Sleep Country Investor Relations

Sleep Country Canada Reports 26.5% Growth in Operating EBITDA Fuelled by Same Store Sales Growth of 13.4% in the Third Quarter

Opens 6 new stores, achieves 9th consecutive quarter of same store sales growth and declares first dividend

TORONTO, Nov. 3, 2015 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported record financial results for the third quarter and nine months ended September 30, 2015 and declared its first common share dividend.

Third Quarter Highlights

- Revenues increased 17.7% to $142.9 million from $121.4 million in Q3 2014.
- Same store sales growth ("SSSG") was 13.4%, on top of 11.1% SSSG in Q3 2014.
- Gross profit increased 23.9% to $45.0 million, or 31.5% of sales, from $36.3 million, or 29.9% of sales in Q3 2014.
- Operating EBITDA1 increased 26.5% to $28.7 million, or 20.1% of sales, from $22.7 million, or 18.7% of sales in Q3 2014.
- Adjusted net income1 increased 36.1% to $17.8 million from $13.1 million in Q3 2014.
- Adjusted earnings per share1 increased 34.3% to $0.47 from $0.35 in Q3 2014.
- Opened six new stores.

Nine-Month Highlights

- Revenues increased 14.1% to $337.1 million from $295.4 million in the comparative period of 2014.
- SSSG was 10.8%, on top of 7.7% SSSG in the comparative period of 2014.
- Gross profit increased 23.0% to $94.3 million, or 28.0% of sales, from $76.6 million, or 25.9% of sales in the comparative period of 2014.
- Operating EBITDA1 increased 42.5% to $52.8 million, or 15.7% of sales, from $37.1 million, or 12.5% of sales in the comparative period of 2014.
- Adjusted net income1 increased 61.6% to $25.5 million from $16.8 million in the comparative period of 2014.
- Adjusted earnings per share1 increased 61.9% to $0.68 from $0.42 in in the comparative period of 2014.
- Generated $48.2 million in cash from operating activities, resulting in a repayment of $20 million of the $155 million revolver in October 2015.
- Opened 12 new stores.

Dividend Declaration

On November 3, 2015, the Board of Directors of the Company declared a dividend on the Company's common shares in the amount of $0.13 per share, payable on November 26, 2015 to shareholders of record at the close of business on November 16, 2015. This is the Company's first dividend since the completion of the IPO and is consistent with the amount anticipated in the Prospectus. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Initial Public Offering

The Company completed an Initial Public Offering ("IPO") of 17,650,000 common shares for total gross proceeds of $300,050,000 on July 16, 2015. The comparative financial results for the prior periods are those of the operating company, Sleep Country Canada Inc. before its acquisition by Sleep Country Canada Holdings Inc. as part of the IPO pre-closing transactions.

CEO'S Commentary

"Sleep Country delivered outstanding third quarter results, punctuated by strong growth in same store sales – for the ninth consecutive quarter – and good ongoing execution of our strategies to expand market leadership and serve customers," said David Friesema, Chief Executive Officer. "Of note, we successfully opened six new stores in the quarter, continued to realize above-average SSSG in our nine redesigned locations, achieved double-digit growth in accessories and took advantage of our efficient financial model to produce strong earnings for our shareholders. We're particularly pleased to declare, on schedule, our first dividend."

Third Quarter Financial Results

Third quarter revenues grew 17.7% to $142.9 million from $121.4 million in Q3 2014. The increase was primarily attributable to a 13.4% increase in SSSG and contributions from 12 new stores opened in the first nine months of 2015 and the new stores opened in the second half of 2014. Mattress sales increased 14.5%, while accessory revenue increased 32.6%.

Q3 2015 gross profit increased 23.9% to $45.0 million, or 31.5% of sales, from $36.3 million, or 29.9% of sales in Q3 2014. The increase in gross profit margin reflected a combination of a more favourable product mix, cost savings from improved distribution efficiency and leveraging of fixed costs.

Q3 2015 Operating EBITDA1 increased 26.5% to $28.7 million, or 20.1% of sales, from $22.7 million, or 18.7% of sales. The increase largely reflected the strong year-over-year growth in revenue combined with improved gross profit margins on a more favorable product mix and operating leverage on fixed costs. Adjusted net income1 increased 36.1% in Q3 2015 to $17.8 million from $13.1 million a year ago due to the same performance drivers.

During the Q3 2015 period, the Company incurred a number of one-time, non-cash transactions related to the corporate structure that existed prior to the IPO as well as other non-recurring items at the time of the IPO. Including these items, which are not indicative of the strong core business performance achieved in the period, net income for Q3 2015 was $8.0 million ($0.39 per share) compared to $10.5 million ($0.21 per share) in Q3 2014. The items that impacted the net income in Q3 2015 were i) an increase in the non-cash accelerated interest accretion expense upon the early repayment of the subordinated debts and convertible shares, ii) the non-recurring bonus relating to the legacy option plan that existed prior to the IPO, iii) non-recurring professional fees related to the IPO, iv) an acceleration of amortization of debt issuance costs, v) management compensation that has reduced since the IPO, vi) share based compensation, and vii) the effective taxation rate in Q3 2015 was increased by a year to date catch up effect that resulted from the change in corporate structure. In aggregate, these items amounted to $9.8 million on an after tax basis. These items were partially offset by lower finance-related expenses of $3.0 million and an increase in income from strong revenue growth combined with improved gross profit margins on a more favorable product mix, good control of G&A expenses and better fixed cost leverage.

