



LEON'S FURNITURE LIMITED

**Management's Discussion and Analysis**

For the period ended September 30, 2024

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## 1. Preface

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The following Management's Discussion and Analysis ("MD&A") is prepared as at Thursday, November 7, 2024 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, 2024 and for the three and nine months ended September 30, 2024 and 2023. It should be read in conjunction with the fiscal year 2023 consolidated financial statements and the notes thereto. These are available along with additional company information and corresponding MD&A's 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 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 Thursday, November 7, 2024.

## 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 six ecommerce sites: leons.ca, thebrick.com, furniture.ca, midnorthern.com, transglobalservices.com and applicancecanada.com.

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.

### 3. Results of Operations

#### Summary financial highlights for the three months ended September 30, 2024 and September 30, 2023

For the	Three months ended			
	September 30, 2024	September 30, 2023	\$ Increase (Decrease)	% Increase (Decrease)
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales <sup>(1)</sup>	779.9	791.7	(11.8)	(1.5%)
Franchise sales <sup>(1)</sup>	128.0	130.7	(2.7)	(2.1%)
Revenue	651.9	661.0	(9.1)	(1.4%)
Cost of sales	366.4	369.9	(3.5)	(0.9%)
Gross profit	285.5	291.1	(5.6)	(1.9%)
Gross profit margin as a percentage of revenue	43.80%	44.04%		
Selling, general and administrative expenses <sup>(2)</sup>	232.4	237.7	(5.3)	(2.2%)
SG&A as a percentage of revenue	35.65%	35.96%		
Other income	-	(20.0)	20.0	(100.0%)
Income before net finance costs and income tax expense	53.2	73.4	(20.2)	(27.5%)
Net finance costs	(3.8)	(4.9)	(1.1)	(22.4%)
Income before income taxes	49.4	68.5	(19.1)	(27.9%)
Income tax expense	12.2	16.8	(4.6)	(27.4%)
Adjusted net income <sup>(1)</sup>	37.2	51.7	(14.5)	(28.0%)
Adjusted net income as a percentage of revenue <sup>(1)</sup>	5.71%	7.82%		
After-tax mark-to-market loss (gain) on financial derivative instruments <sup>(1)</sup>	0.3	(0.6)	0.9	(150.0%)
<b>Net income</b>	<b>36.9</b>	<b>52.3</b>	<b>(15.4)</b>	<b>(29.4%)</b>
Basic weighted average number of common shares	68,182,137	68,000,714		
Basic earnings per share	\$0.54	\$0.77	\$(0.23)	(29.9%)
Adjusted basic earnings per share <sup>(1)</sup>	\$0.55	\$0.76	\$(0.21)	(27.6%)
Diluted weighted average number of common shares	68,646,871	68,642,290		
Diluted earnings per share	\$0.54	\$0.76	\$(0.22)	(28.9%)
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.54	\$0.75	\$(0.21)	(28.0%)
Common share dividends declared	\$0.20	\$0.16	\$0.04	25.0%

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

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

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

For the	Three months ended			
	September 30, 2024	September 30, 2023	\$ Decrease	% Decrease
(C\$ in millions, except %)				
Same store sales <sup>(1)</sup>	638.2	647.1	(8.9)	(1.4%)

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

## Revenue

For the three months ended September 30, 2024, revenue was \$651.9 million compared to \$661.0 million in the third quarter of 2023 a decrease of \$9.1 million or 1.4%. The decline was primarily driven by the furniture category where inventory levels were lower than planned largely due to the geo-political disruption in ocean freight supply chains which led to increased shipping rates and constrained container supply. In addition, the retail operating environment continues to be challenging as consumers remain cautious about their discretionary spending.

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

Same store sales in the quarter decreased by 1.4% compared to the prior year's third quarter driven by factors discussed in the revenue section.

## Gross Profit

The gross profit margin for the third quarter of 2024 was at 43.80% compared to 44.04% for the third quarter 2023 due to a higher mix in the lower margin commercial business.

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

The Company's SG&A as a percentage of revenue for the third quarter of 2024 was 35.65%, a decrease of 31 basis points over the third quarter 2023. The improvement was driven by a reduction in delivery expenses, lower amortization expense and cost control around other discretionary line items.

