



Leon's Furniture Limited Releases Financial Results for the Fourth Quarter Ended December 31, 2017

TORONTO, ONTARIO February 22, 2018 – Leon's Furniture Limited ("Leon's" or the "Company") (TSX: LNF), today announced financial results for the fourth quarter 2017.

Highlights – Q4 2017

- Total system wide sales¹ grew 2.5% to \$722,259,000 in Q4-2017 compared to \$704,742,000 in Q4-2016.
- Revenue grew 1.3% to \$595,855,000 in Q4-2017 compared to \$588,381,000 in Q4-2016.
- Adjusted net income¹ increased by 4.0% to \$36,119,000 in Q4-2017 compared to \$34,745,000 in Q4-2016.
- Adjusted diluted earnings per share¹ grew 4.7% to \$0.45 in Q4-2017 compared to \$0.43 in Q4-2016.

Highlights – Fiscal year 2017

- Total system wide sales¹ grew 4.2% to \$2,638,091,000 in fiscal 2017 compared to \$2,531,573,000 in fiscal 2016.
- Revenue grew 3.2% to \$2,212,216,000 in fiscal 2017 compared to \$2,143,736,000 in fiscal 2016.
- Adjusted net income¹ increased by 14.1% to \$99,022,000 fiscal 2017 compared to \$86,762,000 fiscal 2016.
- Adjusted EBITDA¹ increased 6.0% to \$184,799,000 in fiscal 2017 compared to \$174,266,000 in fiscal 2016.
- Adjusted diluted earnings per share¹ grew 13.9% to \$1.23 in fiscal 2017 compared to \$1.08 in fiscal 2016.

¹*Refer to the non-IFRS financial measures section of this press release*

“In Q4, the focused efforts of our management team and associates coast-to-coast translated into solid operating performance in what has been a challenging environment for many operators,” said Edward Leon, President and Chief Operating Officer of Leon's. “I am particularly proud of the full-year 2017 results generated by our team, where the execution of our marketing and in-store sales and merchandising plans translated into meaningful top-line growth against a strong comparable period. As a group, we have made it a key strategic priority to drive operating leverage in our business and with adjusted EBITDA growing at double the pace of revenue in fiscal 2017, we successfully achieved that objective. Moving forward into 2018, we will maintain our focus on growing revenue both through market share gains and in-store performance while leveraging our state-of-the-art 432,000 square foot distribution centre in Delta, British Columbia and other corporate initiatives to continue to drive bottom-line performance for our valued shareholders.”

For a full explanation of the Company's use of non-IFRS measures, please refer to page 4 of this press release.

Summary of Financial Highlights

(000's of \$ except % and per share amounts)	For the three months ended December 31			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	722,259	704,742	17,517	2.5%
Franchise sales ⁽¹⁾	126,404	116,361	10,043	8.6%
Revenue	595,855	588,381	7,474	1.3%
Same store sales ⁽¹⁾	584,079	581,695	2,384	0.4%
Gross profit margin as a percentage of revenue	44.15%	43.93%		
SG&A ⁽²⁾ (excluding mark-to-market impact and severance charge)	212,051	207,554	4,497	2.2%
SG&A ⁽²⁾ as a percentage of revenue (excluding mark-to-market impact and severance charge)	35.59%	35.28%		
Adjusted EBITDA ⁽¹⁾	61,600	61,606	(6)	
Adjusted net income ⁽¹⁾	36,119	34,745	1,374	4.0%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.48	\$ 0.48	\$ -	
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.45	\$ 0.43	\$ 0.02	4.7%
Common share dividends declared	\$ 0.12	\$ 0.10	\$ 0.02	20.0%

(1) Non-IFRS financial measures. Refer to "Non-IFRS Financial Measures" section in this press release for additional information.

(2) Selling, general and administrative expenses

Revenue

For the three months ended December 31, 2017, revenue was \$595,855,000 compared to \$588,381,000 in the prior year's fourth quarter. Revenue increased \$7,474,000 or 1.3% between the comparative quarters.

