



## LFL Releases Financial Results for the Second Quarter Ended June 30, 2020

**TORONTO, ONTARIO August 12, 2020** – Leon’s Furniture Limited (“LFL” or the “Company”) (TSX: LNF), today announced financial results for the second quarter of 2020.

### Financial Highlights – Q2 - 2020

- Our second quarter performance was strong despite the economic impact of the COVID 19 pandemic. We proactively aligned our cost structure to the lower in-store demand while at the same time expanding our eCommerce solutions to better serve the interests of our customers.
- Revenue in the quarter was \$416.7 million compared to \$560.9 million in the second quarter 2019. This reduction in revenue was primarily driven by the temporary physical store closures across the country due to the COVID-19 pandemic. eCommerce initiated sales during the quarter increased by over 500% compared to the second quarter 2019. These sales significantly mitigated the reduction in revenue and drove improved gross margins and operating leverage in the quarter.
- As all the Company’s retail stores reopened across Canada in early June 2020, total merchandise sales increased 1.2% during the month of June 2020 compared to the prior year, with the largest dollar increases coming from furniture and appliance sales.
- The results for the month of June 2020, compare favourably to the previous two months of April and May 2020. The significant sales reduction that began in late March 2020 continued into the current quarter, as revenues during April and May 2020 decreased by 46% and 38%, respectively as compared to the previous year.
- As a result of COVID-19 and the rapid deterioration of customer demand that began at the end of the previous quarter and in order to alter its cost structure and operating leverage, the Company announced in late March 2020 significant but temporary store closures and layoffs of many of its valued associates across the country.
- In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) program in order to provide assistance to help employers return and keep their employees on their payrolls. With this effective demonstration of leadership in these unprecedented times, this timely program provided by the Government of Canada allowed the Company to return the majority of its valued associates back to their previous roles during the month of June 2020.
- Without the sacrifice, dedication and service by the Company’s valued associates across the country, the Company’s results during the second quarter would not have been achievable. With the steps taken throughout the quarter to protect the Company’s viability and preserve its liquidity during these highly uncertain times, the Company was able to produce the following positive operating results:
  - Net income increased 88.8% in Q2-2020 to \$47.2 million from \$25.0 million in Q2-2019.
  - Diluted EPS grew by 93.3% to \$0.58 in Q2-2020 from \$0.30 in Q2-2019.
  - The net cash position, excluding lease liabilities, of the Company as at June 30, 2020 amounted to \$221 million, after generating over \$200 million in free cash flow in the current quarter.
  - Net finance costs decreased 28.4% in Q2-2020 to \$4.8 million from \$6.7 million in Q2-2019.
  - The Directors have decided to seek approval to extend the Company’s Normal Course Issuer Bid for another year.
  - The Directors have also approved that the Company’s dividend will be increased from \$0.12 per common share to \$0.14 per common share.
  - During the quarter, the Company increased its revolving credit facility to a total of \$175 million thereby increasing its available and unrestricted liquidity to approximately \$490 million including the Company’s \$315 million in cash, cash equivalents and investments held as at June 30, 2020.

- No amounts were drawn on this expanded revolving credit facility during the quarter and any amounts borrowed under this facility would become due in May 2024. Also, the Company's owned real estate portfolio of 4.2 million square feet of retail space, and industrial warehouse space, and undeveloped land holdings continue to be held on an unencumbered basis.

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 the following actions to support its current operating environment and its liquidity position:

- 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 during the month of April 2020, all store showrooms in Ontario, like some other provinces, were closed to the public. However, the Company continued to operate showroom locations in certain provinces with a significantly reduced store headcount and continued to provide its customers with the ability to transact on its eCommerce websites across its various banners.
- The Company applied for the CEWS program, which materially contributed towards its cost savings initiatives and allowed for the majority of its temporarily laid off associates to be returned to work in the second quarter of 2020.

