# Leon's Furniture Releases Financial Results for the Fourth Quarter Ended December 31, 2016

**TORONTO, ONTARIO February 23, 2017** – Leon's Furniture Limited ("**Leon's**" or the "**Company**") (**TSX: LNF**), today announced record financial results for the fourth quarter 2016.

**Highlights – Q4 2016**

- Total system wide sales[1] grew 5.1% to $704,742,000 in Q4-2016 compared to $670,357,000 in Q4-2015.
- Revenue grew 5.0% to $588,381,000 in Q4-2016 compared to $560,229,000 in Q4-2015.
- Adjusted EBITDA[1] increased 13.5% to $61,606,000 in Q4-2016 compared to $54,270,000 in Q4-2015.
- Adjusted diluted earnings per share[1] grew 10.3% to $0.43 in Q4-2016 compared to $0.39 in Q4-2015.
- Same store sales[1] grew 1.1% in Q4-2016.

**Highlights – Fiscal year 2016**

- Total system wide sales[1] grew 5.2% to $2,531,573,000 in fiscal 2016 compared to $2,407,512,000 in fiscal 2015.
- Revenue grew 5.5% to $2,143,736,000 in fiscal 2016 compared to $2,031,718,000 in fiscal 2015.
- Adjusted EBITDA[1] increased 10.4% to $174,266,000 in fiscal 2016 compared to $157,793,000 in fiscal 2015.
- Adjusted diluted earnings per share[1] increased 16.1 % to $1.08 in fiscal 2016 compared to $0.93 in fiscal 2015.
- Same store sales[1] grew 4.1% for 2016.

[1]*Refer to the Non-IFRS Measures section of this press release*

"Q4 marked a strong end to 2016 as the consistent execution of our strategy resulted in both record sales and profits for the company," said Edward Leon, President and Chief Operating Officer of Leon's. "In 2016, we successfully grew same store sales for every quarter while improving cost controls throughout the organization to drive operating leverage. We are proud of all of our associates, especially those who worked tirelessly to open nine new locations across Canada in the fourth quarter, resulting in a meaningful presence in key locations across Canada for both of our core banners. These initiatives combined with our strong market presence and national distribution network will enable us to continue to drive shareholder value going forward. In recognition of our record results and confidence in the future, we are happy to announce that the quarterly dividend will be increased by 20% from 10 cents to 12 cents."

***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**

| | For the three months ended December 31 | | | |
|---|---|---|---|---|
| **(000's of $ except % and per share amounts)** | **2016** | **2015** | **$ Increase (Decrease)** | **% Increase (Decrease)** |
| Total system wide sales [1] | **704,742** | 670,357 | 34,385 | 5.1% |
| Franchise sales [1] | **116,361** | 110,128 | 6,233 | 5.7% |
| Revenue | **588,381** | 560,229 | 28,152 | 5.0% |
| Same store sales [1] | **560,541** | 554,241 | 6,300 | 1.1% |
| Gross profit margin as a percentage of revenue | **43.93%** | 44.62% | | |
| SG&A[2] (excluding mark-to-market impact and severance charge) | **207,554** | 204,134 | 3,420 | 1.7% |
| SG&A[2] as a percentage of revenue (excluding mark-to-market impact and severance charge) | **35.28%** | 36.44% | | |
| Adjusted EBITDA[1] | **61,606** | 54,270 | 7,336 | 13.5% |
| Adjusted net income[1] | **34,745** | 30,589 | 4,156 | 13.6% |
| Adjusted basic earnings per share[1] | **$ 0.48** | $ 0.43 | $ 0.05 | 11.6% |
| Adjusted diluted earnings per share[1] | **$ 0.43** | $ 0.39 | $ 0.04 | 10.3% |
| Common share dividends declared | **$ 0.10** | $ 0.10 | $ - | |

(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, 2016, revenue was $588,381,000 compared to $560,229,000 in the prior year's fourth quarter. Revenue increased $28,152,000 or 5.0% between the comparative quarters as we continued to see growth in most product categories.