Gross Profit

The gross profit for the fourth quarter 2017 continued to be strong as it increased from 43.93% to 44.15% compared to the prior year's fourth quarter.

Selling, general and administration expenses ("SG&A")

Excluding the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue increased from 35.28% to 35.59% compared to the prior year's quarter. The marginal increase was due to slightly higher occupancy costs in the quarter.

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

As a result of the above and due to the Company's continued reduction of its term credit facility, adjusted net income for the fourth quarter of 2017 was \$36,119,000, \$0.45 adjusted diluted earnings per share (\$34,745,000, \$0.43 adjusted diluted earnings per share in 2016), an increase of 4.7% per share.

Consolidated operating results for the year ended December 31, 2017 and December 31, 2016

(000's of \$ except % and per share amounts)	For the year ended December 31			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	2,638,091	2,531,573	106,518	4.2%
Franchise sales ⁽¹⁾	425,875	387,837	38,038	9.8%
Revenue	2,212,216	2,143,736	68,480	3.2%
Same store sales ⁽¹⁾	2,076,896	2,053,333	23,563	1.1%
Gross profit margin as a percentage of revenue	42.99%	42.69%		
SG&A ⁽²⁾ (excluding mark-to-market impact and severance charge)	805,862	782,206	23,656	3.0%
SG&A ⁽²⁾ as a percentage of revenue (excluding mark-to-market impact and severance charge)	36.43%	36.49%		
Adjusted EBITDA ⁽¹⁾	184,799	174,266	10,533	6.0%
Adjusted net income ⁽¹⁾	99,022	86,762	12,260	14.1%
Adjusted basic earnings per share ⁽¹⁾	\$ 1.36	\$ 1.21	\$ 0.15	12.4%
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.23	\$ 1.08	\$ 0.15	13.9%
Common share dividends declared	\$ 0.48	\$ 0.40	\$ 0.08	20.0%

(1) Non-IFRS financial measures. Refer to "Non-IFRS Financial Measures" section in this press release for additional information.

(2) Selling, general and administrative expenses

Revenue

For the year ended December 31, 2017, revenue was \$2,212,216,000 compared to \$2,143,736,000 for the prior year. Revenue increased \$68,480,000 or 3.2% for the comparative year.

Gross Profit

The gross profit for the year ended December 31, 2017 continued to be strong as it increased from 42.69% to 42.99% compared to the prior year.

Selling, general and administration expenses ("SG&A")

Excluding severance payments and the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue decreased from 36.49% to 36.43%. The reduction is due primarily from generating a higher degree of operating leverage as revenues increased 3.2% for the year and by gaining additional operating efficiencies especially relating to delivery expenses.

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

As a result of the above, adjusted net income for the year was \$99,022,000, \$1.23 adjusted diluted earnings per share (\$86,762,000, \$1.08 adjusted diluted earnings per share in 2016), an increase of 13.9%.

Dividends

As previously announced, we paid a quarterly \$0.12 dividend on January 8, 2018. Today we are happy to announce that the Directors have declared a quarterly dividend of \$0.12 per common share payable on the 9th day of April 2018 to shareholders of record at the close of business on the 9th day of March 2018. 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.

Store Network

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below:

Banner	Number of Stores as at December 31,			Number of Stores as at December 31,	
	2016	Opening	Closing	2017	
Leon's banner corporate stores	50	—	—	50	
Leon's banner franchise stores	36	—	—	36	
Appliance Canada banner stores	4	—	—	4	
The Brick banner corporate stores ¹	114	—	—	114	
The Brick banner franchise stores ²	64	2	(1)	65	
The Brick Mattress Store banner locations	24	1	(2)	23	
Brick Outlet ²	13	—	(1)	12	
Total number of stores	305	3	(4)	304	

¹Includes the Midnorthern Appliance banner

² UFW banner stores were converted to Brick Outlets in August 2017

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 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:

- the mark-to-market adjustments included in the Company's selling, general and administration ("SG&A") income statement line item, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility;
- severance charges in the period, a non-recurring expense included in the Company's SG&A.

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. Similarly, excluding from income the effect of non-recurring expenses better reflects Leon's normalized SG&A as a percentage of revenue in the period.