Edward Leon, President and Chief Executive Officer of LFL Group commented, "Despite significant top-line impact from COVID-19 during Q2, our team delivered \$0.58 in adjusted diluted EPS – up significantly from the same quarter last year. These results highlight both the resilience of our business model as well as the determination of our associates coast-to-coast. I would like to thank all of our valued associates for their sacrifices this year. From a low point where we were forced to temporarily lay-off almost 70% of our national workforce, I am proud to say that every one of our stores opened in June and we have been able to bring back the majority of these associates. I would also like to thank the Government of Canada for its quick action to support the economy and retailers during this challenging period through the CEWS program."

Mr. Leon continued, "While the operating environment remains challenging for all retailers, LFL is uniquely positioned to both weather ongoing turbulence and to grow in the midst of it. Our eCommerce division continued to grow strongly during the quarter, as Canadians prioritized purchases that made their homes more comfortable and conducive to live, work and learn. The significant strategic investment we announced in late 2018 to strengthen our e-Commerce business and enhance the customer online shopping experience, have positioned us to be able to scale almost infinitely online. Combined with our last mile delivery teams, which are predominantly in-house, LFL is arguably one of the best positioned retailers in Canada to both meet shoppers' growing demand for a broad selection of online products, and to deliver those products efficiently and quickly to their homes. Backing this performance is a team of loyal, customer-service focused associates, unencumbered ownership of over 4.2 million square feet of real estate, and a rock-solid balance sheet with almost \$500 million of available unrestricted liquidity."

The Directors have also approved, subject to obtaining regulatory approvals, the reinstatement of the Company's Normal Course Issuer Bid, which will expire on September 11, 2020. Pursuant to the bid, the Company intends, in the twelve months commencing September 14, 2020, to purchase up to the lesser of 4.99% of its Common Shares outstanding on September 4, 2020, and the amount equal to 4.99% of its Common Shares outstanding on the date the Toronto Stock Exchange accepts the notice of intention to make a normal course issuer bid.

**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 financial highlights for the three months ended June 30, 2020 and June 30, 2019

For the	Three months ended			
(C\$ in thousands except %, share and per share amounts)	June 30, 2020	June 30, 2019	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales <sup>(1)</sup>	509.9	667.7	(157.8)	(23.6%)
Franchise sales <sup>(1)</sup>	93.2	106.8	(13.6)	(12.7%)
Revenue	416.7	560.9	(144.2)	(25.7%)
Same store sales <sup>(1)</sup>	404.3	549.6	(145.2)	(26.4%)
Gross profit margin as a percentage of revenue	43.65%	43.53%		
SG&A <sup>(2)(3)</sup>	116.9	203.6	(86.7)	(42.6%)
SG&A <sup>(2)(3)</sup> as a percentage of revenue	28.05%	36.30%		
Adjusted EBITDA	92.9	71.4	21.5	30.1%
Adjusted net income <sup>(1)</sup>	47.2	25.0	22.2	88.8%
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.58	\$0.30	\$0.28	93.3%
Net income	47.2	25.0	22.2	88.8%
Common share dividends declared	\$0.12	\$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 ("SG&A").

(3) SG&A as a percentage of revenue for the three months ended June 30, 2020, includes the impact of the CEWS of \$29.8 million or 7.1% as a percentage of revenue in the quarter. Therefore, excluding the impact of the CEWS, the total SG&A as a percentage of revenue in the quarter amounted to 35.20%

### Revenue

For the three months ended June 30, 2020, revenue was \$416.7 million compared to \$560.9 million in the second quarter 2019. Revenue decreased \$144.2 million or 25.7% as compared to the prior quarter due to decreases in all product categories which was driven by substantial reductions in physical store traffic due to COVID-19 retail store closures across the country. In order to mitigate the effect on sales due to the drop in store traffic and until all stores reopened in the early part of June, the Company redeployed store headcount to the creation of live chat teams in order to service customers virtually while they navigated the Company's websites and also increased online conversion rates in a meaningful way. The Company's continued focus on eCommerce, including its live chat initiative, generated a 500% increase in eCommerce initiated sales during the quarter, which significantly offset the overall reduction in revenue.