## Selling, general and administrative expenses

Selling, general and administrative expenses of $207,554,000 increased $3,420,000 for the fourth quarter 2016 compared to the fourth quarter of 2015. Compared to the prior year quarter, the change is due to an increase in advertising expenditures in order to further promote our brands and increase sales, and the increase of store pre-opening costs from opening nine new stores and a distribution centre.

## Adjusted net income and adjusted diluted earnings per share

As a result of the above, adjusted net income for the fourth quarter of 2016 was $34,745,000, $0.43 per fully diluted earnings per share ($30,589,000, $0.39 per adjusted diluted earnings per share in 2015), an increase of $0.04 per common share or 10.3%.

## Consolidated operating results for the twelve-months ended December 31, 2016 and December 31, 2015

| | For the year ended December 31 | | | |
|---|---|---|---|---|
| (000's of $ except % and per share amounts) | 2016 | 2015 | $ Increase (Decrease) | % Increase (Decrease) |
| Total system wide sales [1] | **2,531,573** | 2,407,512 | 124,061 | 5.2% |
| Franchise sales [1] | **387,837** | 375,794 | 12,043 | 3.2% |
| Revenue | **2,143,736** | 2,031,718 | 112,018 | 5.5% |
| Same store sales [1] | **2,086,388** | 2,004,986 | 81,402 | 4.1% |
| Gross profit margin as a percentage of revenue | **42.69%** | 43.81% | | |
| SG&A[2] (excluding mark-to-market impact and severance charge) | **782,206** | 771,334 | 10,872 | 1.4% |
| SG&A[2] as a percentage of revenue (excluding mark-to-market impact and severance charge) | **36.49%** | 37.96% | | |
| Adjusted EBITDA[1] | **174,266** | 157,793 | 16,473 | 10.4% |
| Adjusted net income[1] | **86,762** | 73,738 | 13,024 | 17.7% |
| Adjusted basic earnings per share[1] | **$ 1.21** | $ 1.04 | $ 0.17 | 16.3% |
| Adjusted diluted earnings per share[1] | **$ 1.08** | $ 0.93 | $ 0.15 | 16.1% |
| Common share dividends declared | **$ 0.40** | $ 0.40 | $ - | |

(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, 2016, revenue was $2,143,736,000 compared to $2,031,718,000 for the prior year. Revenue increased $112,018,000 or 5.5% for the comparative year.

### Selling, general and administrative expenses

For the year, selling, general and administrative expenses of $782,206,000 were up $10,872,000 or 1.4% as compared to 2015. The increase was mainly the result of incremental selling costs as SG&A expenses as a percentage of revenue in 2016 were 36.49% as compared to 37.96% in the prior year. Additional marketing dollars were also spent to generate higher consumer traffic into our stores and this dollar increase was offset by operating efficiencies especially relating to delivery expenses.

### Adjusted net income and adjusted diluted earnings per share

As a result of the above, adjusted net income for the year was $86,762,000, $1.08 per adjusted diluted earnings per share ($73,738,000, $0.93 per adjusted diluted earnings per share in 2015), an increase of $0.15 per common share or 16.3%.

### Dividends

As previously announced, we paid a quarterly 10¢ dividend on January 9, 2017. Today we are happy to announce that the Directors have declared an increase of the quarterly dividend to 12¢ per common share payable on the 28th day of April 2017 to shareholders of record at the close of business on the 28th day of March 2017. 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 305 retail stores from coast to coast in Canada under the various banners indicated below.

| Banner | Number of Stores |
|---|---|
| Leon's banner corporate stores | 50 |
| Leon's banner franchise stores | 36 |
| Appliance Canada banner stores | 4 |
| The Brick banner corporate stores[1] | 114 |
| The Brick banner franchise stores[2] | 64 |
| The Brick Mattress Store banner locations | 24 |
| United Furniture Warehouse ("UFW") banner stores | 2 |
| UFW and The Brick Clearance Centre banner stores | 11 |
| Total number of stores | 305 |

[1]Includes the Midnorthern Appliance banner

[2]Includes one UFW Franchise

## 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 administrative ("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.
- prior period tax adjustments from 2015 relating to tax issues on the acquisition of The Brick.

