



LEON'S FURNITURE LIMITED

**Management's Discussion and Analysis**

For the period ended September 30, 2021

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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, 2021 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, 2021 and for the three and nine months ended September 30, 2021 and 2020. It should be read in conjunction with the fiscal year 2020 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2020 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, which is within the framework of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 ("The Board") 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, 2021.

## 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 2020 consolidated financial statements, are also subject to significant uncertainty.

### 3. Results of Operations

#### Summary financial highlights for the three months ended September 30, 2021 and September 30, 2020

For the	Three months ended		\$ Increase (Decrease)	% Increase (Decrease)
	September 30, 2021	September 30, 2020		
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales <sup>(1)</sup>	825.5	762.8	62.7	8.2%
Franchise sales <sup>(1)</sup>	142.3	132.0	10.3	7.8%
Revenue	683.2	630.8	52.4	8.3%
Cost of sales	381.3	352.0	29.3	8.3%
Gross profit	301.9	278.8	23.1	8.3%
Gross profit margin as a percentage of revenue	44.19%	44.20%		
Selling, general and administrative expenses <sup>(2) (3)</sup>	216.3	210.6	5.7	2.7%
SG&A as a percentage of revenue <sup>(3)</sup>	31.66%	33.39%		
Income before net finance costs and income tax expense	85.6	68.2	17.4	25.5%
Net finance costs	(4.1)	(4.3)	(0.2)	(4.7%)
Income before income taxes	81.5	63.9	17.6	27.5%
Income tax expense	20.9	14.6	6.3	43.2%
Adjusted net income <sup>(1)</sup>	60.6	49.3	11.3	22.9%
Adjusted net income as a percentage of revenue <sup>(1)</sup>	8.87%	7.82%		
After-tax mark-to-market (gain)/loss on financial derivative instruments <sup>(1)</sup>	(3.2)	0.2	3.3	1650%
<b>Net income</b>	<b>63.8</b>	<b>49.1</b>	<b>14.7</b>	<b>29.9%</b>
Basic weighted average number of common shares	77,026,816	79,412,546		
Basic earnings per share	\$0.83	\$0.62	\$0.21	33.9%
Adjusted basic earnings per share <sup>(1)</sup>	\$0.79	\$0.62	\$0.17	27.4%
Diluted weighted average number of common shares	78,386,090	81,427,770		
Diluted earnings per share	\$0.81	\$0.60	\$0.21	35.0%
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.77	\$0.61	\$0.16	26.2%
Common share dividends declared	\$1.41	\$0.14	\$1.27	907.1%

(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 for the three months ended September 30, 2020 includes the impact of the CEWS of \$2 million or 0.3% as a percentage of revenue for the three-month period.

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

For the	Three months ended		\$ Increase	% Increase
	September 30, 2021	September 30, 2020		
(C\$ in millions, except %)				
Same store sales <sup>(1)</sup>	676.3	616.6	59.7	9.7%

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

## Revenue

For the three months ended September 30, 2021, revenue was \$683.2 million compared to \$630.8 million in the third quarter 2020. Revenue increased \$52.4 million or 8.3% as compared to the prior year quarter due to double-digit increases across the country and in all product categories but with significant strength in the furniture product category. The Company's continued focus on eCommerce, including its live chat initiatives, generated a quarter over quarter 48% increase in eCommerce driven sales during the quarter, which is on top of the growth in eCommerce sales of 235% in the third quarter of 2020 as compared to the third quarter of 2019.

The ongoing strength in eCommerce sales in the quarter also continue to validate that the Company's digital platform is very 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>

The Company was able to achieve a 9.7% increase in same store sales in the quarter compared to the third quarter 2020. The Company benefited from having all stores reopened which increased store traffic and conversion rates.

## Gross Profit

The gross profit margin of 44.19% in the quarter remained relatively flat in comparison to the third quarter 2020, despite the Company incurring increased costs due to the pandemic related disruptions of the global supply chain.

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

The Company's SG&A as a percentage of revenue for the third quarter 2020 was 33.39% compared to 31.66% for the third quarter of 2021, an improvement of 173 basis points over the third quarter 2020. This improvement in operating costs leverage and continued cost reduction initiatives in the quarter are due to effectively managing the Company's payroll and eCommerce expenses.

