



LFL Releases Financial Results for the First Quarter Ended March 31, 2020

TORONTO, ONTARIO May 14, 2020 – Leon’s Furniture Limited (“LFL” or the “Company”) (TSX: LNF), today announced financial results for the first quarter 2020.

Financial Highlights – Q1-2020

- Same store sales⁽¹⁾ in Q1-2020 were down 1.2%. Prior to the impact of COVID-19, the Company’s same store sales up to the end of February 2020 increased 5.4%.
- Total system wide sales⁽¹⁾ were relatively flat at \$598,103,000 in Q1-2020.
- Revenue in Q1-2020 was relatively flat at \$497,611,000.
- The company's focus on eCommerce, including its live chat initiative, has generated a five-fold increase to the annualized run rate in eCommerce sales subsequent to the quarter end of March 31, 2020.
- Gross profit margin was relatively flat at 43.1% in the quarter and selling, general and administrative expenses as a percentage of revenue were down 73 basis points compared to the prior year’s quarter, which generated improved operating leverage in the quarter.
- Adjusted net income⁽¹⁾ increased 48% in Q1-2020 to \$13,933,000 from \$9,414,000 in Q1-2019.
- Adjusted diluted earnings per share⁽¹⁾ grew by 33% to \$0.16 in Q1-2020 from \$0.12 in Q1-2019.
- The Company continues to be in a net cash position, as at March 31, 2020 this amounted to a total of \$33,751,000. Furthermore, most of the Company’s remaining convertible debentures of approximately \$50,000,000 were converted to common shares during the quarter and an additional \$5,000,000 was repaid towards the Company’s term loan.
- Net finance costs decreased 23% in Q1-2020 to \$4,849,000 from \$6,297,000 in Q1-2019.
- Subsequent to the quarter end, the Company expanded its revolving credit facility to \$175,000,000 thereby increasing its unrestricted liquidity to approximately \$300,000,000 when considering the Company’s cash, cash equivalents and debt and equity investments as at March 31, 2020.
- No amounts have been drawn on this expanded revolving credit facility and any amounts borrowed under this facility are due in May 2024. Also, the Company’s owned real estate portfolio of 4,200,000 square feet of retail space, industrial warehouse space and undeveloped land holdings continue to be held on an unencumbered basis.
- Since acquiring The Brick Ltd. in 2013, over \$440,000,000 in various forms of debt has been eliminated to date.

⁽¹⁾ Refer to the “Non-IFRS Financial Measures” section of this press release for additional information on these measures.

On March 11, 2020, the World Health Organization declared the novel coronavirus, (“COVID-19”), which has caused severe respiratory illnesses and deaths, a global pandemic. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. The financial impact of COVID-19 pandemic began to be felt in the Company’s store traffic and sales figures commencing in the early part of March 2020. The Company cannot predict the

timing for when economic conditions will improve. However, the Company continues to actively monitor the situation and will continue to respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, our customer and employee reactions and any further government actions, none of which can be predicted with any degree of certainty.

In response to the COVID-19 pandemic, the Company has taken or has planned the following actions to support its current operating environment and its liquidity position:

- On March 25, 2020, the Company temporarily closed a significant number of store locations and temporarily laid off 3,900 valued associates, representing approximately 50% of its total workforce. Subsequent to these payroll cost reductions, the Company increased the number of temporary layoffs by an incremental 20% of its total workforce.
- In order to protect the health and safety of our customers and associates, the Company introduced several measures in the quarter to provide support to our associates and customers. These measures included: reduced store hours, contactless home delivery and customer pickup protocols, enhanced cleaning protocols and actions to support physical distancing including limiting the number of customers allowed in-store. The Company continued to operate its distribution centres and warehouse locations across the country with enhanced safety protocols.
- As a result of government restrictions, beginning April 5, 2020, all store showrooms in Ontario, like some other provinces, were closed to the public. However, the Company continues to operate showroom locations in certain provinces with a significantly reduced store headcount and continues to provide its customers with the ability to transact on its eCommerce websites across its various banners.
- The Company has now applied for the Canada Emergency Wage Subsidy, which will materially contribute towards its cost savings initiatives and allow for more of its temporarily laid off associates to be returned to work in the second quarter of 2020.
- On April 27, 2020 the Company exercised its \$125,000,000 credit accordion available under its Senior Secured Credit Agreement, thereby increasing its total revolving credit facility to \$175,000,000. Any amounts borrowed under the revolving credit facility must be repaid in full by May 31, 2024. As of today, the Company's unrestricted liquidity has increased from \$171,272,000 to \$296,272,000 excluding its unencumbered real estate portfolio comprising of land and buildings.