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 December 31		For the years ended December 31	
	2017	2016	2017	2016
(\$ in thousands except per share amounts)				
Net income	34,778	37,233	96,593	83,591
After-tax mark-to-market loss (gain) on financial derivative instruments	1,341	(2,488)	2,429	1,943
After-tax severance charge	-	-	-	1,228
Adjusted net income	36,119	34,745	99,022	86,762
Basic earnings per share	\$ 0.46	\$ 0.52	\$ 1.32	\$ 1.17
Diluted earnings per share	\$ 0.43	\$ 0.46	\$ 1.20	\$ 1.05
Adjusted basic earnings per share	\$ 0.48	\$ 0.48	\$ 1.36	\$ 1.21
Adjusted diluted earnings per share	\$ 0.45	\$ 0.43	\$ 1.23	\$ 1.08

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 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 entities, 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:

(\$ in thousands)	For the three months ended December 31		For the years ended December 31	
	2017	2016	2017	2016
Net income	34,778	37,233	96,593	83,591
Income tax expense	12,083	13,600	34,837	30,597
Net finance costs	2,316	3,526	10,502	14,481
Depreciation and amortization	10,603	10,654	39,556	41,235
Severance charge	-	-	-	1,700
Mark-to-market loss (gain) on financial derivative instruments	1,820	(3,407)	3,311	2,662
Adjusted EBITDA	61,600	61,606	184,799	174,266

Same Store Sales

Same store sales are defined as sales generated by stores that have been open or closed for more than 12 months on a fiscal basis. Same store sales is not an earnings measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Same store sales as discussed in this press release may not be comparable to similar measures presented by other issuers, however this measure is commonly used in the retail industry. We believe that disclosing this measure is meaningful to investors because it enables them to better understand the level of growth of our business.

Total System Wide Sales

Total system wide sales refer to the aggregation of revenue recognized in the Company's consolidated financial statements plus the franchise sales occurring at franchise stores to their customers which are not included in the revenue figure presented in the Company's consolidated financial statements. Total system wide sales is not a measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, total system wide sales as discussed in this press release 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 press release. 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 press release 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.

Selected Consolidated Financial Information

The summary financial information set out below has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the three months and year ended December 31, 2017 and 2016. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2016. The information presented herein does not contain disclosures required by IFRS and should be read in conjunction with the Company's audited consolidated financial statements available under the Company's profile on SEDAR at www.sedar.com.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)				
(\$ in thousands)	Three months ended December 31		Year ended December 31	
	2017	2016	2017	2016
Revenue	595,855	588,381	2,212,216	2,143,736
Cost of sales	332,807	329,876	1,261,112	1,228,499
Gross profit	263,048	258,505	951,104	915,237
Operating expenses				
Selling, general and administration expenses	213,871	204,146	809,173	786,568
Operating profit	49,177	54,359	141,931	128,669
Finance costs	(2,576)	(3,972)	(11,952)	(16,606)
Finance income	260	446	1,450	2,125
Net income before income tax	46,861	50,833	131,429	114,188
Income tax expense	12,083	13,600	34,836	30,597
Net income for the period	34,778	37,233	96,593	83,591
Earnings per share				
Basic	\$ 0.46	\$ 0.52	\$ 1.32	\$ 1.17
Diluted	\$ 0.43	\$ 0.46	\$ 1.20	\$ 1.05