The third quarter 2020 included a wage subsidy of \$2 million wage subsidy received from the Government of Canada under the CEWS program, however during the third quarter of 2021 the Company did not receive or apply for any additional wage subsidy under the CEWS program. Therefore, excluding the impact of CEWS from the prior year third quarter, the Company's SG&A as a percentage of revenue for the third quarter 2020 was 33.70% leading to an improvement of 204 basis points quarter over quarter.

## 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 for the quarter totaled \$60.6 million, an increase of \$11.3 million or 22.9% over the prior year's quarter. Excluding the impact of CEWS in the prior year's quarter, adjusted net income increased \$12.8 million or 26.8%.

Additionally, excluding the impact of CEWS, the adjusted diluted earnings per share in the third quarter 2020 was \$0.59 per share compared to \$0.77 per share in the current quarter, an increase of \$0.18 per share or 30.5%.

## Net Income and Diluted Earnings Per Share

Net income for the third quarter of 2021 was \$63.8 million, or \$0.81 per diluted earnings per share as compared to the \$0.60 per diluted earnings per share recorded in the prior year's quarter which included the CEWS amount as detailed above, an increase of \$0.21 per share or 35%.

(1) Refer to the Non-IFRS financial measures section for additional information.

**Summary financial highlights for the nine months ended September 30, 2021 and September 30, 2020**

For the	Nine months ended			
	September 30, 2021	September 30, 2020	\$ Increase (Decrease)	% Increase (Decrease)
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales <sup>(1)</sup>	2,237.1	1,870.6	366.5	19.6%
Franchise sales <sup>(1)</sup>	394.2	325.6	68.6	21.1%
Revenue	1,842.9	1,545.0	297.9	19.3%
Cost of sales	1,031.3	869.8	161.5	18.6%
Gross profit	811.6	675.3	136.3	20.2%
Gross profit margin as a percentage of revenue	44.04%	43.71%		
Selling, general and administrative expenses <sup>(2) (3)</sup>	600.4	520.2	80.2	15.4%
SG&A as a percentage of revenue <sup>(3)</sup>	32.58%	33.67%		
Income before net finance costs and income tax expense	211.1	155.1	56.0	36.1%
Net finance costs	(12.0)	(13.9)	(1.9)	(13.7%)
Income before income taxes	199.1	141.2	57.9	41.0%
Income tax expense	50.6	30.8	19.8	64.3%
Adjusted net income <sup>(1)</sup>	148.5	110.4	38.1	34.5%
Adjusted net income as a percentage of revenue <sup>(1)</sup>	8.06%	7.15%		
After-tax mark-to-market gain/loss on financial derivative instruments <sup>(1)</sup>	(2.2)	0.4	2.6	650%
<b>Net income</b>	<b>150.7</b>	<b>110.0</b>	<b>40.7</b>	<b>37.0%</b>
Basic weighted average number of common shares	77,894,459	80,149,763		
Basic earnings per share	\$1.93	\$1.37	\$0.56	40.9%
Adjusted basic earnings per share <sup>(1)</sup>	\$1.91	\$1.38	\$0.53	38.4%
Diluted weighted average number of common shares	79,534,118	82,594,209		
Diluted earnings per share	\$1.89	\$1.33	\$0.56	42.1%
Adjusted diluted earnings per share <sup>(1)</sup>	\$1.87	\$1.34	\$0.53	39.6%
Common share dividends declared	\$1.73	\$0.42	\$1.31	311.9%

(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 of 2.1% as a percentage of revenue for the nine-month period.

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

For the	Nine months ended			
	September 30, 2021	September 30, 2020	\$ Increase	% Increase
(C\$ in millions, except %)				
Same store sales <sup>(1)</sup>	1,794.5	1,504.6	289.9	19.3%

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

## Revenue

For the nine months ended September 30, 2021, revenue was \$1,842.9 million compared to \$1,545.0 million in the prior year 2020. Revenue increased \$297.9 million or 19.3% as compared to the prior year nine months ended due to increases in all product categories, driven by continuing consumer demand.