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 year ended December 31 | |
|---|---|---|---|---|
| **(000's of $ except per share amounts )** | **2016** | **2015** | **2016** | **2015** |
| **Net income** | **37,233** | 30,187 | **83,591** | 76,629 |
| After-tax mark-to-market loss (gain) on financial derivative instruments | (2,488) | 3,025 | 1,943 | (268) |
| After-tax severance charge | - | - | 1,228 | - |
| Prior period tax adjustment | - | (2,623) | - | (2,623) |
| **Adjusted net income** | **34,745** | 30,589 | **86,762** | 73,738 |
| Basic earnings per share | **$ 0.52** | $ 0.42 | **$ 1.17** | $ 1.08 |
| Diluted earnings per share | **$ 0.46** | $ 0.38 | **$ 1.05** | $ 0.97 |
| Adjusted basic earnings per share | **$ 0.48** | $ 0.43 | **$ 1.21** | $ 1.04 |
| Adjusted diluted earnings per share | **$ 0.43** | $ 0.39 | **$ 1.08** | $ 0.93 |

## 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:

| (000's of $) | For the three months ended December 31 | | For the year ended December 31 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Net income** | **37,233** | 30,187 | **83,591** | 76,629 |
| Income tax expense | **13,600** | 7,273 | **30,597** | 24,790 |
| Net finance costs | **3,526** | 4,243 | **14,481** | 17,627 |
| Depreciation and amortization | **10,654** | 11,053 | **41,235** | 41,738 |
| Severance charge | **-** | - | **1,700** | - |
| Mark-to-market loss (gain) on financial derivative instruments | **(3,407)** | 4,137 | **2,662** | (368) |
| Prior period tax adjustment | **-** | (2,623) | **-** | (2,623) |
| **Adjusted EBITDA** | **61,606** | 54,270 | **174,266** | 157,793 |

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 year 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, 2016 and 2015. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2015. 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)

| | Three months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| ($ in thousands) | **2016** | **2015** | **2016** | **2015** |
| **Revenue** | 588,381 | 560,229 | 2,143,736 | 2,031,718 |
| Cost of sales | 329,876 | 310,255 | 1,228,499 | 1,141,706 |
| **Gross profit** | 258,505 | 249,974 | 915,237 | 890,012 |
| **Operating expenses** | | | | |
| Selling, general and administration expenses | 204,146 | 208,271 | 786,568 | 770,966 |
| **Operating profit** | 54,359 | 41,703 | 128,669 | 119,046 |
| Finance costs | (3,972) | (4,533) | (16,606) | (19,027) |
| Finance income | 446 | 290 | 2,125 | 1,400 |
| **Net income before income tax** | 50,833 | 37,460 | 114,188 | 101,419 |
| Income tax expense | 13,600 | 7,273 | 30,597 | 24,790 |
| **Net income for the period** | 37,233 | 30,187 | 83,591 | 76,629 |
| **Earnings per share** | | | | |
| Basic | $ 0.52 | $ 0.42 | $ 1.17 | $ 1.08 |
| Diluted | $ 0.46 | $ 0.38 | $ 1.05 | $ 0.97 |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