## Adjusted Net Income <sup>(2)</sup> and Adjusted Diluted Earnings Per Share <sup>(2)</sup>

Adjusted net income for the quarter totaled \$37.2 million, which represents a decrease of \$14.5 million over the prior year's quarter. The decrease is due to a gain on settlement of warrant recognized in the prior year. The adjusted diluted earnings per share in the third quarter of 2024 was \$0.54 per share, a decrease of 28.0% over the prior year's quarter.

Adjusted net income for the quarter when presented on a like-for-like basis, excluding the one-time gain on settlement of the CURO warrant in the prior year's quarter, would have been up \$0.7 million or 1.9%. The adjusted diluted earnings per share would have been up \$0.01 per share or 1.9%.

## Net Income and Diluted Earnings Per Share

Net income for the third quarter of 2024 was \$36.9 million, or \$0.54 per diluted earnings per share as compared to \$0.76 per diluted earnings per share recorded in the prior year's quarter, a decrease of \$0.22 per share or 28.9% (net income of \$52.3 million in the third quarter of 2023).

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

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

**Summary financial highlights for the nine months ended September 30, 2024 and September 30, 2023**

For the	Nine months ended			
	2024	2023	\$ Increase (Decrease)	% Increase (Decrease)
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales <sup>(1)</sup>	2,199.7	2,134.6	65.1	3.1%
Franchise sales <sup>(1)</sup>	367.8	366.8	1.0	0.3%
Revenue	1,831.9	1,767.8	64.1	3.6%
Cost of sales	1,028.4	993.4	35.0	3.5%
Gross profit	803.5	774.5	29.0	3.7%
Gross profit margin as a percentage of revenue	43.86%	43.81%		
Selling, general and administrative expenses <sup>(2)</sup>	681.5	658.1	23.4	3.6%
SG&A as a percentage of revenue	37.20%	37.23%		
Other income	-	(20.0)	20.0	(100.0%)
Income before net finance costs and income tax expense	121.9	136.4	(14.5)	(10.6%)
Net finance costs	(11.5)	(15.3)	(3.8)	(24.8%)
Income before income taxes	110.4	121.1	(10.7)	(8.8%)
Income tax expense	26.9	28.5	(1.6)	(5.6%)
Adjusted net income <sup>(1)</sup>	83.5	92.6	(9.1)	(9.8%)
Adjusted net income as a percentage of revenue <sup>(1)</sup>	4.56%	5.24%		
After-tax mark-to-market gain on financial derivative instruments <sup>(1)</sup>	(2.3)	(0.1)	(2.2)	2200.0%
<b>Net income</b>	<b>85.8</b>	<b>92.6</b>	<b>(6.8)</b>	<b>(7.3%)</b>
Basic weighted average number of common shares	68,126,175	67,915,967		
Basic earnings per share	\$1.26	\$1.36	\$(0.10)	(7.4%)
Adjusted basic earnings per share <sup>(1)</sup>	\$1.23	\$1.36	\$(0.13)	(9.6%)
Diluted weighted average number of common shares	68,646,525	68,633,107		
Diluted earnings per share	\$1.25	\$1.35	\$(0.10)	(7.4%)
Adjusted diluted earnings per share <sup>(1)</sup>	\$1.22	\$1.35	\$(0.13)	(9.6%)
Common share dividends declared	\$0.56	\$0.48	\$0.08	16.7%

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

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

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

For the	Nine months ended			
	September 30, 2024	September 30, 2023	\$ Increase	% Increase
(C\$ in millions, except %)				
Same store sales <sup>(1)</sup>	1,784.7	1,727.3	57.4	3.3%

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

## Revenue

For the nine months ended September 30, 2024, revenue was \$1,831.9 million compared to \$1,767.8 million in the prior year 2023. Revenue increased by \$64.1 million or 3.6% as compared to the prior year. The increase in revenue can be attributed to robust sales in both the furniture and appliance categories in the first nine months of the year.

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

Same store sales in the nine months ended September 30, 2024, increased by 3.3% compared to the nine months ended September 30, 2023 driven by factors discussed in the revenue section.

## Gross Profit

The gross profit margin increased by 5 basis points to 43.86% compared to the nine months ended September 30, 2023. This increase in gross margin percentage during the quarter was due to strong furniture margin offset by a higher commercial mix for the first nine months of the year.