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

Same store corporate sales increased 19.3% compared to the nine months ended September 30, 2020. The reopening of all locations in both March and June had a positive impact on the Company's in-store sales and therefore contributed meaningfully to the Company's same store sales results.

## Gross Profit

The gross profit margin increased by 33 basis points from the nine months ended September 30, 2020. This was due to increases in gross profit margin percentages across all product categories.

## Selling, General and Administrative Expenses

Excluding the impact of CEWS, the Company's SG&A as a percentage of revenue for the nine months ended September 30, 2020 was 35.72% compared to 32.58% for the nine months ended September 30, 2021, an improvement of 314 basis points over the prior year. This reduction was due to effectively managing overall SG&A expenses throughout the year.

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

Including the impact of CEWS, adjusted net income in the nine months ended September 30, 2020 totaled \$110.4 million compared to adjusted net income for the current year of \$148.5 million, an increase of \$38.1 million. Adjusted diluted earnings per share in the prior year was \$1.34 per share compared to \$1.87 per share in the current year, an increase of \$0.53 per share.

Excluding the impact of CEWS, adjusted net income in the nine months ended September 30, 2020 totaled \$87.0 million compared to adjusted net income for the current year of \$148.5 million, an increase of \$61.5 million. Additionally, excluding the impact of CEWS, the adjusted diluted earnings per share in the prior year was \$1.06 per share compared to \$1.87 per share in the current quarter, an increase of \$0.81 per share.

## Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the nine months ended September 30, 2021 was \$150.7 million, \$1.89 per diluted earnings per share compared to net income of \$110.0 million and \$1.33 per diluted earnings per share in 2020. Excluding the impact of CEWS in 2020, net income was \$87 million and \$1.09 per diluted earnings per share.

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

## 4. Store Network

The Company has 304 retail stores in Canada at September 30, 2021. The following table illustrates the Company's store count continuity from December 31, 2020 to September 30, 2021 by retail banner:

Banner	Number of stores as at December 31, 2020	Opened	Closed	Number of stores as at September 30, 2021
<b>Corporate Stores</b>				
Leon's	54	-	(1)	53
Appliance Canada	5	-	-	5
The Brick <sup>(1)</sup>	117	-	-	117
The Brick Mattress Store	21	-	-	21
Brick Outlet	7	-	(1)	6
Corporate Subtotal	204	-	(2)	202
<b>Franchise Stores</b>				
Leon's	35	-	-	35
The Brick	65	2	-	67
Franchise Subtotal	100	2	-	102
<b>Total Corporate &amp; Franchise Stores</b>	<b>304</b>	<b>2</b>	<b>(2)</b>	<b>304</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 except per share amounts)	2021	2020	2021	2020	2021	2020	2020	2019
Total system-wide sales <sup>(1)</sup>	825.5	762.8	714.4	509.9	697.1	598.1	830.9	751.3
Franchise sales <sup>(1)</sup>	142.3	132.0	125.9	93.2	126.0	100.5	155.8	129.8
Revenue	683.2	630.8	588.5	416.7	571.1	497.6	675.1	621.4
Net income	63.8	49.1	46.0	47.2	40.9	13.7	53.3	39.3
Adjusted net income <sup>(1)</sup>	60.6	49.3	46.6	47.2	41.2	13.9	56.3	39.3
Basic earnings per share	\$0.83	\$0.62	\$0.59	\$0.59	\$0.52	\$0.17	\$0.68	\$0.51
Diluted earnings per share	\$0.81	\$0.60	\$0.58	\$0.58	\$0.51	\$0.17	\$0.67	\$0.48
Adjusted basic earnings per share <sup>(1)</sup>	\$0.79	\$0.62	\$0.60	\$0.59	\$0.52	\$0.17	\$0.72	\$0.51
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.77	\$0.61	\$0.58	\$0.58	\$0.51	\$0.16	\$0.71	\$0.48

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

## 6. Financial Position

As at (C\$ in millions)	September 30, 2021	December 31, 2020	September 30, 2020
Total assets	2,478.6	2,418.6	2,350.0
Total non-current liabilities	475.5	581.8	569.2

### Assets

Total assets at September 30, 2021 of \$2,478.6 million were \$60 million higher than the \$2,418.6 million reported at December 31, 2020. The movement was primarily driven by an increase in cash and cash equivalents and an increase in inventories.

