FINAL TRANSCRIPT

Leon's Furniture Limited

Presentation at the CIBC Retail Conference

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CORPORATE PARTICIPANTS

Terry Leon
Leon's Furniture Limited — President and Chief Executive Officer

Dominic Scarrangella
Leon's Furniture Limited — Chief Financial Officer and Executive Vice President

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PRESENTATION

Unidentified Speaker

Leon's is a company that actually presented our first retail consumer small cap conference four years ago. And then in late 2012 made a sizeable acquisition, The Brick Furniture Warehouse, and has been, I think, pretty much buried trying to kind of figure out what that asset is, get it running smoothly. It's been, I think, a fairly long-term integration that's gone on there, and I think there must be a light at the end of the tunnel because Leon's has agreed to come back and speak at the conference.

This is a $1 billion market cap company. About a couple of billion in sales, 176-ish in EBITDA, 300 stores. Actually, it was funny. When we were running down the list of companies presenting today, this is actually the lowest multiple company. This is the value company of the entire conference, so that's either good or bad. And actually, if you look at the results, the company maintaining fairly flat same store sales in a tough market has been pretty impressive.

I also note that this week, they're holding friends and family sale, so hopefully at the end of this presentation—well, hopefully, you have friends. I mean, I know you certainly have family. So anyways, with that, I'm going to introduce the President and CEO, Terry Leon.

Terry Leon — President and Chief Executive Officer, Leon's Furniture Limited

Thanks very much. Good morning, everyone. It's a great pleasure to be here this morning, and we'll proceed. As usual, we have to look at the forward-looking statements with all the qualifiers

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in it, and I'm sure you're all aware then, and I think everyone's probably has gone through these in detail.

A little history of the company. Was started by Ablan Leon. It was over 105 years ago, and those are her sons in the middle picture who carried on. And that was our 100th anniversary when the executive team rang the bell on the TSX. And that's a picture of our new home office, which kind of explains our culture. It's very open. You can see the floors from the bottom floor to the top and which has always been kind of an open door policy that we have in our company where everyone tries to do their best with respect to their responsibilities and everyone is treated almost equivalent to family. That's kind of how we've always worked. Anybody can walk into anybody's office at any time. We're proud of that culture. Fairness, integrity, and trust were the bylines of our founder, and we continue to try to carry that on.

I think this is one of the most important slides you're going to see this morning, and it shows you the different divisions. Leon's Furniture Limited really is a holding company that has multiple divisions. There's Leon's, there's The Brick, there's Appliance Canada, United Furniture, Brick Mattress stores, Midnorthern, and Furniture.com. All of these divisions are important, and what has changed in our business is a single-focused operation on just Leon's to a much broader focus on all of these divisions.

And one that should excite everyone the most, and is the one that's probably least known, is Furniture.com. Furniture.com is an Internet furniture company. It's a division. It's up and running

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now, but it really is just an alternative site for product that will be coming from either the Leon's or The Brick. We intend to turn furniture.com into one of the largest web furniture sites in the county, if not the largest. We've hired management teams to start working on that. We're starting to hire buyers, and we hope to launch early next year a whole new marketing plan. It will be a very broad-based product. It will have a lot more home furnishings than we have in our stores. Eventually, we intend to go into the lighting business as well, so we're very, very excited about that opportunity.

Not to downplay Leon's or The Brick or any of the other divisions; we've got management teams for all of those, and we intend to grow them all, but I think what's important to understand here is that Leon's Furniture Limited is a very broadly based organization with multiple divisions, all of which we intend to grow.

