

LFL, Canada's Largest Home Retailer, Releases Best Ever Second Quarter Results

TORONTO, Aug. 10, 2022 /CNW/ - Leon's Furniture Limited ("LFL" or the "Company") (TSX: LNF), today announced financial results for three months ended June 30, 2022.

Financial Highlights – Q2-2022

- Total system sales achieved in the quarter was a record \$784.6 million, compared to \$714.4 million in Q2-2021.
- Revenue increased 9.9% to a record \$647.0 million in Q2-2022 in comparison to quarterly revenue of \$588.5 million in Q2-2021.
- Same store sales⁽¹⁾ increased 10.0% to \$631.8 million, in comparison to Q2-2021.
- Ecommerce sales in Q2-2022 were 12% of revenue.
- Net income in the quarter totaled \$50.1 million, an increase of 8.9% in comparison to Q2-2021.
- Adjusted diluted earnings per share⁽¹⁾ increased by 20.7% to \$0.70 in Q2-2022 from \$0.58 in Q2-2021.

(1) For a full explanation of the Company's use of non-IFRS and supplementary financial measures, please refer to the sections of this press release with the headings "Non-IFRS Financial Measures" and "Supplementary Financial Measures".

Mike Walsh, President and CEO commented, "We are very pleased with our team's performance during Q2. Their combination of dedication and hard work enabled LFL to produce the best second quarter results in the Company's history, with strong growth over Q2 2021, which was itself a record quarter. Our strategic approach to generating sales, while prudently managing costs, resulted in sales growth of 10%, without any significant impact on our gross margin, which I consider proof of LFL's ability to execute, even in an inflationary environment. As a result of these efforts, along with a culture of cost control, efficiency and the Company's \$200 million substantial issuer bid that closed earlier this year, adjusted diluted EPS grew by 20.7%."

Mr. Walsh continued, "As we look forward, inflationary pressures remain in focus. From a cost perspective, the Company's scale and coast-to-coast integration put several levers at management's disposal to mitigate the impact, as can be seen in our Q2 results. Our decision to actively manage the daily flow of inventory, beginning in Q4 of last year, in order to preserve gross margins while maintaining sales momentum, was the right one, and freight costs are just beginning to abate in the third quarter. From a consumer standpoint, LFL's selection of banners, broad assortment, convenient bricks and mortar locations and omnichannel offerings are focused on providing customers value every day. While the current environment will continue to present challenges for all retailers, over LFL's 100+ year history, the Company has proven its ability to gain market share even in challenging environments, while producing financial results and returning capital to shareholders."

Summary financial highlights for the three months ended June 30, 2022 and June 30, 2021

For the	Three months ended				
	(C\$ in millions except %, share and per share amounts)		June 30, 2022	June 30, 2021	\$ Increase (Decrease)
Total system-wide sales ⁽¹⁾		784.6	714.4	70.2	9.8 %
Franchise sales ⁽¹⁾		137.6	125.9	11.7	9.3 %
Revenue		647.0	588.5	58.5	9.9 %
Cost of sales		363.5	328.9	34.6	10.5 %
Gross profit		283.5	259.6	23.9	9.2 %
Gross profit margin as a percentage of revenue		43.82 %	44.11 %		

Selling, general and administrative expenses ⁽²⁾	215.2	192.9	22.3	11.6 %
SG&A as a percentage of revenue	33.26 %	32.78 %		
Income before net finance costs and income tax expense	68.4	66.7	1.7	2.5 %
Net finance costs	(5.2)	(4.1)	1.1	26.8 %
Income before income taxes	63.2	62.6	0.6	1.0 %
Income tax expense	15.6	16.0	(0.4)	(2.5 %)
Adjusted net income ⁽¹⁾	47.5	46.6	0.9	1.9 %
Adjusted net income as a percentage of revenue ⁽¹⁾	7.34 %	7.92 %		
After-tax mark-to-market (gain)/loss on financial derivative instruments ⁽¹⁾	(2.6)	0.6	(3.2)	(533.3 %)
Net income	50.1	46.0	4.1	8.9 %
Basic weighted average number of common shares	67,223,964	78,132,709		
Basic earnings per share	\$0.75	\$0.59	\$0.16	27.1 %
Adjusted basic earnings per share ⁽¹⁾	\$0.71	\$0.60	\$0.11	18.3 %
Diluted weighted average number of common shares	68,037,315	79,890,784		
Diluted earnings per share	\$0.74	\$0.58	\$0.16	27.6 %
Adjusted diluted earnings per share ⁽¹⁾	\$0.70	\$0.58	\$0.12	20.7 %
Common share dividends declared	\$0.16	\$0.16	-	-

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

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

Same Store Sales ⁽¹⁾

For the (C\$ in millions, except %)	Three months ended			
	June 30, 2022	June 30, 2021	\$ Increase	% Increase
Same store sales ⁽¹⁾	631.8	574.2	57.6	10.0 %

(1) Refer to the supplementary financial measures section for additional information.

Revenue

For the three months ended June 30, 2022, revenue was \$647.0 million compared to \$588.5 million in the second quarter of 2021. Revenue increased \$58.5 million or 9.9% as compared to the prior year's quarter. The increase was driven by a strong performance in all key product categories, with mattress sales being up significantly in the quarter. Furthermore, the Company is continuing to show increases across all product categories for the three months ended June 30, 2022, when compared to pre-pandemic results. Comparing to the pre-pandemic quarter ended June 30, 2019, revenue has increased \$86.1 million or 15.4%.