### Non-Current Liabilities

Non-current liabilities of \$475.5 million were \$106.3 million lower than the \$581.8 million reported at December 31, 2020. This is primarily a result of the movement of loans and borrowings to current liabilities.

### Net Debt <sup>(1)</sup>

The table below reflects the Company's net debt balances, excluding its lease liabilities and restricted marketable securities as at September 30, 2021 and December 31, 2020.

As at (C\$ in millions)	September 30, 2021	December 31, 2020	\$ Change
Term debt	90.0	90.0	-
Convertible debenture	-	0.4	(0.4)
<b>Total long-term debt (excluding lease liabilities)</b>	<b>90.0</b>	<b>90.4</b>	<b>(0.4)</b>
Less: cash, cash equivalents, debt and equity instruments	533.9	490.8	43.1
<b>Net cash balance <sup>(1)</sup></b>	<b>443.9</b>	<b>400.4</b>	<b>43.5</b>

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

As at September 30, 2021, the Company's total net debt balance, excluding its lease liabilities, continues to reflect a net positive cash position of \$443.9 million.

## 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, 2021, unrestricted liquidity was \$657.3 million comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

### Consolidated Cash Flow Movements

The following table provides a summarized statement of cash flows for the three and nine months ended September 30, 2021 and September 30, 2020:

For the	Three months ended			Nine months ended		
	September 30, 2021	September 30, 2020	\$ Increase (Decrease)	September 30, 2021	September 30, 2020	\$ Increase (Decrease)
(C\$ in millions)						
Cash provided by operating activities before changes						
in operating working capital items	112.1	78.4	33.7	267.0	196.7	70.3
Changes in operating working capital items	112.1	145.8	(33.7)	(46.2)	242.7	(288.9)
Cash provided by operating activities	224.2	224.2	-	220.9	439.5	(218.6)
Cash used in investing activities	(13.0)	(2.2)	(10.8)	(23.4)	(33.2)	9.8
Cash used in financing activities	(66.5)	(65.8)	(0.7)	(179.1)	(145.6)	(33.5)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>144.6</b>	<b>156.3</b>	<b>(11.7)</b>	<b>18.3</b>	<b>260.6</b>	<b>(242.3)</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, 2021, cash provided by operating activities was \$224.2 million, this is consistent with the prior year's quarter.

For the nine months ended September 30, 2021, cash provided by operating activities decreased by \$218.6 million compared to the prior year nine months ended. This movement is primarily driven by a decrease in customer deposits of \$170.8 million and an increase in inventories of \$81.9 million. This is offset by an increase in net income before income tax of \$61.4 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, 2021, cash used in investing activities increased by \$10.8 million compared to the prior year's quarter. This change is driven by a decrease in the proceeds received on the sale of debt and equity instruments of \$12.1 million. This is offset by a decrease in the purchase of property, plant and equipment of \$1.3 million.

For the nine months ended September 30, 2021, cash used in investing activities decreased by \$9.8 million compared to the prior year nine months ended. This change is driven by a decrease in the purchase of property, plant and equipment of \$23.6 million. This is offset by a decrease in the proceeds received on the sale of debt and equity instruments of \$6.4 million as well as an increase in the purchase of debt and equity instruments of \$7.8 million.

### 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, 2021, cash used in financing activities increased by \$0.7 million compared to the prior year's quarter. The movement is driven by an increase in the repurchase of common shares of \$7.4 million as well as an increase in dividends paid of \$2.8 million. This is offset by an increase in the repayment of employee loans of \$9.5 million.

For the nine months ended September 30, 2021, cash used in financing activities increased by \$33.5 million compared to the prior year nine months ended. The movement is primarily driven by an increase in the repurchase of common shares of \$19.9 million as well as an increase in dividends paid of \$27.8 million. This is offset by an increase in the repayment of employee loans of \$9.7 million as well as a decrease in the repayment of the term loan of \$5 million.