## Selling, General and Administrative Expenses

The Company's SG&A as a percentage of revenue for the nine months ended September 30, 2023, was 37.23% compared to 37.20% for the nine months ended September 30, 2024. The Company was able to offset increased point-of-sale retail financing fees, minimum wage impacts and other inflationary cost increases to keep the SG&A rate stable.

## Adjusted Net Income <sup>(2)</sup> and Adjusted Diluted Earnings Per Share <sup>(2)</sup>

Adjusted net income in the nine months ended September 30, 2024, totaled \$83.5 million, which represents a decrease of \$9.1 million over the prior year. Adjusted diluted earnings per share in the current year was \$1.22 per share, a decrease of 9.6% over the prior year.

Adjusted net income for the year when presented on a like-for-like basis, excluding the one-time gain on settlement of the CURO warrant in the prior year, would have been up \$6.0 million or 7.8%. The adjusted diluted earnings per share would have been up \$0.09 per share or 8.0%.

## Net Income and Diluted Earnings Per Share

Net income for the nine months ended September 30, 2024, was \$85.8 million, \$1.25 per diluted earnings per share compared to net income of \$92.6 million and \$1.35 per diluted earnings per share in 2023.

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

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

## 4. Store Network

The Company has 299 retail stores in Canada at September 30, 2024. The following table illustrates the Company's store count continuity from December 31, 2023 to September 30, 2024 by retail banner:

Banner	Number of stores as at December 31, 2023	Opened	Closed	Number of stores as at September 30, 2024
<b>Corporate Stores</b>				
Leon's	52	-	-	52
Appliance Canada	5	-	-	5
The Brick <sup>(1)</sup>	118	-	-	118
The Brick Mattress Store	21	-	(1)	20
Brick Outlet	6	-	-	6
Corporate Subtotal	202	-	(1)	201
<b>Franchise Stores</b>				
Leon's	35	1	(3)	33
The Brick	66	-	(1)	65
Franchise Subtotal	101	1	(4)	98
<b>Total Corporate &amp; Franchise Stores</b>	<b>303</b>	<b>1</b>	<b>(5)</b>	<b>299</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)	2024	2023	2024	2023	2024	2023	2023	2022
Total system-wide sales <sup>(1)</sup>	779.9	791.7	742.1	717.6	677.7	625.6	836.5	804.4
Franchise sales <sup>(1)</sup>	128.0	130.7	124.4	123.8	115.4	112.6	149.6	143.2
Revenue	651.9	661.0	617.7	593.8	562.3	513.0	686.9	661.2
Net income	36.9	52.3	30.2	27.4	18.8	12.9	46.2	43.2
Adjusted net income <sup>(1)</sup>	37.2	51.7	29.9	28.0	16.4	12.9	48.9	44.6
Basic earnings per share	\$0.54	\$0.77	\$0.44	\$0.40	\$0.28	\$0.19	\$0.68	\$0.65
Diluted earnings per share	\$0.54	\$0.76	\$0.44	\$0.40	\$0.27	\$0.19	\$0.68	\$0.65
Adjusted basic earnings per share <sup>(1)</sup>	\$0.55	\$0.76	\$0.44	\$0.41	\$0.24	\$0.19	\$0.72	\$0.67
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.54	\$0.75	\$0.44	\$0.41	\$0.24	\$0.19	\$0.72	\$0.67

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

## 6. Financial Position

As at	September 30, 2024	December 31, 2023	September 30, 2023
(C\$ in millions)			
Total assets	2,231.7	2,221.8	2,231.1
Total non-current liabilities	527.0	571.2	620.0

### Assets

Total assets at September 30, 2024 of \$2,231.7 million were \$9.9 million higher than the \$2,221.8 million reported at December 31, 2023. The movement was primarily driven by increases in cash and cash equivalents.

### Non-Current Liabilities

Non-current liabilities of \$527.0 million were \$44.2 million lower than the \$571.2 million reported at December 31, 2023. This is primarily due to a decrease in long-term portion of lease 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, 2024 and December 31, 2023.