In addition to those, what I would call retail divisions, there are other operating divisions, and probably one of the most significant is Trans Global Service. We're one of the largest service companies of appliances and warranty fulfillment in the country. We're growing as fast as we can handle it. In fact, we've kind of slowed the growth down a little bit because we want to make sure that we are going to become relevant to our customers and take care of them in an appropriate way as well as profitable. And so we're very, very excited about this service. You'll hear more about this as time goes on in ensuing years. And again, that is something that we're working very hard on to—not to grow, because it's not hard to grow. There's a lot of opportunity. There's not a lot of people in the area—a lot of competitors in this area. We're getting business oftentimes by default; we just have

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to manage the growth and manage it in a profitable way as well as making sure we take care of all of our customers.

First though, King and State (phon) is a warranty company that sells warranties for our appliances and electronics, and First Oceans is an offshore sourcing company that we own with offices in Shanghai and Vietnam, and that helps us to be able to purchase better, particularly on the promotional side. Again, something to be very excited about, Leon's and Murlee, Leon Holdings and Murlee's are real estate companies. We have a lot of real estate that's undeveloped. You'll hear about management changes a little later in my presentation, but one of the reasons for these changes is so that we can now use alternative management to develop some of this real estate, and this's what we intend to do going forward. And again, we're very excited about that.

And TGI is the Trans Global Insurance Company. We sell insurance through our stores. For the most part it protects consumers in case they lose their jobs when they bought finance, but there are other products as well. So again, you can see, there are many, many aspects to Leon's Furniture Limited, all of which have the potential to add to both our revenue and our bottom line.

Those are some of the investor highlights. I won't spend a lot of time on that. You can see what's there for yourselves. As you know, traditionally, Leon's has been quite successful on the financial side. Before we purchased The Brick, we never had any debt. I mean, for a long time. When we originally built our buildings we had some mortgages, but we got rid of those. It was a very painful

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process to finally accede to the CIBC's request to borrow money from them, which they—took them 100 years to get us to do it, but they finally got us to do it.

It was a good acquisition, we think, in terms of making the purchase for The Brick. The integration is going well. We took a designed slow approach to the integration. Part of the reason for that was that we needed to convert them over to our computer system, and we wanted to do it in a way where we took some of the enhancements they had in their system and used them in ours, and so we've developed those. We've already converted the first region, which is the central region, and we intend to convert the rest of the Company hopefully before the end of the year, but for sure by the end of the first quarter. So that's going well. We've been very pleased with our partner who helps us with these conversions as well who's doing all development work, which is JDA. We've had many years of working with computer providers and software developers, and I have to say, they, to my surprise, even though there were supposed to do this, they've lived up pretty well to what they promised to do. And so we're pretty lucky from that perspective. We've got a good relationship with them, and we're quite confident that this is going to be a very successful conversion and will lead to many more efficiencies down the road.

Our strategic focus is to grow—going forward is to grow our consumer commercial retail business, which I think I hesitated to mention earlier when I was showing you those. We are the largest commercial provider of appliance and electronic appliances in the country. Between Midnorthern and Appliance Canada, we have a significant share of the market and we're very

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successful in those two operations. They have been both doing extremely well, so we're very pleased with that part of our business as well. The segmenting of Leon's and The Brick is just the advertising and marketing strategy that we're using. The Brick will be the promotional house for the most part, which is for the most part where they already are. Maybe a little bit cleaner look, but for the most part a promotional house. And our demographics have moved up a bit. We're going to be a little bit more aspirational in Leon's, which takes a little bit of time. We did a lot of research and came up with a strategy for becoming more aspirational and more lifestyle, and it's not as big a shift for The Brick as it is for Leon's, and we're working through that marketing program now.

And again, to my surprise—I was a bit concerned we would lose some sales based on the fact we weren't promoting as much because there's a combination of the promotions as well as the style magazines and style flyers—and to my great pleasure that hasn't happened yet. We haven't seen big increases, but we do believe that will come. Again, we expected this to be a three- to four-year project where we would reposition Leon's, and that is going well so far. So we're quite pleased with that.

Cost reduction. I'm going to talk about in a couple of minutes, and when you hear that part of my discussion you should all get very excited, and you'll see why. And again, the synergies are continuing and will be exponential once we get the computer system in place.