In early June, as all the Company's physical stores reopened across Canada, total merchandise sales increased 1.2% compared to the month of June in the prior year's quarter, with the largest sales increases being generated in furniture and appliance sales. This compares favourably to the month of April and May during the current quarter, as revenues during these two months decreased by 46% and 38%, respectively. With all the Company's retail stores open for business in June, the eCommerce initiated sales orders subsequent to quarter end continue to be up over 250% for the third quarter to date 2020 as compared to the same period last year.

The rapid increase in eCommerce sales in the quarter also continue to validate that the Company's digital platform is infinitely scalable and capable of significantly contributing higher operating profit margin percentages due to its current operating cost structure. The digital platform is key to allow the Company to attract new customers as they begin their shopping experience online and then continue in store to be assisted by our knowledgeable sales associates.

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

Due to COVID-19 and the subsequent retail store closures across the country, same store corporate sales decreased 26.4% compared to the second quarter 2019. Since the Company has over 50% of its retail store count in Ontario and Quebec, the mandatory store closures in these two provinces had a material impact on the Company's ability to generate positive same store corporate sales growth, excluding the rapid increase in eCommerce sales. However, by the end of May, the provincial governments of Ontario and Quebec had lifted their restrictions to open retail storefronts, which had a very positive impact on the Company's sales for the last month of the quarter, as the same store corporate sales for the month of June 2020 were essentially flat as compared to the month of June 2019.

## Gross Profit

The gross profit margin increased slightly from the second quarter 2019 of 43.53% to 43.65% in the current quarter. This was due primarily to increases in gross profit margin across all product categories. Notwithstanding a very challenging retail environment, the higher mix of appliance sales in the quarter, the 500% increase in eCommerce initiated sales in the quarter, and the volatility in the foreign exchange market of the Canadian dollar relative to the United States dollar, the Company was able to improve its gross profit margin on the revenues generated in the current quarter.

## Selling, general and administrative expenses

As a result of COVID-19 and the ensuing rapid deterioration of customer demand that began at the end of the previous quarter, the Company announced that 72 stores would be temporarily closed and over 3,900 associates would be unfortunately laid off. Given that there continued to be very limited visibility of demand as the second quarter began, the Company undertook the necessary steps to right size its operations and preserve its liquidity by putting in place further cost cutting measures that are summarized below:

- Temporarily laid off an additional 1,900 associates and temporarily closed an additional 92 of stores, which was also attributable to provincially mandated orders to cease operating our retail showrooms that began during the month of April 2020. These incremental lay-offs, including the previously announced headcount reductions, represented a total workforce reduction, at its peak, of approximately 70%.
- Immediately reduced advertising and marketing expenses, deferred the receipt of most inventory purchase orders, negotiated rent deferrals and abatements, and worked with all vendor partners to reduce expenditures and adjust the payment cadence of the Company's monthly expenses.
- In April 2020, the Government of Canada announced the CEWS in order to help employers return and keep their employees on their payrolls. As at June 30, 2020, the Company is entitled to total CEWS installments of \$29.8 million. There are no unfulfilled conditions attached to the CEWS, as such the Company has recorded the full amount of this subsidy as a reduction to its total SG&A expenses.
- By the end of the second quarter and with the help of this very timely and extremely important government subsidy, the Company was able to return the majority of its temporarily laid off associates back to work.

Therefore, excluding the CEWS, the Company's SG&A as a percentage of revenue in the second quarter was 35.20%, a decrease of 110 basis points over the prior year's quarter SG&A of 36.30%. The cost reduction initiatives in the current quarter continue to demonstrate the Company's ability to adjust and leverage its cost structure even though total revenues were down significantly. When including the CEWS, the Company's SG&A as a percentage of revenue improved significantly, coming in at 28.05%, an improvement of 825 basis points over the prior year's quarter.

