers & Franchisees**

Through its commercial sales division, the Company sells products and extends credit to high-rise and condominium builders who purchase large quantities of products. The Company also sells products and extends credit to its franchisees. Negative changes in the financial condition of a significant commercial sales customer or a franchisee could impact on the Company's receivables and ultimately result in the Company having to take a bad-debt write-off in excess of allowance for bad debts. The occurrence of such an event could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

### **Competition**

The household furniture, mattress, appliance and home electronics retailing industry is highly competitive and highly fragmented. The Company faces competition in all regions in which its operations are located by existing stores that sell similar products and also by stores that may be opened in the future by existing or new competitors in such markets. The Company competes directly with many different types of retail stores that sell many of the products sold by the Company. Such competitors include (i) department stores, (ii) specialty stores (such as specialty electronics, appliance, or mattress retailers), (iii) other national or regional chains offering household furniture, mattresses, appliances and home electronics, and (iv) other independent retailers, particularly those associated with larger buying groups. The highly competitive nature of the industry means the Company is constantly subject to the risk of losing market share to its competitors. As a result, the Company may not be able to maintain or to raise the prices of its products in response to competitive pressures. In addition, the entrance of additional competitors to the markets in which the Company operates, particularly large furniture, appliance or electronics retailers from the United States could increase the competitive pressure on the Company and have a material adverse effect on the Company's market share. The actions and strategies of the Company's current and potential competitors could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

## **13. Controls and Procedures**

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### **Disclosure Controls & Procedures**

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at September 30, 2020.

### **Internal Controls over Financial Reporting**

Management is also responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met. During the nine months ended September 30, 2020, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## 14. 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

### 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. The Company uses derivative instruments to manage its financial risk 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 is a reconciliation of reported net income to adjusted net income, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

For the	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(C\$ in millions except per share amounts)				
<b>Net income</b>	<b>49.1</b>	33.2	<b>110.0</b>	67.6
After-tax mark-to-market (gain)/loss on financial derivative instruments	<b>0.2</b>	(0.2)	<b>0.4</b>	(0.1)
<b>Adjusted net income</b>	<b>49.3</b>	33.0	<b>110.4</b>	67.5
Basic earnings per share	<b>\$0.62</b>	\$0.43	<b>\$1.37</b>	\$0.87
Diluted earnings per share	<b>\$0.60</b>	\$0.40	<b>\$1.33</b>	\$0.82
Adjusted basic earnings per share	<b>\$0.62</b>	\$0.43	<b>\$1.38</b>	\$0.87
Adjusted diluted earnings per share	<b>\$0.61</b>	\$0.40	<b>\$1.34</b>	\$0.82

### 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 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 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:

For the	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(C\$ in millions)				
<b>Net income</b>	<b>49.1</b>	33.2	<b>110.0</b>	67.6
Income tax expense	<b>14.5</b>	11.1	<b>30.6</b>	23.1
Net finance costs	<b>4.3</b>	6.1	<b>13.9</b>	19.1
Depreciation and amortization	<b>27.8</b>	30.4	<b>83.2</b>	93.0
Mark-to-market (gain)/loss on financial derivative instruments	<b>0.3</b>	(0.3)	<b>0.5</b>	(0.2)
<b>Adjusted EBITDA</b>	<b>96.0</b>	80.5	<b>238.2</b>	202.6

### Same Store Sales

Same store sales are defined as sales generated by stores, both in store and through online transactions, 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.

### Net Debt

Net debt is calculated as the principal amount of the term loan, convertible debentures less cash, cash equivalents and debt and equity instruments. Net debt is a non-IFRS financial measure used by the Company. The Company considers net debt to be an effective measure of the overall debt position and borrowing capacity available to the Company.