## Adequacy of Financial Resources

At September 30, 2021, the Company's current assets exceeded its current liabilities by \$58.9 million and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$534.4 million compared to \$493.3 million at December 31, 2020. Under the Company's Senior Secured Credit Agreement, the Company had unused borrowing capacity of \$126.7 million as at September 30, 2021 as compared to the \$174 million in unused borrowing capacity as at December 31, 2020. Most of this reduction in borrowing capacity is due to the Company needing to post collateral to backstop the accrued provisional tariffs payable to the CBSA as of May 5, 2021. Due to the significant reduction in these provisional tariffs that was announced on August 3, 2021, the Company envisage that the majority of this collateral will no longer be required, and the unused borrowing capacity will be restored pending final confirmation from CBSA. 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, 2021

(C\$ in millions)	Payments Due by Period						
	Total	2021	2022	2023	2024	2025	2026 & Beyond
<b>Contractual obligations</b>							
Loans and borrowings	91.2	0.3	90.9	-	-	-	-
Lease liability	450.1	62.5	71.5	69.2	67.3	66.8	112.8
<b>Total contractual obligations</b>	<b>541.3</b>	<b>62.8</b>	<b>162.4</b>	<b>69.2</b>	<b>67.3</b>	<b>66.8</b>	<b>112.8</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.

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 304 store locations across Canada.

## 9. Outstanding Common Shares

At September 30, 2021, there were 77,026,642 common shares issued and outstanding. During the nine-month period ended September 30, 2021, 184,225 series 2009 shares, 35,593 series 2012 shares, 354,595 series 2013 shares, 199,704 series 2014 shares and 205,905 series 2015 shares were 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.

During the nine-month period ended September 30, 2021, and excluding the common shares repurchased under the automatic share purchase plan ("ASPP"), the Company repurchased 2,247,410 shares of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of \$50.8 million. As at September 30, 2021, the Company has cancelled 2,146,210 of these repurchased shares and the remaining amount of 98,100 shares were held as Treasury shares, which have a value of \$2.3 million and were subsequently cancelled in October 2021.

On September 30, 2020, the Company announced that it had entered into an ASPP with the Company's broker in order to facilitate the repurchase of its Common Shares under the NCIB during self-imposed blackout periods. During the nine-month period ended September 30, 2021, the Company repurchased and cancelled 480,730 common shares under the ASPP for a total cost of \$10.4 million.

During the nine-month period ended September 30, 2021, convertible debentures with a stated value of \$0.4 million were converted to 29,342 common shares, at the holder's option.

## 10. Related Party Assumptions

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For the nine months ended September 30, 2021, there were 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.

**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****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 this standard will have on its financial statements.

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

In January 2020, the 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 their 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.

***Amendments to IFRS 9, Financial Instruments ("IFRS 9")***

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is still assessing the impact of adopting these amendments on its financial statements.

**Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")**

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

**Amendments to IAS 1 and IFRS Practice Statement 2**

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. 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 23, 2021, which provides information on the risk factors facing the Company. The February 23, 2021 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 and 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 and 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 and 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, 2021.

**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, 2021, 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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(C\$ in millions except per share amounts)				
<b>Net income</b>	<b>63.8</b>	49.1	<b>150.7</b>	110.0
After-tax mark-to-market (gain)/loss on financial derivative	(3.2)	0.2	(2.2)	0.4
<b>Adjusted net income</b>	<b>60.6</b>	49.3	<b>148.5</b>	110.4
Basic earnings per share	\$0.83	\$0.62	\$1.93	\$1.37
Diluted earnings per share	\$0.81	\$0.60	\$1.89	\$1.33
Adjusted basic earnings per share	\$0.79	\$0.62	\$1.91	\$1.38
Adjusted diluted earnings per share	\$0.77	\$0.61	\$1.87	\$1.34

### 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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(C\$ in millions)				
<b>Net income</b>	<b>63.8</b>	49.1	<b>150.7</b>	110.0
Income tax expense	22.0	14.5	51.3	30.6
Net finance costs	4.1	4.3	12.0	13.9
Depreciation and amortization	27.9	27.8	84.3	83.2
Mark-to-market (gain)/loss on financial derivative instruments	(4.3)	0.3	(2.9)	0.5
<b>Adjusted EBITDA</b>	<b>113.5</b>	96.0	<b>295.4</b>	238.2

### **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.