On July 17, 2020, the Government of Canada announced that the CEWS program would be redesigned and extended to December 2020. The Company intends to continue its participation in this program, subject to meeting the eligibility requirements.

## Adjusted Net Income <sup>(1)</sup> and Adjusted Diluted Earnings Per Share <sup>(1)</sup>

Including the impact of the CEWS, adjusted net income in the current quarter totalled \$47.2 million, an increase of \$22.2 million over the prior year's quarter. Adjusted diluted earnings per share for the Company increased by \$0.28 to \$0.58 per share in the current quarter.

Excluding the impact of the CEWS and coupled with the Company's ability to effectively manage its operating expenses while experiencing rapidly deteriorating sales decreases in the current quarter, adjusted net income in the current quarter totalled \$25.3 million or flat to the prior year's quarter and the adjusted diluted earnings per share in the current quarter was \$0.31 per share compared to \$0.30 per share in the prior year's quarter.

## Net Income and Diluted Earnings Per Share

Net income for the second quarter of 2020 was \$47.2 million, or \$0.58 per diluted earnings per share as compared to the net income of \$25.0 million in the prior year's quarter, or \$0.30 per diluted earnings per share.

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

## Summary financial highlights for the six months ended June 30, 2020 and June 30, 2019

For the	Six months ended			
(C\$ in thousands except %, share and per share amounts)	June 30, 2020	June 30, 2019	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales <sup>(1)</sup>	1,108.0	1,264.8	(156.8)	(12.4%)
Franchise sales <sup>(1)</sup>	193.7	204.2	(10.5)	(5.1%)
Revenue	914.3	1,060.6	(146.3)	(13.8%)
Same store sales <sup>(1)</sup>	888.0	1,038.4	(150.4)	(14.5%)
Gross profit margin as a percentage of revenue	43.37%	43.40%		
SG&A <sup>(2)(3)</sup>	309.6	400.8	(91.2)	(22.8%)
SG&A <sup>(2)(3)</sup> as a percentage of revenue	33.86%	37.79%		
Adjusted EBITDA	142.3	122.1	20.2	16.5%
Adjusted net income <sup>(1)</sup>	61.1	34.5	26.6	77.1%
Adjusted diluted earnings per share <sup>(1)</sup>	\$0.74	\$0.42	\$0.32	76.2%
Net income	60.9	34.4	26.5	77.0%
Common share dividends declared	\$0.28	\$0.28	\$-	0.0%

(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 ("SG&A").

(3) SG&A as a percentage of revenue for the six months ended June 30, 2020, includes the impact of the CEWS of \$29.8 million or 3.3% as a percentage of revenue in the six-month period. Therefore, excluding the impact of the CEWS, the total SG&A as a percentage of revenue in six-month period amounted to 37.12%.

### Revenue

For the six months ended June 30, 2020, revenue was \$914.3 million compared to \$1,060.6 million in the prior year 2019, a decrease of \$146.3 million or 13.8% as compared to the prior year six months ended. This was due to decreases in all product categories which was driven by substantial reductions in physical store traffic due to COVID-19 retail store closures across the country during the months of April and May 2020. In early June, as all the Company's physical stores reopened across Canada, total merchandise sales increased 1.2% compared to the month of June 2019, with the largest sales increases being generated in furniture and appliance sales.

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

Same store corporate sales decreased 14.5% compared to the six months ended June 30, 2019. Since the Company has over 50% of its retail store count in Ontario and Quebec, the mandatory store closures in these two provinces had a profound impact on the Company's ability to generate positive same store sales growth. However, by the end of May, the provincial governments of Ontario and Quebec had lifted their restrictions to open retail storefronts, which had a very positive impact on the Company's sales for the last month of the quarter, as the same store corporate sales for the month of June 2020 were essentially flat to June 2019.

### Gross Profit

The gross profit margin decreased slightly from 43.40% for the six months ended June 30, 2019 to 43.37% in the six-month period ended June 30, 2020. This small decrease was mostly attributable to the appliance category over indexing relative to the Company's traditional product mix for the first half of the year.