Edward Leon, President and Chief Executive Officer of LFL Group commented, "Fortunately, our management teams had been able to build up some forward momentum before feeling the impact of COVID-19 which began in early March. Through disciplined gross margin management and effective cost controls, our associates were able to deliver a 33% growth in adjusted diluted earnings per share. Needless to say, we are very proud of them. However, Q1 is now behind us. Turning to the present, we expect Q2 financial results to be more impacted by COVID-19 and the measures taken by both federal and provincial governments to reduce the spread of the virus. In late March we announced the difficult but necessary decision to layoff approximately 50% of our workforce and since that time have carried out further layoffs. These measures were necessary in response to store closures and declines in traffic in stores that remain open under the various provincial governments essential service guidelines. LFL has always been loyal to its associates, evidenced by the long tenure of many of our associates across the country, and we very much look forward to the time when we can bring these people back."

Mr. Leon continued, "This is not an easy environment for any retail operator, however LFL has several mitigating factors and levers at its disposal that will not only ensure that the Company weathers the current global crisis but emerges an even stronger organization. Financially, LFL has unencumbered ownership of over

4.2 million square feet of its 13.4 million square foot real estate portfolio, and a rock-solid balance sheet with approximately \$300,000,000 of available unrestricted liquidity as of today. From an operational perspective, the Company's eCommerce business has continued to grow rapidly, expanding over five-fold subsequent to the quarter end of March 2020, and businesses such as Transglobal are performing very well in an environment where people are staying home more than ever. Before I close, I would like to express my sincere thanks to all the front-line healthcare workers in Canada who are actively and knowingly putting themselves at risk on a daily basis. On behalf of our entire team, I would like to say thank you and that watching your selflessness in action, has made me prouder to be a Canadian today than ever before."

For a full explanation of the Company's use of non-IFRS financial measures, please refer to the section of this press release with the heading "Non-IFRS Financial Measures".

Summary of Financial Highlights

	For the three months ended March 31			
(000's of \$ except % and per share amounts)	2020	2019	\$ Increase	% Increase
Total system wide sales ⁽¹⁾	598,103	597,158	945	0.2%
Franchise sales ⁽¹⁾	100,492	97,417	3,075	3.2%
Revenue	497,611	499,741	(2,130)	(0.4%)
Same store sales ⁽¹⁾	483,671	489,456	(5,785)	(1.2%)
Gross profit margin as a percentage of revenue	43.11%	43.26%		
SG&A ⁽²⁾	192,732	197,222	(4,490)	(2.3%)
SG&A ⁽²⁾ as a percentage of revenue	38.73%	39.46%		
Adjusted EBITDA ⁽¹⁾	49,426	50,669	(1,243)	(2.5%)
Adjusted net income ⁽¹⁾	13,933	9,414	4,519	48.0%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.16	\$ 0.12	\$ 0.04	33.3%
Net income	13,694	9,334	4,360	46.7%
Common share dividends declared	\$ 0.16	\$ 0.14	\$ 0.02	14.3%

⁽¹⁾ Refer to the "Non-IFRS Financial Measures" section of this press release for additional information on these measures.

⁽²⁾ Selling, general and administrative expenses.

Revenue

For the three months ended March 31, 2020, revenue was \$497,611,000 compared to \$499,741,000 in the prior year's first quarter. Revenue decreased \$2,130,000 or 0.4% as compared to the prior quarter due to a decrease primarily in the sale of furniture and partially offset by the strength of appliance sales. This reversal in sales growth occurred in the final weeks of the quarter and was primarily attributable to the significant reduction in physical store traffic due to COVID-19 and offset by the demand for appliances in both the retail and commercial segments.