Same Store Sales ⁽¹⁾

The Company achieved a 10.0% increase in same store sales in the quarter compared to the second quarter of 2021.

Gross Profit

The gross profit margin for the second quarter of 2022 was 43.82% compared to 44.11% for the second quarter of 2021, a decrease of 29 basis points. The current quarter compares favourably to the Company's historical results before the COVID pandemic began in early 2020. When comparing the Company's pre-pandemic gross profit margin, it increased 29 basis points as compared to the same quarter in 2019. This is primarily due to the Company's tight controls in relation to product costs and mitigating higher than normal freight costs by actively managing the flow of inventory. Notwithstanding these active measures to preserve our gross profit margins, we continued to see prolonged increases in freight costs due to the ongoing global 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 second quarter of 2021 was 32.78% compared to 33.26% for the second quarter of 2022, an increase of 48 basis points over the second quarter of 2021. The Company's SG&A as a percentage of revenue for the current quarter increased due to broad based inflation and increased sales and marketing costs, notwithstanding approximately half of the Company's retail store locations being temporarily closed in the second quarter of 2021.

Adjusted Net Income ⁽²⁾ and Adjusted Diluted Earnings Per Share ⁽²⁾

Adjusted net income for the quarter totaled \$47.5 million, an increase of \$0.9 million or 1.9% over the prior year's quarter.

The adjusted diluted earnings per share in the second quarter of 2021 was \$0.58 per share compared to \$0.70 per share in the current quarter, an increase of \$0.12 per share or 20.7%.

Net Income and Diluted Earnings Per Share

Net income for the second quarter of 2022 was \$50.1 million, or \$0.74 per diluted earnings per share as compared to \$0.58 per diluted earnings per share recorded in the prior year's quarter, an increase of \$0.16 per share or 27.6% (net income of \$46.0 million in the second quarter of 2021).

(1) Refer to the supplementary financial measures section for additional information.

(2) Refer to the non-IFRS financial measures section for additional information.

Dividends

As previously announced, the Company paid a quarterly dividend of \$0.16 per common share on 8th day of July 2022. Today the Directors have declared a quarterly dividend of \$0.16 per common share payable on the 7th day of October 2022 to shareholders of record at the close of business on the 7th day of September 2022. As of 2007, dividends paid by Leon's Furniture Limited are "eligible dividends" pursuant to the changes to the Income Tax Act under Bill C-28, Canada.

Outlook

On a long-term basis, we 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 306 store locations across Canada.

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 Net Income

The Company 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.

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 the Company'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 (C\$ in millions)	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income	50.1	46.0	74.9	86.9
Income tax expense	16.5	15.7	23.6	29.3
Net finance costs	5.2	4.1	9.7	8.0
Depreciation and amortization	27.6	28.1	55.4	56.4
Mark-to-market (gain)/loss on financial derivative instruments	(3.5)	0.9	(2.1)	1.3
Adjusted EBITDA	95.9	94.8	161.5	181.9

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.

Supplementary Financial Measures

The Company uses supplementary financial measures to disclose financial measures that are not (a) presented in the financial statements and (b) is, or is intended to be, disclosed periodically to depict the historical or expected future financial performance, financial position or cash flow, that is not a non-IFRS financial measure as detailed above.

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 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.

About Leon's Furniture Limited

Leon's Furniture Limited is the largest retailer of furniture, appliances and electronics in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet; and The Brick Mattress Store. Finally, with The Brick's Midnorthern Appliance banner alongside with Leon's Appliance Canada banner, this makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. The Company has 306 retail stores from coast to coast in Canada under various banners. The Company operates five websites: leons.ca, thebrick.com, furniture.ca, midnorthern.com and appliancecanada.com.

Cautionary Statement

This press release may contain forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to vary materially from targeted results. Such risks and uncertainties include those described in Leon's Furniture Limited's periodic reports including the annual report or in the filings made by Leon's Furniture Limited from time to time with securities regulatory authorities.

This News Release may include certain "forward-looking statements" which are not comprised of historical facts. Forward-looking statements include estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties. Although these statements are based on information currently available to the Company, the Company provides no assurance that actual results will meet management's expectations. Risks, uncertainties and other factors involved with forward-looking information could cause actual events, results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information. Forward looking information in this news release includes, but is not limited to, the Company's objectives, goals or future plans, and estimates of market conditions. Factors that could cause actual results to differ materially from such forward-looking information include, but are not limited to failure to identify beneficial business opportunities, failure to convert the potential in the pursued business opportunities to tangible benefits to the Company or its shareholders, the ability of the Company to counteract the potential impact of the COVID-19

coronavirus on factors relevant to the Company's business, delays in obtaining or failures to obtain required shareholder and TSX approvals, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects, and those risks set out in the Company's public documents filed on SEDAR. Although the Company believes that the assumptions and factors used in preparing the forward-looking information in this news release are reasonable, undue reliance should not be placed on such information, which only applies as of the date of this news release, and no assurance can be given that such events will occur in the disclosed time frames or at all. The Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, other than as required by law.

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