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Equity Research Report
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Leon's Furniture: Canadian Retailer with Upcoming Real Estate IPO

Operating Strength and Undervalued Real Estate Values Waiting to be Unlocked

EXECUTIVE SUMMARY

Legacy and Evolution
Founded in Canada more than 100 years ago, Leon's Furniture evolved from a general goods retailer into a specialised furniture retailer. Today the company is one of Canada's largest retail groups.

Big Box Retail Concept
Leon's pioneered the warehouse showroom concept, offering broad inventory access and reshaping Canadian retail.

REIT IPO Plans
In order to leverage its vast property portfolio, Leon's is preparing for a Real Estate Investment Trust (REIT) IPO. Conservative assumptions support a real estate valuation of ~C$1.3 billion. The total enterprise value currently sits at ~C$1.8 billion, thus significantly undervaluing the real estate component. Since 2023, Leon's has signaled IPO intentions both through its reporting and indirectly through the appointment of REIT-experienced executives to management.

Successful Precedents
Similar strategies by Canadian Tire (CT REIT) and Loblaw (Choice Properties REIT) underscore the transaction's potential to correct real estate undervaluation and provide direct access to capital.

KEY POINTS

LFL Group's record revenue of ~C$2.6 billion in 2025 highlights its resilience in the Canadian furniture market despite subdued consumer sentiment and U.S.-Canada trade uncertainties.

Leon's is preparing for a REIT IPO to unlock significant value from its real estate portfolio.

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LEON'S FURNITURE IN NUMBERS

Metric	
Market cap, 17.03.2026	C$1.75 billion
Free float	32.5%
Closing price, 17.03.2026	C$25.35
High/Low (52 weeks)	C$30.80 / C$20.51
Net debt/TEV, 17.03.2026	3.3%
Sales, FY2025 (growth y-o-y)	C$2.57 billion (3.0%)
Sales online CAGR, 2017-2025	19.3%
Inventory turnover, FY2025	3.5

COMPANY SNAPSHOT – THE PAST AND THE FUTURE

Leon's Furniture Limited is a Canadian retail-operating company listed on the Toronto Stock Exchange (TSX: LNF) with a current market cap of ~C$1.7 billion. The group operates under multiple retail banners specializing in the sale of furniture, major appliances, and other products and services. The company claims significant market share in Canada and is preparing for a REIT IPO to unlock the potential of its underlying real estate assets. Leon's plans to utilize the proceeds from the corporate event to further strengthen its operational core.

Leon's promoted Michael J. Walsh to become the company's President and CEO in 2021, following his five-year tenure as an executive within the company and his prior role as an executive at Canadian Tire – a blueprint REIT IPO story in Canada. Bringing in a valuable track record, he is the first non-family CEO to hold that position. In June 2024, Victor Diab was appointed CFO of Leon's. Before joining the company, he held various executive roles at Canadian Tire. To this day, the founding family remains the company's largest shareholder and retains substantial skin in the game. Leon's management has repurchased approximately 18% of the company's common equity since 2020, indicating confidence that the shares are undervalued.

1. Furniture Retail Business – Excellence Proven

Leon's has delivered consistently strong operating performance over many years, underpinned by steady earnings (see Figure A in the Appendix). Even during periods of economic stress, such as the global financial crisis in 2008 and more recently in 2025, when U.S. tariffs weighed on the Canadian economy and consumer confidence, the company maintained relatively stable earnings with limited volatility. Notably, earnings increased year-over-year in 2025. Despite this track record, Leon's currently trades at a forward earnings multiple of approximately 11x, compared to the ~17x multiple paid by Fairfax Financial Holdings in October 2024 for Leon's peer, Sleep Country. Based on our sum-of-the-parts analysis, we estimate the value of the operating business at ~C$1.6 billion, applying the median forward EBITDA multiple of 7.8x of the peer group.[1] The company reduced total financial debt from C$80 million to C$70 million (–12.5%) over the past year while increasing its cash position by approximately 35%, further strengthening balance sheet flexibility. In addition, the dividend was raised by approx. 16% in 2025 compared to 2024, highlighting management's commitment to enhancing shareholder returns.