Nine Month Financial Results

In the nine months ended September 30, 2015, revenues increased 14.1% to $337.1 million from $295.4 million a year ago due primarily to a 10.8% growth in SSSG and contributions from 12 new stores opened in 2015 and five new stores opened in 2014. Mattress sales revenue increased 12.3% and accessory revenue increased by 22.2%.

Gross profit for the first nine months of 2015 was $94.3 million, or 28.0% of sales, compared to $76.6 million or 25.9% of sales, in the corresponding period of 2014, due to the same performance drivers referenced in the Q3 analysis above.

Operating EBITDA1 for the first nine months of 2015 grew 42.5% to $52.8 million, or 15.7% of sales, from $37.1 million, or 12.5% of sales in the corresponding period of 2014 due to the same factors referenced in the Q3 commentary above. Adjusted net income1 increased 61.6% to $25.5 million from $16.8 million in the corresponding period of 2014 due to the same factors explained in the Q3 commentary.

During the 2015 period, the Company incurred a number of one-time, non-cash transactions related to the corporate structure that existed prior to the IPO as well as other non-recurring items at the time of the IPO. Including these items, which are not indicative of the strong core business performance achieved in the period, net loss for the first nine months of 2015 was $60.3 million ($2.52 loss per share) compared to a loss of $20.4 million ($1.49 loss per share) in the corresponding 2014 period. The items that impacted the net loss in the first nine months of 2015 were i) an increase in the non-cash accelerated interest accretion expense upon the early repayment of the subordinated debts and convertible shares, ii) the non-recurring bonus relating to the legacy option plan that existed prior to the IPO, iii) non-recurring professional fees related to the IPO, iv) an acceleration of amortization of debt issuance costs, v) management compensation that has reduced since the IPO, and vi) share based compensation. In aggregate, these items amounted to $85.8 million on an after tax basis.

Looking Ahead

Management believes the Company can continue to build on its track record as Canada's leading specialty mattress retailer by adhering to its proven growth plan and capitalizing on its well-known and trusted brand, reputation for excellent customer service and positive supplier relationships.

"Our potential for revenue, profitability and cash flow growth has never been better," said Mr. Friesema. "By investing in marketing, sales training, continuing to focus on accessories and rolling out our new and renovated stores in our enhanced store design, Sleep Country will be well-positioned to achieve our immediate and long-term value creation goals."

Conference Call

David Friesema, CEO will host a conference call for analysts and investors on Wednesday, November 4, 2015 at 9:00 a.m. (ET). The dial-in numbers for the conference call are 888-231-8191 or 647-427-7450. This conference call will be recorded and available for replay until November 11, 2015. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 55712417.

About Sleep Country

Sleep Country is Canada's leading mattress retailer and the only specialty mattress retailer with a national footprint in Canada. Sleep Country operates under two mattress retail banners: "Dormez-vous?", the largest retailer of mattresses in Québec; and "Sleep Country Canada", the largest mattress retailer in the rest of Canada. As at September 30, 2015, Sleep Country had 224 stores and 16 distribution centres across Canada. All of the Company's stores are corporate-owned, enabling it to develop and maintain a strong culture of customer service, resulting in a consistent and superior in-store and home delivery customer experience.

Non-IFRS Measures

This news release makes reference to certain measures that are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. These measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including "Same Store Sales Growth" or "SSSG", "EBITDA", "Operating EBITDA" and "Adjusted Net Income" to provide investors with supplemental measures of its operating performance and thus highlight trends in its business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For a reconciliation of these non IFRS measures refer to the Company's MD&A.

Forward-Looking Information

Certain information in this news release, including statements relating to the exercise of the over-allotment option and the use of proceeds thereof, constitutes forward-looking information. In some cases, but not necessarily in all cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "is positioned", "estimates", "intends", "assumes", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will" or "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events.

Forward-looking information is necessarily based on a number of opinions, assumptions and estimates that, while considered reasonable by the Company as of the date of this press release, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the factors described in greater detail in the "Risk Factors" section of the final prospectus available at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully. There can be no assurance that such estimates and assumptions will prove to be correct. The forward-looking statements contained in this press release are made as of the date of this press release, and the Company expressly disclaims any obligation to update or alter statements containing any forward-looking information, or the factors or assumptions underlying them, whether as a result of new information, future events or otherwise, except as required by law.

1 See the Non-IFRS Measures section of this news release.