### Selling, general and administrative expenses

As a result of COVID-19 and the ensuing rapid deterioration of customer demand that began quickly near the end of March 2020, the Company announced that 72 stores would be temporarily closed and over 3,900 associates would be unfortunately laid off. Given that there continued to be very limited visibility of demand as the second quarter began, the Company undertook the necessary steps to right size its operations with further store closures to preserve its liquidity.

In April 2020, the Government of Canada announced the CEWS in order to help employers return and keep their employees on their payrolls. The Company determined that it met the eligibility criteria and applied for the CEWS in order to be better positioned to return most of its valued associates back to work.

Excluding the CEWS, the Company's SG&A as a percentage of revenue for the six months ended June 30, 2020 was 37.12%, a decrease of 67 basis points over the prior year six months ended SG&A percentage of 37.79%. Including the CEWS, the Company's SG&A as a percentage of revenue was 33.86%, an improvement of 393 basis points over the prior year six months ended.

## **Adjusted Net Income <sup>(1)</sup> and Adjusted Diluted Earnings Per Share <sup>(1)</sup>**

Adjusted net income for the six months ended June 30, 2020 totalled \$61.1 million, an increase of \$26.6 million or 77.1% over the prior year. Adjusted diluted earnings per share for the Company increased by \$0.32 to \$0.74 per share, an increase of 76.2% over the prior year six months ended.

Excluding the impact of the CEWS, adjusted net income for the six months ended June 30, 2020 totalled \$39.2 million an increase of \$4.7 million or 13.6% over the prior year six months ended. Adjusted diluted earnings per share for the Company increased by \$0.06 to \$0.48 per share, an increase of 14.3% over the prior year six months ended.

## **Net Income and Diluted Earnings Per Share**

Including the mark-to-market impact of the Company's financial derivatives, net income for the second quarter of 2020 was \$60.9 million, \$0.74 per diluted earnings per share (net income \$34.4 million, \$0.42 per diluted earnings per share in 2019).

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

## **Dividends**

As previously announced, we paid a quarterly dividend of \$0.12 on Monday, July 6, 2020. Today the Directors have increased the quarterly dividend of \$0.12 per common share to \$0.14 per common share payable on the 8th day of October 2020 to shareholders of record at the close of business on the 8th day of September 2020. 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 social distancing requirements, bans on non-essential travel and other measures that directly led to reductions in store traffic and sales figures in the quarter. 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 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 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 significantly in the second quarter and continues to increase at an annualized rate of more than 250% subsequent to the quarter end of June 30, 2020. Since the Company moved its online stores to the Shopify Plus platform, the eCommerce offering has become a better customer experience and a more interactive offering. The platform has resulted in improved scalability and enabled significant operating leverage, which has and continues to provide a competitive advantage to the Company.
- Unencumbered ownership of substantial real estate assets across the country. The Company owns 4.2 million square feet (office, retail, industrial) of approximately 13 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.
- Solid balance sheet as evidenced by the Company's commitment to repaying over \$440 million in various forms of debt since 2013. The Company has unrestricted liquidity of approximately \$490 million as at June 30, 2020, with room to expand further if necessary.

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 cautiously optimistic that our sales and profitability will increase. Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce presence and our 304 physical locations across Canada.

## Upcoming Management Changes

Mr. Edward Leon, Chief Executive Officer of the LFL Group is pleased to announce that effective October 1, 2020, Mr. Mike Walsh will be appointed President and Chief Operating Officer of the LFL Group. Mike has been President of the Leon's Furniture Division for the last five years. He is a seasoned retailer with over 30 years of experience. Mr. Graeme Leon will succeed him as President of the Leon's Furniture Division. Graeme has been Vice-President of Merchandising at the Leon's Division for the past five years and he has worked at the Company for 40 years at various levels of the operation throughout his career. Mr. Danny Leon will become Vice-President of Merchandising for the Leon's Furniture Division. Danny is currently the Vice-President of Operations for the Brick Division and previously held the position of Vice-President of Merchandising for that division of the Company. We congratulate all these gentlemen on their upcoming new positions.