The company holds an estimated ~15% share of the Canadian furniture market, generating approximately C$2.6 billion in revenue in 2025 and operating 202 stores alongside 98 franchise locations. The group expanded its offerings and market share significantly after acquiring competitor „The Brick" in 2013. Across various regions in Canada, it now provides a wide range of merchandise, including furniture, major appliances, and home electronics, via multiple banners and service offerings, including furniture insurances. The retail footprint spans across Canada, with a focus on core markets including Vancouver, Toronto and Montréal.

When "big box" warehouse retail was gaining market share, Leon's early adoption of that layout and retail space growth strategy positioned them well ahead of the curve. Over subsequent market cycles, competition was gradually pushed out of the furniture business (e.g., Eaton's, Sears, or Bad Boy Furniture) and moats magnified through natural selection. Meanwhile, across retail categories, mom-and-pop stores were struggling to keep up with larger store formats, especially today, as today's customers are hard to catch since they hardly show any brand loyalty, and consumer tastes change in increasingly short cycles. The group knows how to capitalize on that market momentum by simultaneously continuing to invest heavily on their marketing spend. In various markets, Leon's ranks first among top advertisers. Being a leader in the Canadian furniture market allows Leon's to benefit from economies of scale and demonstrates its efficiency in deploying retained earnings. The company achieved a return on invested capital (ROIC, see Appendix for definition), of approximately 10% in 2025. ROIC has remained broadly stable at this level over the past three years and exceeds the weighted average cost of capital (WACC, defined in Appendix) of 6.7%[2], suggesting the company creates value for its shareholders.

1 The peer group includes Canadian Consumer Staples and Consumer Discretionary companies with market capitalizations between CAD 1.0 billion and CAD 5.0 billion, including: Premium Brands Holdings Corporation (TSX:PBH), Linamar Corporation (TSX:LNR), Spin Master Corp. (TSX:TOY), Maple Leaf Foods Inc. (TSX:MFI), The North West Company Inc. (TSX:NWC), Pet Valu Holdings Ltd. (TSX:PET), Canada Goose Holdings Inc. (TSX:GOOS), Jamieson Wellness Inc. (TSX:JWEL), Lassonde Industries Inc. (TSX:LAS.A).

2 Derived from an after-tax cost of debt of 3.6% and a cost of equity of 7.5% - calculated using the 3.4% yield on the Canadian 10-year government bond as the risk-free rate, Leon's Furniture's beta of 0.98 (Source: Yahoo Finance) and an equity risk premium of 4.2% sourced from Aswath Damodaran's NYU Stern website.

2. Real Estate Assets – Hidden Value Potential

In addition to their core business, Leon's owns a portfolio of 50 properties, currently recorded at cost with a net book value of below C$300 million. The company owns around 470,000 square meters of well-located lettable area of which many properties also bring light industrial real estate attributes, given Leon's warehouse retail acquisition history. Reported asset and land values reflect standard retail use cases, resulting in several owned land plots with significant unbuilt capacity. This creates substantial potential for large-scale densification in core locations. Leon's has strengthened its in-house real estate capabilities with a strategic hire in the beginning of 2026. The addition to existing expertise is expected to enhance the company's ability to optimise the value of its property portfolio for the core retail business and its shareholders, while also supporting the execution of ongoing and future development projects.

Vending their real estate assets into a REIT would unlock substantial hidden reserves. Leon's disclosed plans of an IPO in 2023, with its execution contingent on the right market conditions. Assuming conservative market rent estimates and a weighted average cap rate of 6.9%[3], we estimate that operating real estate values would be ~C$1.1 billion. Several assets exhibit typical light industrial characteristics, both in terms of physical structure (e.g., single-story warehouses with high-rack specifications) and location. This supports a credible third-use potential within the light industrial segment. Since 2020, driven by onshoring trends, light industrial has gained importance for domestic infrastructure and supply chain resilience.