And of course, the last bullet, and it can't happen fast enough as far as our family is concerned because we don't like debt, to the contrary of what our partners, the CIBC, likes. Sorry, I

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don't know—what'd I miss? These are the three—gives you a little bit of view of the three Internet providers that we have: Leon's, The Brick, and Furniture.com, and as I said, Furniture.com is just in its infancy and you're going to hear and see a lot more about that in the years to come.

I think this is the slide that you should be very excited about. When you combine this with what I've talked about in terms of opportunity on the revenue side, on the expense side you can see that in 2010, how low our sales—our expenses as a percentage of sales were and you can see where it is now, and of course the reason for that was the purchase of The Brick who were a terrific organization when it came to sales promotions and ways to increase sales but not as efficient as a Leon's. So our objective obviously is to get them much more efficient than they are, get the combined corporation more efficient while at the same time spending the appropriate monies we need to to invest, not only in operational assets but also in people, and in particular in the new computer system. So having said that, you can see that if we can just get the 37.2 down to 35 percent, what that will do to our bottom line. And we believe we can get there over the next several years. In fact, we're going to—we expect all of our team to achieve that, and as we do that it will be a significant factor in terms of our profitability without any reference at that point to even increase in revenue, but of course our objective is to do that as well. So that gives you—this is the slide I think you should be most excited about because it's—for two reasons: it's achievable and we have a history of being able to do it. So that's what we're excited about.

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I'm going to let Dominic Scarangella, our CFO, come up here and talk to you a little bit about the remaining slides because they're mostly about finance. But before I do that, despite everything that I've just told you, which you should all be very interested in, to me, the thing that I'm most proud of going forward is the management changes that we've just put in place. For the first time, we hired a non-Leon to be the president of our Leon's division, Mike Walsh who has come from Canadian Tire. Eddy Leon is going to be the president—is current—actually it just took effect yesterday. He's the President of Leon's Furniture Limited. I will remain CEO. Eddy and Mike's responsibilities are to make sure that we execute the strategies we put in place in the best way possible. My responsibilities are going to be for the most part strategy and personnel.

So I'm very proud of the team. We've added some VPs, we've got The Brick team in place, the team that we want there. Combined, I think, there's nothing this team can't do going forward, and they'll do an even much better job than the old team did.

And with that, I'll bring up one of the members of that team, who's just been named Executive Vice President and CFO, Dominic Scarangella, to finish off the presentation.

Dominic Scarrangella — Chief Financial Officer and Executive Vice President, Leon's Furniture Limited

Well, good morning, ladies and gentlemen. Thank you, Terry. You can see our CEO is very knowledgeable about our business because I really don't have much more to add than what Terry's already said this morning, but I'll carry on with the…

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As you saw in that previous slide, 1 percent reduction in selling and general admin costs has a huge bearing on our bottom line, and our goal is not only to grow sales as Terry mentioned but also to reduce our expenses. I've had a lot of talk the last couple years with the purchase of The Brick, and when are the synergies coming, Dominic? And when are the synergies coming? And they have been coming. I mean, we have been reducing our selling and general admin costs, but we're going to focus in on some slides and some of the particular things we are doing going forward.

And of course the biggest thing, and Terry did mention it, is the IT platform. When we looked at buying The Brick and did our due diligence, they had spent millions of dollars in developing a new computer system, which hadn't been complete at that point. And we spent a full year analyzing the need, and we realized that if we're going to get true synergies out of merging these two operations, even though we want to keep them separate from a merchandising and marketing standpoint, we need to be on the same platform. So we've gone on a major task of developing a new software, enhancing what we have, including a new point of sales system for both Leon's and The Brick, and that's gone well as Terry mentioned. Once we get that in place, then we're going to see more and more synergies going forward. Or at least it gives us the opportunity to work on the synergies.