As at	September 30, 2024	December 31, 2023	\$ Change
(C\$ in millions)			
Term debt	90.0	100.0	(10.0)
Less: cash, cash equivalents, debt and equity instruments	249.2	187.1	62.1
<b>Net cash balance <sup>(1)</sup></b>	<b>159.2</b>	<b>87.1</b>	<b>72.1</b>

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

As at September 30, 2024, the Company's total net cash/(debt) balance, excluding its lease liabilities, reflects a net cash position of \$159.2 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, 2024, unrestricted liquidity is \$438.5 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, 2024 and September 30, 2023:

For the (C\$ in millions)	Three months ended		
	September 30, 2024	September 30, 2023	\$ Increase (Decrease)
Cash provided by operating activities	135.4	107.6	27.8
Cash used in investing activities	(10.1)	0.7	(10.8)
Cash used in financing activities	(57.0)	(84.7)	27.7
<b>Increase (decrease) in cash and cash equivalents</b>	<b>68.3</b>	<b>23.5</b>	<b>44.8</b>

  

For the (C\$ in millions)	Nine months ended		
	September 30, 2024	September 30, 2023	\$ Increase (Decrease)
Cash provided by operating activities	211.6	171.2	40.4
Cash used in investing activities	(49.6)	(15.6)	(34.0)
Cash used in financing activities	(119.7)	(182.3)	62.6
<b>Decrease in cash and cash equivalents</b>	<b>42.3</b>	<b>(26.7)</b>	<b>69.0</b>

	Q3 2024	Year-to-Date
<b>Operating Activities</b>	<p><b>↑ \$27.8 million change</b> The increase is primarily driven by changes in working capital related to inventory and other offsetting changes to working capital.</p>	<p><b>↑ \$40.4 million change</b> The increase is primarily driven by changes in working capital related to inventory and other offsetting changes to working capital.</p>
<b>Investing Activities</b>	<p><b>↓ \$10.8 million change</b> The decrease is driven by proceeds on settlement of warrant received in the prior year, offset by the purchase of debt and equity instruments.</p>	<p><b>↓ \$34.0 million change</b> The decrease is primarily driven by increases in purchases of property, plant and equipment and in the prior year the receipt of \$20million on settlement of a CURO warrant.</p>
<b>Financing Activities</b>	<p><b>↑ \$27.7 million change</b> The increase is primarily driven by higher repayments on long term debt in the prior year.</p>	<p><b>↑ \$62.6 million change</b> The increase is primarily driven by higher repayments on long term debt in the prior year.</p>

### Adequacy of Financial Resources

At September 30, 2024, the Company's current assets exceeded its current liabilities by \$235.3 million and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$249.2 million compared to \$187.6 million at December 31, 2023. At September 30, 2024, \$189.3 million is available to draw on under the Company's \$200.0 million revolving credit facility as the borrowing capacity has been reduced by ordinary letters of credit of \$6.9 million and utilizing \$3.8 million of the revolving credit facility. The majority of the letters of credit issued are to post collateral in relation to CBSA tariffs. 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, 2024

(C\$ in millions)

Contractual obligations	Total	Payments Due by Period					
		2024	2025	2026	2027	2028	2029 & Beyond
Long-term debt	97.1	8.7	11.8	76.6	-	-	-
Lease payments	340.6	22.7	64.6	63.6	62.3	59.6	67.8
<b>Total contractual obligations</b>	<b>437.7</b>	<b>31.4</b>	<b>76.4</b>	<b>140.2</b>	<b>62.3</b>	<b>59.6</b>	<b>67.8</b>

On June 28, 2024, the Company completed an amending agreement number two to its existing Senior Secured Credit Agreement ("SSCA"). Please refer to Note 10 of the unaudited interim condensed consolidated financial statements.

## 8. Outlook

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 and to also continuously invest in the business to drive growth initiatives that will drive more customers to both our online eCommerce sites and our 299 store locations across Canada.

## 9. Outstanding Common Shares

At September 30, 2024, there were 68,190,501 common shares issued and outstanding. During the nine-month period ended September 30, 2024, 1,184 series 2012 shares, 69,500 series 2013 shares, 36,389 series 2014 shares and 51,400 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 unaudited interim condensed consolidated financial statements.

## 10. Related Party Transactions

For the nine months ended September 30, 2024, 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

### 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.

### Consolidation and classification of joint arrangements

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's unaudited interim condensed consolidated financial statements (i.e. consolidation, equity investment or proportional share).

The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the 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 debt instruments**

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its debt instruments. The Company's review is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and any past or future events that may influence the recoverability of the debt instruments held.

#### **Impairment of Property, Plant and Equipment and Right-of-Use Assets**

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****Adoption of new accounting standards*****Amendments to IAS 1, Presentation of Financial Statements***

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent 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 and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The adoption of this standard did not have a material impact on the financial statements.