An IPO of the real estate portfolio allows Leon's to unlock value through the structural advantages of a Canadian REIT. By functioning as a flow-through vehicle, the REIT eliminates corporate-level taxation by distributing taxable income directly to unitholders. While taxation occurs at the investor level, this structure significantly increases the total distributable cash flow compared to a traditional corporate model.

Following the proven blueprints of Loblaw and Canadian Tire, Leon's intends to retain a majority stake of >50% in the new entity. This ensures LFL Group remains the dominant beneficiary of the REIT's tax-efficient distributions while maintaining strategic control.

3. Development Projects – Unlocking Underutilized Land Potential

Within Leon's land portfolio, there are two specific land plots actively under review for rezoning. The company's headquarters in North York, Toronto, sits on a treasury of unused land capacities. Clutched by highway 400 and 401, the property is right at the intersection of two of the country's busiest arterial roads. Leon's envisages a two-phased mixed-use development, with an initial phase focused on commercial uses under secured rezoning approval enabling broader use and increased density, while the residential component is to be implemented in a second phase through a joint venture that could deliver approximately 4,000 units.

3 This assessment is based on the current rent per square foot paid by Leon's Furniture for the properties it leases; the weighted average is calculated based on the share of owned square footage across Canadian provinces; source: CBRE, Canadian Cap Rates & Investment Insights, Q4 2025.

A second development opportunity is located in Burlington, Ontario, where less than half of the site is currently occupied by leasable space. West end of Lake Ontario and close to Hamilton, Burlington sits in the middle of Toronto and Niagara Falls, a border town on the Canada-United States border. Dual zoning on that 32-acre site offers substantial development upside for various uses. The two projects are illustrated in Figure B in the Appendix.

Based on comparable development land transactions, we estimate that these two development projects could add approximately C$210 million in additional capitalizable value.

CANADIAN RETAIL REIT IPOS – A STRONG LEGACY

The IPO of real estate portfolios by dominant retail operators is a proven, highly accretive strategy in the Canadian capital markets. Loblaw Companies Limited provided a high-profile precedent in 2013 with the IPO of Choice Properties REIT, which has since evolved into one of Canada's largest and most liquid real estate vehicles. Shortly after, Canadian Tire Corporation (CTC) followed this blueprint, serving as a primary benchmark for Leon's today. Canadian Tire, a premier multi-category retailer with over 90 years of operational history, possesses a portfolio of standalone retail and warehouse facilities in Tier-1 markets that mirrors Leon's own asset base.

By unlocking dormant capital to bolster its core business, Canadian Tire significantly strengthened its primary operations while benefiting from consistent REIT distributions tied to fair-market property valuations. The market's reaction to Canadian Tire's move was immediate: between the IPO announcement in May 2013 and the official IPO of CT REIT in October 2013, Canadian Tire's share price surged by approximately 30%.

The long-term success of this strategy is evidenced by CT REIT's performance since inception. As illustrated in Figure C, the REIT has not only achieved consistent growth but has significantly outperformed both its parent company (CTC.A) and the broader Canada REIT Index on a total return basis. This track record serves as a compelling proof of concept for the valuation rerating potential inherent in Leon's current real estate strategy.

RECOMMENDATIONS TO MANAGEMENT:

Strategic Actions To Drive Shareholder Value

The following areas of action for the company's management could accelerate the unlocking of the LFL Group's full value.

- **Meeting Shareholder Expectations**: Delivering a transparent roadmap for the real estate IPO, backed by independent appraisals to crystallize the portfolio's fair market value.
- **Scalability and Strategic Vision:** Beyond the IPO, the REIT must demonstrate a clear pathway for growth through acquisitions or repositioning of properties.
- **Robust Governance and Transparent Management:** A clear and transparent governance structure is essential. We are looking for a management team with capital allocation discipline, and alignment with shareholder interests. Effective communication is important throughout the investment lifecycle.