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at December 31 2017	As at December 31 2016
ASSETS		
Current assets		
Cash and cash equivalents	36,207	43,985
Restricted marketable securities	13,778	16,600
Available-for-sale financial assets	67,327	39,079
Trade receivables	138,516	128,142
Income taxes receivable	2,042	2,042
Inventories	317,914	308,801
Deferred acquisition costs	5,841	7,643
Deferred financing costs	541	775
Prepays and other assets	6,382	8,225
Total current assets	588,548	555,292
Deferred acquisition costs	14,632	13,128
Property, plant and equipment	336,748	315,500
Investment properties	17,529	17,984
Intangible assets	306,286	311,464
Goodwill	390,120	390,120
Deferred income tax assets	7,592	8,174
Total assets	1,661,455	1,611,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	234,478	214,838
Provisions	8,791	5,468
Income taxes payable	7,517	12,641
Customers' deposits	128,078	117,990
Finance lease liability	1,421	1,421
Dividends payable	9,140	7,183
Deferred warranty plan revenue	24,979	39,839
Loans and borrowings	0	25,000
Other liabilities	5,434	2,124
Total current liabilities	419,838	426,504
Loans and borrowings	194,439	214,436
Convertible debentures	48,004	93,520
Finance lease liability	9,053	10,474
Deferred warranty plan revenue	122,773	105,289
Redeemable share liability	157	503
Deferred rent liabilities and lease inducements	10,791	11,380
Deferred income tax liabilities	83,352	90,003
Total liabilities	888,407	952,109
Shareholders' equity attributable to the shareholders of the Company		
Common shares	93,392	39,184
Equity component of convertible debentures	3,555	7,089
Retained earnings	674,883	613,426
Accumulated other comprehensive income(loss)	1,218	(146)
Total shareholders' equity	773,048	659,553
Total liabilities and shareholders' equity	1,661,455	1,611,662

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(\$ in thousands)	Year ended December 31	
	2017	2016
OPERATING ACTIVITIES		
Net income for the year	96,593	83,591
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	33,231	33,802
Amortization of intangible assets	6,325	7,433
Amortization of deferred warranty plan revenue	(58,771)	(59,118)
Net finance costs	10,502	14,481
Deferred income taxes	(6,043)	(4,945)
Gain on sale of property, plant and equipment and investment properties	286	(28)
Gain on sale of available-for-sale financial assets	123	(897)
	82,246	74,319
Net change in non-cash working capital balances related to operations	12,963	31,238
Cash received on warranty plan sales	61,395	59,091
Cash provided by operating activities	156,602	164,648
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and investment properties	(55,041)	(25,689)
Purchase of intangible assets	(1,164)	(683)
Proceeds on sale of property, plant and equipment and investment properties	748	145
Purchase of available-for-sale financial assets	(53,530)	(29,981)
Proceeds on sale of available-for-sale financial assets	29,639	16,184
Interest received	1,325	1,717
Cash used in investing activities	(78,023)	(38,307)
FINANCING ACTIVITIES		
Repayment of finance leases	(1,346)	(1,884)
Dividends paid	(33,179)	(28,649)
Decrease of employee loans-redeemable shares	4,003	4,418
Repayment of term loan	(45,000)	(50,000)
Finance costs paid	(56)	(775)
Interest paid	(10,781)	(13,325)
Cash used in financing activities	(86,359)	(90,215)
Net (decrease) increase in cash and cash equivalents during the year	(7,780)	36,126
Cash and cash equivalents, beginning of year	43,985	7,859
Cash and cash equivalents, end of year	36,206	43,985

About Leon's Furniture Limited

Leon's Furniture Limited is the largest retailer of furniture, mattresses, appliances and electronics in Canada. Our retail banners include: Leon's; The Brick; The Brick Mattress Store; and The Brick Outlet. Finally, with the Midnorthern Appliance banner alongside the Appliance Canada banner, we are also the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. The Company has 304 retail stores from coast to coast in Canada under various banners. As well, the Company operates three ecommerce sites: leons.ca, thebrick.com and our newest site, furniture.ca.

Forward-Looking Statements

Information in this press release that is not current or historical factual information may constitute forward-looking information within the meaning of securities laws, including future-oriented financial information and financial outlooks. This information is based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking information is subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Company currently expects. These risks, uncertainties and other factors include, but are not limited to: credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates, the timing and market acceptance of future products, and competition in the Company's markets.

To the extent any forward-looking information in this press release constitutes future-oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on assumptions and subject to risks, uncertainties and other factors. Actual results may differ materially from what the Company currently expects. Other than as required under applicable securities laws, the Company does not undertake to update any forward-looking information at any particular time. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. All forward-looking information contained in this press release is expressly qualified in its entirety by this cautionary statement.

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