

LFL, Canada's Largest Home Retailer, Releases Financial Results for the First Quarter Ended March 31, 2022

TORONTO, May 12, 2022 /CNW/ - Leon's Furniture Limited ("**LFL**" or the "**Company**") (TSX: LNF), today announced financial results for the three months ended March 31, 2022.

Financial Highlights – three months ended March 31, 2022

- Total system sales achieved in the quarter was \$662.9 million, compared to \$697.1 million in Q1-2021 and \$598.1 million in Q1-2020.
- Revenue of \$547.2 million in comparison to quarterly revenue of \$571.1 million in Q1-2021 and \$497.6 million in Q1-2020.
- The current quarter compares favorably to the Company's historical results before the COVID pandemic began in the early part of the 2020 fiscal year.
- Same store sales⁽¹⁾ of \$532.9 million, a decrease of 4.5%.
- Net income in the quarter totaled \$24.8 million, a decrease of 39.4% in comparison to Q1-2021.
- Adjusted diluted earnings per share⁽¹⁾ decreased by 25.5% to \$0.38 in Q1-2022 from \$0.51 in Q1-2021.
- Amended the Company's total credit facilities to \$350 million and extended the maturity to May 31, 2024.
- Repurchased and subsequently cancelled approximately \$240 million of the Company's common shares, which included the previously announced \$200 million substantial issuer bid.

⁽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 of LFL commented, "I am pleased with our current team's performance during Q1, against a very strong comparable period from last year. During the quarter, we generated total system-wide sales of \$663 million, while effectively managing our gross margin and maintaining strict cost discipline. We continued to actively manage inventory flow during the quarter to minimize the impact of higher freight costs that are affecting all retailers in the current environment. As a result of these efforts, our team generated \$0.38 in adjusted diluted earnings per share, as compared to a record \$0.51 from the Q1 2021 results, when the bottom line grew by more than 200% compared to the prior year period."

Mr. Walsh continued, "Supply chain and consumer inflationary pressures are likely to persist through 2022, and we expect the retail landscape to remain challenging as a result. Today, the Company is better positioned than ever to continue gaining share in a fragmented sector where smaller players are likely to feel a disproportionate amount of the current market pressures. LFL's national omnichannel retail and distribution platform provides an enduring competitive advantage. The Company has the ability to source product in bulk and manage inventory flow. The preferred retail financing arrangement will ensure we are able to offer our best rates to customers. This is a business with tremendous earning power, backed by a rock-solid balance sheet and 4.8 million square feet of owned real estate. LFL has a long history of generating profitability for its shareholders and I look forward to continuing to update our shareholders as the year progresses."

Summary of Consolidated Results

For the	Three months ended			
(C\$ in millions except %, share and per share amounts)	March 31, 2022	March 31, 2021	\$ Increase (Decrease)	% Increase (Decrease)

Total system-wide sales ⁽¹⁾	662.9	697.1	(34.2)	(4.9%)
Franchise sales ⁽¹⁾	115.7	126.0	(10.3)	(8.2%)
Revenue	547.2	571.1	(23.9)	(4.2%)
Cost of sales	313.6	321.0	(7.4)	(2.3%)
Gross profit	233.7	250.1	(16.4)	(6.6%)
Gross profit margin as a percentage of revenue	42.71%	43.79%		
Selling, general and administrative expenses ⁽²⁾	196.0	191.2	4.8	2.5%
SG&A as a percentage of revenue	35.82%	33.48%		
Income before net finance costs and income tax expense	37.7	58.9	(21.2)	(36.0%)
Net finance costs	(4.5)	(3.9)	0.6	15.4%
Income before income taxes	33.2	54.9	(21.7)	(39.5%)
Income tax expense	7.4	13.7	(6.3)	(46.0%)
Adjusted net income ⁽¹⁾	25.8	41.2	(15.4)	(37.4%)
Adjusted net income as a percentage of revenue ⁽¹⁾	4.71%	7.21%		
After-tax mark-to-market loss on financial derivative instruments ⁽¹⁾	1.0	0.4	0.6	150.0%
Net income	24.8	40.9	(16.1)	(39.4%)
Basic weighted average number of common shares	67,759,043	78,537,931		
Basic earnings per share	\$0.37	\$0.52	\$(0.15)	(28.8%)
Adjusted basic earnings per share ⁽¹⁾	\$0.38	\$0.52	\$(0.14)	(26.9%)
Diluted weighted average number of common shares	68,576,755	80,343,168		
Diluted earnings per share	\$0.36	\$0.51	\$(0.15)	(29.4%)
Adjusted diluted earnings per share ⁽¹⁾	\$0.38	\$0.51	\$(0.13)	(25.5%)
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	Three months ended			
(C\$ in millions, except %)	March 31, 2022	March 31, 2021	\$ Decrease	% Decrease
Same store sales ⁽¹⁾	532.9	558.3	(25.4)	(4.5%)