Point two, rationalizing store network and growing the franchise division. We've just developed, for instance, a new store profit and loss statement which we're going to use in both divisions in comparing our stores in both The Brick—under The Brick banner and Leon banner and restructure where we need to. Of course, we want to grow the franchise division in both operations,

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and by doing that and growing sales and maintaining our costs as a percentage of sales, the S&G will drop as well.

Another big thing we're looking at is our delivery cost model, in particular The Brick division. We're a very efficient operation on the Leon's side when it comes to delivery. The Brick division's used a lot of outside services for delivery and we're slowly bringing that all in house. And over the next three to five years there'll be millions of dollars in savings in our delivery costs. Another thing, of course, with putting ourselves on the same database, The Brick and Leon's, it's going to give us the opportunity to develop a better distribution network within both divisions, and there should be some cost savings in that as well.

And finally in point four there, of course Leon's is not in BC and The Brick is, but by developing again the new computer system with the same database it's going to allow us to piggybank on The Brick in BC when we expand into BC at some point in the future, and there'll be some savings there as well.

Other things that are going to happen of course with this merger of the operations and the system is it's going to give us more flexible buying power and optimized marketing opportunities, which we haven't really touched on yet. There's opportunities to go to Asia and other places in the world and take advantage of the volume growth between, as Terry said, over $2 billion of sales that we now have in place. We're just starting to get that off the ground today.

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With the acquiring of The Brick, of course they have an insurance operation which Terry mentioned, TGI, and we're just introducing that to the Leon division, so we're going to be able to grow the insurance business in Leon's as well, and that should add substantial growth to our bottom line over the next three to five years.

Of course, other things like financial services being our third party finance company, we're both dealing with Desjardins and TD Bank today. But if we do merge that operations down the road, it's going to save us some substantial savings in discount costing on our finance sales, which again will result in a better bottom line going forward. Other things we're looking at is of course when The Brick and Leon's were competing against each other we were very aggressive from a marketing standpoint going after each other's business. Of course we're taking a better look at that today and not killing ourselves and spending extra marketing costs where they're not needed anymore.

And of course we're looking always best practices in both divisions. I mean, there's a lot of things that The Brick does much better than Leon's and vice versa, so we're trying to put those in practice in both our organizations today.

Looking at our debt, I think we've done a pretty good job. As Terry mentioned, we were debt free for at least since I've been with the Company until we made this major acquisition two years ago. But having said that, in the last 18 months we've been able to reduce our debt by $125 million, so we're doing something right in the organization. And of course our goal is to reduce that debt by 50 million to $100 million going forward each year till it's finally gone. And as you can see under there,

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the (unintelligible), when we took over The Brick we were at 3.19 to 1; now we're down to 2.1 to 1. So things are happening. A lot to happen still, of course, but we're pleased with the progress we're making so far.

Again, on this slide there's a lot of information there. I think the critical thing here is, and I'll show it to you on the next slide as well, is that we are growing earnings per share, we are growing book value per share, all of the key ingredients, reducing debt, and our goal is, as Terry said, with our new management team as well, is to make this company stable and to grow at least a 5 to 10 percent growth going forward.

Looking at this next slide, system sales, you can see that annualized even to 2015, we're basically flat with the prior year, but again there's a lot of opportunity Terry mentioned going forward, i.e. increasing our Internet sales, Furniture.com; growing our service industry to third parties; growing the insurance business; growing our commercial business. So there's a lot of opportunities to grow sales and, of course, our goal is also to grow same store sales going forward as well.

Looking at our gross margin. As you can see, that one thing that The Brick did do better than Leon's is it had a better margin than we did, and you can see that in 2013 our gross margin overall consolidated did go from 41.6 to just over 43 percent, and we've been able to maintain that margin. And the reason we're somewhat proud of that is the fact that 40 percent of our exports are in US dollars. And you all know what happened to the US dollar in the last 15 months; it's dropped by about

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20 percent. Having said that, we've been able to maintain our margin, which we're pleased about. There is opportunity to grow that margin, not at a high rate going forward, but I think we can do it.