Same Store Sales ⁽¹⁾

Overall, same store corporate sales decreased 1.2% compared to the prior year's first quarter. This reversal in same store sales growth occurred in the final weeks of the quarter and was primarily attributable to the significant reduction in store traffic due to COVID-19, however this was partially offset by the meaningful increases to the annualized run rate in eCommerce initiated sales orders. In order to mitigate the effect on sales due to the drop in physical store traffic, the Company redeployed store headcount to the creation of live chat teams in order to service customers virtually while they navigate the Company's websites and also to increase

online conversion rates in a meaningful way. This company wide live chat initiative has generated a five-fold increase to the annualized run rate in eCommerce sales subsequent to the quarter end of March 31, 2020.

Gross Profit

The gross profit margin decreased slightly from the prior year's first quarter result of 43.26% to 43.11% in the current quarter, this reduction of 15 basis points was attributable to the current quarter's product mix.

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

SG&A as a percentage of revenue in the current quarter was down by 73 basis points due to effectively managing overall SG&A expenses throughout the quarter while at the same time optimizing advertising spend in the quarter to drive digital traffic to the Company's websites.

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

Adjusted net income in the current quarter totaled \$13,933,000 an increase of \$4,519,000 or 48% over the prior year's quarter. Adjusted diluted earnings per share for the Company increased by \$0.04 to \$0.16 per share, an increase of 33.3% over the prior year's quarter.

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the first quarter of 2020 was \$13,694,000, \$0.17 per diluted earnings per share (net income \$9,334,000, \$0.12 per diluted earnings per share in 2019).

⁽¹⁾ Refer to the "Non-IFRS Financial Measures" section of this press release

Dividends

As previously announced, we paid a quarterly dividend of \$0.16 on April 9, 2020. Today the Directors have declared a quarterly dividend of \$0.12 per common share payable on the 6th day of July, 2020 to shareholders of record at the close of business on the 5th day of June, 2020. This represents a 25% reduction from our previous dividend. The Board has decided to take this proactive and prudent step in light of the ongoing economic uncertainty. As of 2007, dividends paid by Leon's Furniture Limited are "eligible dividends" pursuant to the changes to the Income Tax Act under Bill C-28, Canada.

Outlook

In the short-term, the duration and full financial effect of COVID-19 is unknown, as is the efficacy of government and central bank interventions to curb the spread of COVID-19 and stimulate the economy. Federal and provincial governments have instituted shelter-in-place guidelines, social distancing requirements, bans on non-essential travel and other measures that have directly led to reductions in store traffic and sales figures at the Company's bricks and mortar retail locations commencing in the early part of March 2020 and continuing today. The Company continues to actively monitor the situation and will continue to respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, our customer and employee reactions and any further government actions, none of which can be predicted with any degree of certainty.

Management anticipates that actions taken to date, including necessary layoffs and store closures, have positioned the Company strongly to weather the current crisis and to take advantage of any accretive opportunities that may arise. Several of the Company's existing attributes are expected to function as operating positions of strength which will act as offsets in the current environment:

- Essential nature of some of the Company's products and services. Household appliances that are necessary to cook and clean have been deemed essential by most provincial governments. The Company also owns the largest third-party appliance service company in Canada, Transglobal Service, that has been operating across the country with enhanced health and safety protocols to protect both our customers and our technicians.
- Rapidly scaling our eCommerce business. The Company's eCommerce revenue has grown more than fivefold subsequent to the quarter end of March 31, 2020. In late 2018, we moved the Company's online stores to the Shopify Plus platform, which has enabled a richer and more interactive eCommerce offering, has resulted in improved scalability and enabled significant operating leverage.
- Unencumbered ownership of substantial real estate assets across the country. The Company owns 4.2 million square feet (office, retail, industrial) of approximately 13.4 million square feet in use today by the Company. This is a significant competitive advantage in the current environment, resulting in a far lower carrying cost for closed stores or other properties than similar leased properties. In addition, the value inherent in this portfolio would enable the Company to readily access additional liquidity to support existing operations and take advantage of accretive opportunities as they arise.
- Pristine balance sheet as evidenced by the Company's commitment to deleveraging over \$440,000,000 in various forms of debt since purchasing The Brick in 2013. Furthermore, the Company is currently in a net cash position. as at March 31, 2020 this amounted to a total of \$33,751,000. In addition, the Company has unrestricted liquidity of approximately \$300,000,000 currently with room to further expand if necessary.
- The Company believes that its existing financing resources together with cash flow provided from its operations and its expanded revolving credit facility that was amended after the quarter end of March 31, 2020, will provide a sound liquidity and working capital position throughout the next twelve months.

On a longer-term basis, we still believe that the underlying Canadian economy remains relatively strong. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain confident that our sales and profitability will increase. Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce presence and our 304 physical locations across Canada.

Store Network

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below which also includes 99 franchise locations. Including our franchises, there are over 10,000 associates across Canada.

The following table illustrates the Company's store count continuity from December 31, 2019 to March 31, 2020 by retail banner.

Corporate Stores	At December 31, 2019	Opened	Closed	At March 30, 2020
Leon's	52	—	—	52
Appliance Canada	5	—	—	5
The Brick ⁽¹⁾	115	—	—	115
The Brick Mattress Store	24	—	—	24
Brick Outlet	9	—	—	9
Corporate Subtotal	205	—	—	205
Franchise Stores				
Leon's	34	—	—	34
The Brick	65	—	—	65
Franchise Subtotal	99	—	—	99
Total Corporate & Franchise Stores	304	—	—	304

⁽¹⁾Includes the Midnorthern Appliance banner

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

For a reconciliation of the Company's non-IFRS financial measures please refer to the Company's MD&A for the quarter ended March 31, 2020, which is available on SEDAR at www.sedar.com.

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of changes in fair value of derivative instruments, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility. The Company uses forward currency contracts to manage the risk associated with its USD-denominated purchases and an interest rate swap to manage interest rate risk on its term credit facility in accordance with the Company's corporate treasury policy. Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better aligns the intent and financial effect of these contracts with the underlying cash flows.

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:

(\$ in thousands except per share amounts)	For the three months ended March 31	
	2020	2019
Net Income	13,694	9,334
After-tax mark-to-market (gain)/loss on financial derivative instruments	239	80
Adjusted net income	13,933	9,414
Basic earnings per share	\$ 0.17	\$ 0.12
Diluted earnings per share	\$ 0.17	\$ 0.12
Adjusted basic earnings per share	\$ 0.17	\$ 0.12
Adjusted diluted earnings per share	\$ 0.16	\$ 0.12

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustment due to the changes in the fair value of the Company's financial derivative instruments and any non-recurring charges to income ("Adjusted EBITDA") is a non-IFRS financial measure used by the Company. The Company considers adjusted EBITDA to be an effective measure of profitability on an operational basis and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Adjusted EBITDA is a non-IFRS financial measure used by the Company. The Company's Adjusted EBITDA may not be comparable to the Adjusted EBITDA measure of other companies, but in management's view appropriately reflects Leon's specific financial condition. This measure is not intended to replace net income, which, as determined in accordance with IFRS, is an indicator of operating performance.

The following is a reconciliation of reported net income to adjusted EBITDA:

(\$ in thousands)	For the three months ended March 31	
	2020	2019
Net Income	13,694	9,334
Income tax expense	2,928	3,204
Net finance costs	4,849	6,297
Depreciation and amortization	27,629	31,724
Mark-to-market (gain)/loss on financial derivative instruments	326	110
Adjusted EBITDA	49,426	50,669

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 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 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.

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.

About Leon's Furniture Limited

LFL 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. LFL has 304 retail stores from coast-to coast in Canada under various banners. As well, the Company operates three e-commerce sites: leons.ca, thebrick.com and its 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: pandemic, 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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