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

Revenue

For the three months ended March 31, 2022, revenue was \$547.2 million compared to \$571.1 million in the first quarter 2021. Revenue decreased \$23.9 million or 4.2% comparing to the prior year quarter. The decrease was driven by a reduction in furniture sales which was partly offset by increases in all other product categories, with delivered mattress sales being up significantly in the quarter. Despite the prior year's quarter being a record for the Company in terms of revenue, the current quarter compares favorably to the Company's historical results before the COVID pandemic began in the early part of the 2020 fiscal year. The Company is continuing to show increases across all categories for the three months ended March 31, 2022, when comparing to the revenue achieved in the first quarter of 2020 and the first quarter of 2019. When comparing to these periods, revenue has increased 10.2% and 8.9%, respectively.

Same Store Sales ⁽¹⁾

Despite the high amount of customer deposits the Company currently holds as deferred revenue, the Company still experienced a 4.5% decrease in same store sales in the quarter compared to the first quarter 2021. Comparing to the first quarter 2020, as reported, the current quarter same store sales have therefore increased 11.9% over this period of time.

Gross Profit

The gross profit margin for the first quarter 2022 was 42.71% compared to 43.79% for the first quarter 2021, a decrease of 108 basis points. This was primarily driven by a less than optimal product mix due to the reduced furniture sales in the quarter as described in the revenue section above, as well as very strong demand in the Company's wholesale appliance business. Additionally, we continued to see further increases in costs that affected the Company's cost of sales, more specifically as it related to the ongoing global pandemic-related disruptions of the global supply chain and the associated increases in both overseas and domestic freight costs.

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

The Company's SG&A as a percentage of revenue for the first quarter 2021 was 33.48% compared to 35.82% for the first quarter 2022, an increase of 234 basis points over the first quarter 2021. The Company's SG&A as a percentage of revenue for the current quarter increased primarily due to slightly higher sales and marketing costs, as well as a reduction in operating leverage due to same store sales being down in the quarter as compared to the prior year's quarter.

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

Adjusted net income for the quarter totaled \$25.8 million, a decrease of \$15.4 million or 37.4% over the prior year's quarter. In comparison to the first quarter of 2020, adjusted net income increased significantly by \$11.9 million, or 85.6%.

The adjusted diluted earnings per share in the first quarter 2021 was \$0.51 per share compared to \$0.38 per share in the current quarter, a decrease of \$0.13 per share or 25.5%. Adjusted diluted earnings per share increased from \$0.16 in the first quarter of 2020 to \$0.38 in the first quarter of 2022, representing an increase of 137.5%.

Net Income and Diluted Earnings Per Share

Net income for the first quarter 2022 was \$24.8 million, or \$0.36 per diluted earnings per share as compared to the \$0.51 per diluted earnings per share recorded in the prior year's quarter, a decrease of \$0.15 per share or 29.4% (net income \$40.9 million in first quarter 2021). In comparison to the first quarter of 2020, net income significantly increased by 81.0%, or \$11.1 million.

(1) Refer to the supplementary 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 April 2022. Today the Directors have declared a quarterly dividend of \$0.16 per common share payable on the 8th day of July 2022 to shareholders of record at the close of business on the 8th day of June 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

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. 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, despite the central bank's decision to continue to raise interest rates to temper inflation, 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 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 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.

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 (C\$ in millions)	Three months ended	
	March 31, 2022	March 31, 2021
Net income	24.8	40.9
Income tax expense	7.1	13.6
Net finance costs	4.5	3.9
Depreciation and amortization	27.8	28.3
Mark-to-market loss on financial derivative instruments	1.4	0.5
Adjusted EBITDA	65.6	87.2

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.

Free Cash Flow

Free cash flow is calculated as net cash flows from operating activities less additions to property, plant and equipment. The Company uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash the Company can generate from operations and after capital expenditures. Free cash flow is a non-IFRS financial measure used by the Company. The Company believes free cash flow is useful in assessing the Company's cash available for additional financing and investing activities.

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 three websites: leons.ca, thebrick.com and furniture.ca.

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.

SOURCE Leon's Furniture Limited

View original content: <http://www.newswire.ca/en/releases/archive/May2022/12/c5635.html>

%SEDAR: 00001116E

For further information: Constantine Pefanis, Chief Financial Officer, Leon's Furniture Limited, Tel: (416) 243-4073, lflgroup.ca; Jonathan Ross, LodeRock Advisors, Leon's Investor Relations, jon.ross@loderockadvisors.com, Tel: (416) 283-0178

CO: Leon's Furniture Limited

CNW 13:31e 12-MAY-22