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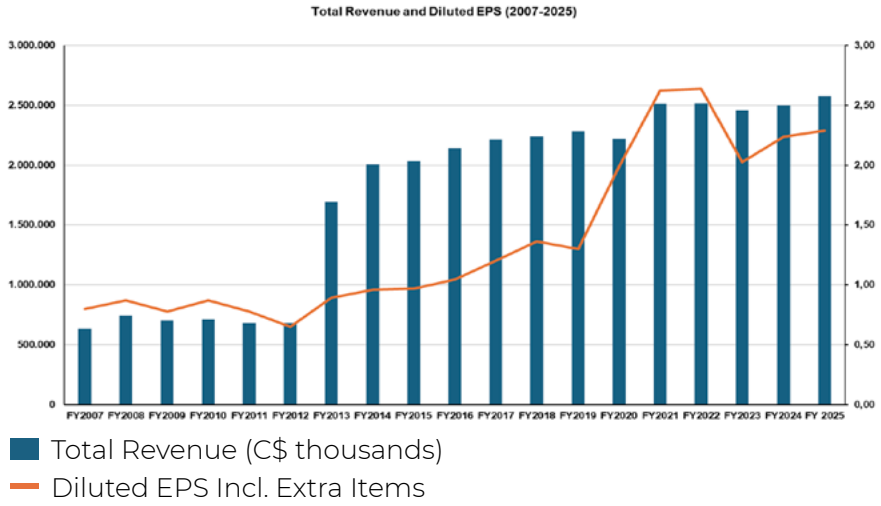
SUMMARY

Taking together the individual components, we identify significant undervaluation in Leon's.

Based on conservative estimates and comparable transactions, we value Leon's real estate portfolio at ~C$1.3 billion, contrasting its current reported net book value of below C$300 million. For a dominant market leader like Leon's, an appropriately valued operating business should therefore contribute an additional ~C$1.6 billion to the overall valuation. At an enterprise value of approximately C$1.8 billion, the market is effectively assigning minimal value to the group's real estate portfolio.