| ($ in thousands) | As at December 31 **2016** | As at December 31 **2015** |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 43,985 | 7,859 |
| Restricted marketable securities | 16,600 | 18,691 |
| Available-for-sale financial assets | 39,079 | 22,960 |
| Trade receivables | 128,142 | 117,832 |
| Income taxes receivable | 2,042 | 24,920 |
| Inventories | 308,801 | 303,961 |
| Deferred acquisition costs | 7,643 | 8,329 |
| Deferred financing costs | 775 | 473 |
| **Total current assets** | 547,067 | 505,025 |
| Other assets | 8,225 | 6,214 |
| Deferred acquisition costs | 13,128 | 13,093 |
| Property, plant and equipment | 315,500 | 323,218 |
| Investment properties | 17,984 | 18,496 |
| Intangible assets | 311,464 | 318,214 |
| Goodwill | 390,120 | 390,120 |
| Deferred income tax assets | 8,174 | 9,083 |
| **Total assets** | 1,611,662 | 1,583,463 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Trade and other payables | 214,838 | 206,076 |
| Provisions | 5,468 | 5,343 |
| Income taxes payable | 12,641 | 7,266 |
| Customers' deposits | 117,990 | 112,446 |
| Finance lease liability | 1,421 | 1,954 |
| Dividends payable | 7,183 | 7,141 |
| Deferred warranty plan revenue | 39,839 | 49,380 |
| Loans and borrowings | 25,000 | 50,000 |
| Other liabilities | 2,124 | 0 |
| **Total current liabilities** | 426,504 | 439,606 |
| Loans and borrowings | 214,436 | 237,357 |
| Convertible debentures | 93,520 | 92,628 |
| Finance lease liability | 10,474 | 11,895 |
| Deferred warranty plan revenue | 105,289 | 95,775 |
| Redeemable share liability | 503 | 880 |
| Deferred rent liabilities and lease inducements | 11,380 | 8,858 |
| Deferred income tax liabilities | 90,003 | 96,062 |
| **Total liabilities** | 952,109 | 983,061 |
| **Shareholders' equity attributable to the shareholders of the Company** | | |
| Common shares | 39,184 | 34,389 |
| Equity component of convertible debentures | 7,089 | 7,089 |
| Retained earnings | 613,426 | 558,526 |
| Accumulated other comprehensive income | (146) | 398 |
| **Total shareholders' equity** | 659,553 | 600,402 |
| **Total liabilities and shareholders' equity** | 1,611,662 | 1,583,463 |

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| ($ in thousands) | Year ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| **OPERATING ACTIVITIES** | | |
| Net income for the year | 83,591 | 76,629 |
| Add (deduct) items not involving an outlay of cash | | |
| Depreciation of property, plant and equipment and investment properties | 33,802 | 33,694 |
| Amortization of intangible assets | 7,433 | 8,044 |
| Amortization of deferred warranty plan revenue | (38,332) | (55,180) |
| Net finance costs | 14,481 | 17,627 |
| Deferred income taxes | (4,945) | (5,317) |
| Gain on sale of property, plant and equipment and investment properties | (28) | (1,072) |
| Gain on sale of available-for-sale financial assets | (897) | 1,514 |
| | 95,105 | 75,939 |
| Net change in non-cash working capital balances related to operations | 31,238 | (74,426) |
| Cash received on warranty plan sales | 38,305 | 56,970 |
| **Cash provided by operating activities** | 164,648 | 58,483 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment and investment properties | (25,689) | (22,756) |
| Purchase of intangible assets | (683) | (4,956) |
| Proceeds on sale of property, plant and equipment and investment properties | 145 | 4,464 |
| Purchase of available-for-sale financial assets | (29,981) | (8,093) |
| Proceeds on sale of available-for-sale financial assets | 16,184 | 5,524 |
| Interest received | 1,717 | 1,308 |
| **Cash used in investing activities** | (38,307) | (24,509) |
| **FINANCING ACTIVITIES** | | |
| Repayment of finance leases | (1,884) | (1,936) |
| Dividends paid | (28,649) | (28,465) |
| Decrease of employee loans-redeemable shares | 4,418 | 3,699 |
| Proceeds from revolving loan | (50,000) | (30,000) |
| Finance costs paid | (775) | 0 |
| Interest paid | (13,325) | (15,313) |
| **Cash used in financing activities** | (90,215) | (72,015) |
| **Net increase (decrease) in cash and cash equivalents during the year** | 36,126 | (38,041) |
| Cash and cash equivalents, beginning of year | 7,859 | 45,900 |
| **Cash and cash equivalents, end of year** | 43,985 | 7,859 |

**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; The Brick Mattress Store; The Brick Clearance Centre and United Furniture Warehouse. 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 operates three websites; leons.ca, thebrick.ca and our newest website furniture.ca. The Company has 305 retail stores from coast to coast in Canada under various banners.

**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.

**For further information, please contact:**

Dominic Scarangella, EVP & CFO
Leon's Furniture Limited
Tel: (416) 243-4073

Jonathan Ross
LodeRock Advisors, Leon's Investor Relations
jon.ross@loderockadvisors.com
Tel: (905) 334-0095