**Accounting standards and amendments issued but not yet adopted*****Amendments to IAS 21, The Effects of Changes in Foreign Exchange Rates***

In August 2023, the IASB issued amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates in relation to Lack of Exchangeability. The amendments require entities to apply a consistent approach in assessing whether a currency can be exchanged into another currency, and in determining the exchange rate to use and the disclosures to provide when it cannot. These amendments are effective for annual reporting periods beginning on or after January 1, 2025, with early adoption permitted. The adoption of this standard will not have a material impact on the financial statements.

***IFRS 18, Presentation and Disclosure in Financial Statements ("IFRS 18")***

The IASB issued IFRS 18 "Presentation and Disclosure in the Financial Statements" ("IFRS 18"), which sets out requirements and guidance on presentation and disclosure in financial statements, including:

- Presentation in income statement of income and expenses within five defined categories: operating, investing, financing, income taxes, and discontinued operations
- Presentation in the income statements of new defined subtotals for operating profit and profit before financing and income taxes
- Enhanced guidance on aggregation and disaggregation of information and whether to provide information in the financial statements or in the notes
- Disclosure of specified expenses by nature
- Disclosure of explanations of management-defined performance measures

IFRS 18 will replace IAS 1 "Presentation of Financial Statements" but carries forward many requirements from IAS 1 without any change. The standard is effective for the annual reporting periods beginning on or after January 1, 2027, with early application permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

***Amendments to IFRS 9 and IFRS 7, Classification and Measurement of Financial Instruments***

In May 2024, the IASB issued amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures, relating to the classification and measurement requirements of financial instruments recognized within those standards. These amendments include, among others:

- Clarify that a financial liability is to be derecognized on the 'settlement date' and introduces an accounting policy to derecognize financial liabilities settled through an electronic payment system before settlement date if certain conditions are met; and

- Require additional disclosures for financial assets and liabilities with contractual terms that reference a contingent event and equity instruments classified at fair value through other comprehensive income.

These amendments will be effective for annual periods beginning on or after January 1, 2026, and will be applied retrospectively with an adjustment to opening retained earnings. Prior periods will not be required to be restated and can only be restated without using hindsight. The Company does not expect any material impacts from these amendments on its interim 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 21, 2024, which provides information on the risk factors facing the Company. The February 21, 2024 AIF can be found online at [www.sedar.com](http://www.sedar.com).

### 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, 2024.

### 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, 2024, 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 and Supplementary Financial Measures

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### 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**

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 market-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, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<i>(C\$ in millions except per share amounts)</i>				
<b>Net income</b>	<b>36.9</b>	52.3	<b>85.8</b>	92.6
After-tax mark-to-market loss (gain) on financial derivative	<b>0.3</b>	(0.6)	<b>(2.3)</b>	(0.1)
<b>Adjusted net income</b>	<b>37.2</b>	51.7	<b>83.5</b>	92.6
Basic earnings per share	<b>\$0.54</b>	\$0.77	<b>\$1.26</b>	\$1.36
Diluted earnings per share	<b>\$0.54</b>	\$0.76	<b>\$1.25</b>	\$1.35
Adjusted basic earnings per share	<b>\$0.55</b>	\$0.76	<b>\$1.23</b>	\$1.36
Adjusted diluted earnings per share	<b>\$0.54</b>	\$0.75	<b>\$1.22</b>	\$1.35

**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	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<i>(C\$ in millions)</i>				
<b>Net income</b>	<b>36.9</b>	52.3	<b>85.8</b>	92.6
Income tax expense	<b>12.1</b>	17.0	<b>27.7</b>	28.5
Net finance costs	<b>3.8</b>	4.9	<b>11.5</b>	15.3
Depreciation and amortization	<b>26.2</b>	27.4	<b>80.1</b>	80.8
Gain on settlement of warrant	-	(20.0)	-	(20.0)
Mark-to-market loss (gain) on financial derivative	<b>0.5</b>	(0.9)	<b>(3.1)</b>	(0.1)
<b>Adjusted EBITDA</b>	<b>79.5</b>	80.7	<b>202.0</b>	197.1

**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 Cash/(Debt)**

Net cash/(debt) is calculated as the principal amount of the term loan less cash, cash equivalents and debt and equity instruments. Net cash/(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.

**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.