And, of course, looking at our EBITDA, people ask me, was The Brick the right thing to do, Dominic? Well, you can see that in 2010 to 2011 and '12, of course with the recession that came in our EBITDA did drop at Leon's and even though we did everything we could to maintain it, but of course with the acquisition of The Brick it skyrocketed and we plan to continue to grow that going forward every year.

Here's our current debt situation. We've got that term facility of $310 million, revolving of 25 million, and of course we've got the convertible debenture, which comes due within two-and-a-half years' time. But overall we're doing a good job with controlling our debt, and as I said, our plan is to drop it 50 million to $100 million going forward each year.

Looking at our book value per share, I spent a bit of time looking at this slide last night. We did a pretty good job—I've been with the Company for a long time—in growing that every year, but you can see that it only went up once The Brick acquisition took place in 2013. We're averaging a growth of about close to 10 percent a year on our book value per share and, of course, we hope we plan to continue doing that going forward. So that's all good news as well.

And that's about it. So is there any questions for Terry or myself.

Q&A

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Unidentified Speaker

No, that's fine. How's the furniture market in Canada these days? What's—I mean, there's a lot of drivers of the furniture market. Interested in—you know, your same store sales are kind of flat right now. What are you guys expecting for the furniture market in Canada this year? What changes have gone on in the last year or two?

Terry Leon

You know, it's been a difficult market since the recession; it's never really totally recovered. We've been able to maintain sales or increase them slightly. We don't expect a huge uptick in the furniture industry this year.

Unidentified Speaker

Just go to the mic there. Go ahead, Terry.

Terry Leon

Sorry—this year. One of the things I've spoken about often, traditionally, and I'm speaking traditionally now, when the car industry has had a good run, and that traditionally that good run was usually for a year or 18 months, the furniture industry usually had a pretty good run after that. The car industry has had a good run for about three years now, and it's still having. In fact, I think March was very, very good. If that continues, whenever that run ends and furniture is next, we're going to have a hell of a time, if it follows the traditional pattern. I don't know if that will happen. I suspect it will to a certain extent. It may not to the same extent as has happened in the car industry because

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there really was a lot of pent-up demand in that industry, but I do suspect that when that slows down and when people have finished that big expenditure you will see a general increase in furniture expenditures across the board, which, of course, Leon's will be able to take a big advantage of.

Unidentified Speaker

Has the shift in housing from single family units to condos changed the furniture market?

Terry Leon

It has. Because when you see home starts—and again, as investors you should realize that when you see homes starts, and that includes condos, traditionally a home was a house which had many rooms in it, and those rooms all had to be furnished. Now, a house, if it's a condo, it can be anything from a 600 square foot condo to a 1,800 or larger condo. But traditionally when you buy a condo you buy a lot less furniture. So you have to assume that home starts to home starts, when you factor in the condo market, you're looking at two thirds less furniture sales per home start. So that's a significant difference. So you've got to get more of the market, you've got to get a bigger share of the consumer who's buying furniture in order to maintain your market share and your sales.

Unidentified Speaker

What's happened at the competitive set in Canada in furniture? I mean, Sears has always been a big player; The Bay was a big player. What's gone on?

Terry Leon

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Most of the department stores are kind of falling by the wayside in terms of furniture. They're not the biggest competitors. It's mostly independents. In our business it's still very fractionalized. Combined, Leon's and The Brick is about 17 percent of the market, which is still very small relevant to the entire market. So there's lots of opportunity to growth, but our biggest competition comes from the independents, some of who are very strong and very good operators.

Unidentified Speaker

Just talk about the value of your land? Book value of your lands and any opportunities that you have to monetize that?