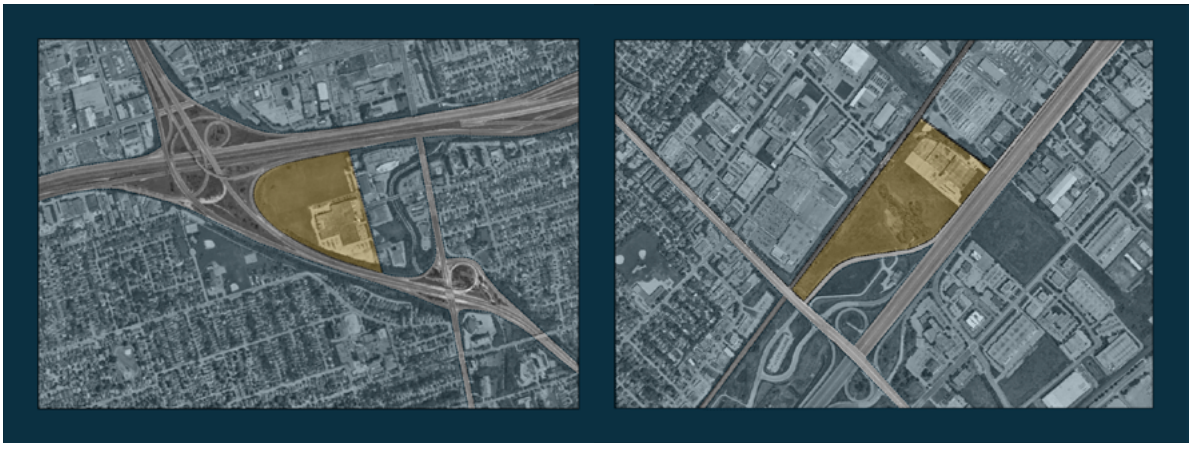
APPENDIX

A. Strong sales growth translating into higher revenues and earnings per share



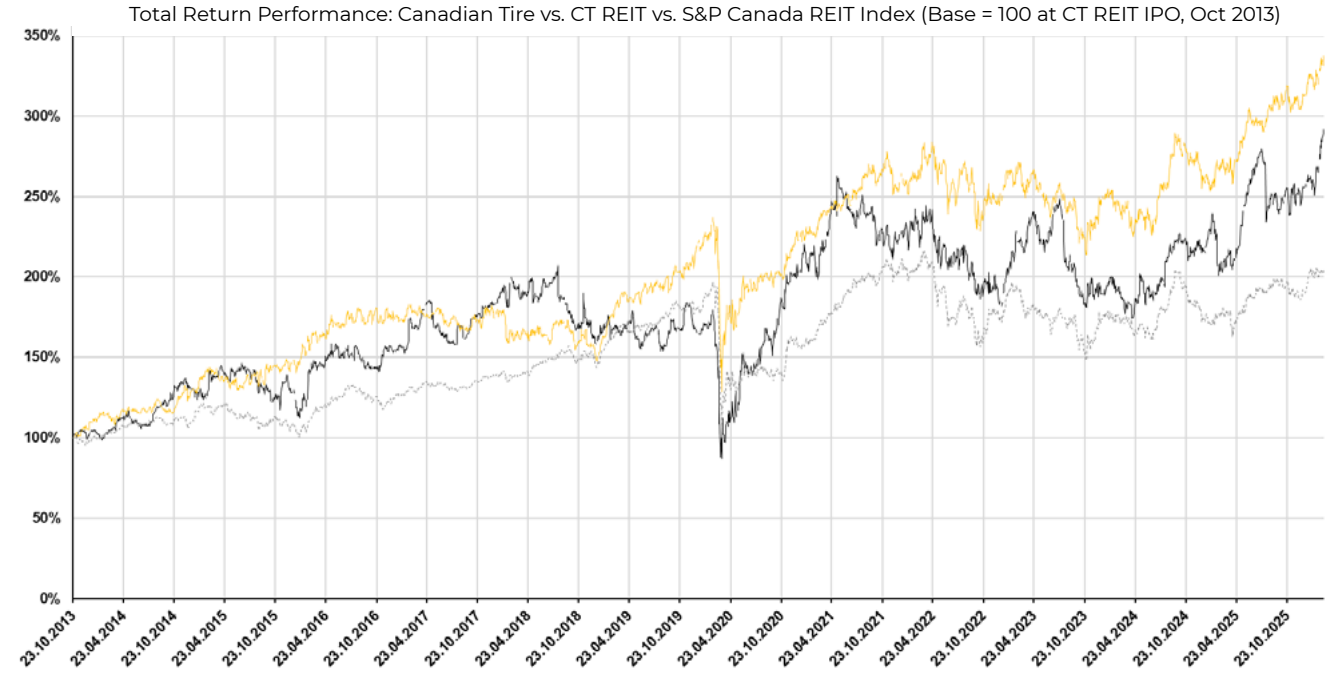
Source: AVENTOS Research based on company filings.

B. Development projects, North York (left) and Burlington (right)



Source: AVENTOS Research based on Google Maps and company filings.

C. Total return of Canadian Tire and CT REIT vs. S&P Canada REIT Index, since IPO



Source: AVENTOS Research based on S&P Capital IQ data

D. Formulas – Return on invested capital (ROIC)

ROIC = NOPAT ÷ Invested capital

NOPAT = Net operating profit after tax = EBITA × (1 − cash tax rate)

Invested capital = short term debt + long term debt + deferred taxes + equity

Weighted average cost of capital (WACC):

$$\text{WACC} = \left(\frac{E}{V} \times Re\right) + \left(\frac{D}{V} \times Rd \times (1 - Tc)\right)$$

E = Market value of equity
D = Value of debt
V = E + D
Re = Cost of equity = Risk free rate + ß × equity risk premium
Rd = Cost of debt
Tc = Corporate tax rate

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