## Store Network

The Company has 304 retail stores in Canada at June 30, 2020. The following table illustrates the Company's store count continuity from December 31, 2019 to June 30, 2020 by retail banner:

Banner	Number of stores as at At December 31, 2019	Opened	Closed	Number of stores as at June 30, 2020
<b>Corporate Stores</b>				
Leon's	52	-	-	52
Appliance Canada	5	-	-	5
The Brick <sup>(1)</sup>	115	2	(2)	115
The Brick Mattress Store	24	-	-	24
Brick Outlet	9	-	-	9
Corporate Subtotal	205	2	(2)	205
<b>Franchise Stores</b>				
Leon's	34	-	-	34
The Brick	65	1	(1)	65
Franchise Subtotal	99	1	(1)	99
<b>Total Corporate &amp; Franchise Stores</b>	<b>304</b>	<b>3</b>	<b>(3)</b>	<b>304</b>

(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

## 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:

For the	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(C\$ in millions except per share amounts)				
<b>Net Income</b>	<b>47.2</b>	25.0	<b>60.9</b>	34.4
After-tax mark-to-market (gain)/loss on financial derivative instruments	-	-	<b>0.2</b>	0.1
<b>Adjusted net income</b>	<b>47.2</b>	25.0	<b>61.1</b>	34.5
Basic earnings per share	<b>\$0.59</b>	\$0.32	<b>\$0.76</b>	\$0.44
Diluted earnings per share	<b>\$0.58</b>	\$0.30	<b>\$0.74</b>	\$0.42
Adjusted basic earnings per share	<b>\$0.59</b>	\$0.32	<b>\$0.76</b>	\$0.44
Adjusted diluted earnings per share	<b>\$0.58</b>	\$0.30	<b>\$0.74</b>	\$0.42

## 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 LFL'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		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(C\$ in millions)				
<b>Net Income</b>	<b>47.2</b>	25.0	<b>60.9</b>	34.4
Income tax expense	<b>13.2</b>	8.9	<b>16.1</b>	12.1
Net finance costs	<b>4.8</b>	6.7	<b>9.6</b>	13.0
Depreciation and amortization	<b>27.8</b>	30.8	<b>55.4</b>	62.5
Mark-to-market (gain)/loss on financial derivative instruments	<b>(0.1)</b>	-	<b>0.3</b>	0.1
<b>Adjusted EBITDA</b>	<b>92.9</b>	71.4	<b>142.3</b>	122.1

## 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 are 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 are 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**

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

## **Cautionary Statement**

This press release may contain forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to vary materially from targeted results. Such risks and uncertainties include those described in Leon's Furniture Limited's periodic reports including the annual report or in the filings made by Leon's Furniture Limited from time to time with securities regulatory authorities.

This News Release may include certain "forward-looking statements" which are not comprised of historical facts. Forward-looking statements include estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties. Although these statements are based on information currently available to the Company, the Company provides no assurance that actual results will meet management's expectations. Risks, uncertainties and other factors involved with forward-looking information could cause actual events, results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information. Forward looking information in this news release includes, but is not limited to, the Company's objectives, goals or future plans, and estimates of market conditions. Factors that could cause actual results to differ materially from such forward-looking information include, but are not limited to failure to identify beneficial business opportunities, failure to convert the potential in the pursued business opportunities to tangible benefits to the Company or its shareholders, the ability of the Company to counteract the potential impact of the COVID-19 coronavirus on factors relevant to the Company's business, delays in obtaining or failures to obtain required shareholder and TSX approvals, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects, and those risks set out in the Company's public documents filed on SEDAR. Although the Company believes that the assumptions and factors used in preparing the forward-looking information in this news release are reasonable, undue reliance should not be placed on such information, which only applies as of the date of this news release, and no assurance can be given that such events will occur in the disclosed time frames or at all. The Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, other than as required by law.

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