Terry Leon

Yeah. So I think there is, but we want to develop some of it first. So, for example, at the 401 and 400 we own a lot of real estate where our head office and our store is, and that'll be one of the areas we want to develop first. And then once we've done some of the development, then I think there is an opportunity for us to consider monetizing that going forward.

Unidentified Speaker

What's the value of it on the books in appraised value today?

Terry Leon

I don't know off the top of my head what that number is to be honest with you, but it's a significant number.

Dominic Scarangella

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It's substantial.

Unidentified Speaker

Do you plan on developing the land yourself? Or are you looking for partners? I mean—

Terry Leon

We'll do either.

Unidentified speaker

—real estate is a big part of the retail.

Terry Leon

I think the most important thing is to develop it in the right way, and if that requires partners we will, and if that requires us to reconsider a configuration of our stores or our warehouses we'll do that. I mean the value of the land and the potential for the development will be the priority.

Unidentified Speaker

And what's going on the purchasing side? The changing landscape with suppliers? I mean North Carolina was always kind of the centre of the furniture; China's playing a bigger role. What's been going on? And how's—and you mentioned the Canadian dollar has been a bit of an issue as well.

Terry Leon

Actually, North Carolina's come back a little bit; China's prices have gone up. But, I mean, South Vietnam—or not South Vietnam—Vietnam is a big manufacturing base now and their prices are a little better. And Malaysia, Indonesia. So there's still a lot of foreign purchases going on, but the

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exponential increases in purchases from Asia, that's stopped, and it's flattened out and it's really dependent on what values are offered by independent manufacturers both here and there.

Unidentified Speaker

And when you look at your foray into online, there's a lot of—everybody's trying it, right? There's a lot of different models for it, sort of omnichannel, work with the store, that sort of thing. How do you see online unfolding as part of your total offering? Is it a standalone group of products that are shipped to the home? Or does it interact with the store?

Terry Leon

Well, for Leon's and The Brick it will be interacting with the store. For Furniture.com, where we can distribute using our own distribution network we will, where we can drop ship we will. It'll be a combination of everything. But Furniture.com will have its own distinct brand as does The Brick and Leon's. So it's not a black-and-white answer. It's a combination of both.

Unidentified Speaker

Any questions from the floor? Joe (phon)?

Unidentified Speaker

(unintelligible) whether wage inflation, particularly in Alberta, could have a meaningful effect on your margin? Or is that (unintelligible)?

Terry Leon

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It won't be that significant. We paid most of our associates significantly higher than the minimum wage in Alberta as it existed prior to the new government. So there'll be some effect, but I would not say it will be dramatic in any sense of the word.

Unidentified Speaker

And, Terry, I always love the answer to this question; that's why I'm going to ask it. What's the average tenure of your floor sales staff?

Terry Leon

Of our floor sales staff?

Unidentified Speaker

Yeah.

Terry Leon

Well, I don't know. I haven't checked it lately, but we have a lot of associates who have been with us form anywhere from 10 to 30 years. In fact, we had—Mike Walsh was in yesterday, and we had of our head office management team were in a room together with him, and we had them go through and announce their names and what they did and how long they'd been with us. I think there was about 40 people in the room, and there were five people who had worked less than 10 years. And some had worked as many—one person has been with us for 45 years. So we have a very long tenured group of individuals with a lot of knowledge who know the business very well, and they're very loyal and they're as much friends as they are coworkers. It's a nice atmosphere to work in. It's

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the same thing exists in the stores. When I went around to every store on the 100th anniversary, what impressed me the most was how many of our associates had been with us for so long, 25, 30, 35 years at store level, and how much of a great relationship they all had amongst themselves. That's something to be very proud of.

Unidentified Speaker

That's great. Thanks, Terry. I think you're going to hang around for a little bit?

Terry Leon

Yes, we are.

Unidentified Speaker

So appreciate that. Thanks very much.

Terry Leon

Thank you very much.

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