

Sleep Country Canada Reports 12.9% Increase in Fourth Quarter Same Store Sales and 19.9% Growth in Operating EBITDA, Achieving Record Performance in 2015 10th consecutive quarter of same store sales growth

TORONTO, Feb. 24, 2016 /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 fourth quarter and 12 months ended December 31, 2015, both periods of solid growth due to higher same store sales and successful new store openings.

Fourth Quarter Highlights

- Revenues increased 18.4% to \$119.1 million from \$100.6 million in Q4 2014.
- Same store sales growth ("SSSG" 1) was 12.9%, on top of 10.2% SSSG in Q4 2014.
- Gross profit increased 21.6% to \$32.6 million or 27.3% of sales, from \$26.8 million, or 26.6% of sales in Q4 2014.
- Operating EBITDA¹ increased 19.9% to \$16.3 million or 13.7% of sales, from \$13.6 million, or 13.5% of sales in Q4 2014.
- Adjusted net income¹ increased 19.4% to \$8.5 million from \$7.2 million in Q4 2014.
- Adjusted earnings per share¹ increased 19.4% to \$0.23 from \$0.19 in Q4 2014.
- Opened one new store and renovated five others.

Annual Highlights

- Revenues increased 15.2% to \$456.2 million from \$396.1 million in 2014.
- SSSG¹ was 11.3%, on top of 8.3% SSSG in 2014.
- Gross profit increased 23.0% to \$126.8 million or 27.8% of sales, from \$103.4 million, or 26.1% of sales in 2014.
- Operating EBITDA¹ increased 36.6% to \$69.1 million or 15.2% of sales, from \$50.6 million, or 12.8% of sales in 2014.
- Adjusted net income¹ increased 55.6% to \$39.3 million from \$25.3 million in 2014.
- Adjusted earnings per share¹ increased 55.5% to \$1.05 from \$0.67 in 2014.
- Opened 13 new stores and renovated 10.

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

Dividend Declaration

On January 29, 2016, the Board of Directors declared a dividend on the Company's common shares in the amount of \$0.13 per share, payable on February 26, 2016 to shareholders of record at the close of business on February 16, 2016. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Suspension of Dividend Reinvestment Plan ("DRIP")

Effective after Sleep Country's dividend payable on February 26, 2016, Sleep Country's Board of Directors have suspended the DRIP until further notice. Taking into consideration the performance of the Company and the cash that was generated in 2015, the Board concluded that the DRIP was no longer necessary. Shareholders who had elected to participate in the DRIP will now receive cash dividends on the next payment date. At such time as the Company elects to reinstate the DRIP, shareholders that were enrolled at suspension and remain enrolled at reinstatement will automatically resume participation in the DRIP.

CEO's Commentary

"By giving Canadians more locations to shop in and more products to choose from, Sleep Country continued to exceed customer expectations and set new standards for financial performance excellence throughout 2015," said David Friesema, Chief Executive Officer. "Across all core measures, and in both reporting periods, our strategies performed as intended. Same store sales grew at an industry-leading double digit pace, as did mattress sales. Accessory revenue was 24% higher than a year ago and almost 30% higher in the fourth quarter compared to the same period last year. Five existing stores were renovated in the quarter and 10 in the year and SSSG was higher with the enhanced store design. Additionally, we successfully opened 13 new stores, including one in the final quarter, to maximize sales per region. These key indicators tell the story of a very productive and profitable year."

Fourth Quarter Financial Results

Fourth quarter revenues grew 18.4% to \$119.1 million from \$100.6 million in Q4 2014. The increase was primarily attributable to 12.9% SSSG. Additionally, sales growth was aided by contributions from 12 net new stores opened in 2015. Mattress sales increased 15.6% to \$93.7 million, while accessory revenue increased 29.8% to \$25.4 million. The mattress industry is affected by seasonality. On average over the past three years, Sleep Country has generated 25% of its annual revenue in the fourth quarter, 31% in the third quarter, 23% in the second quarter and 21% in the first quarter.

Q4 2015 gross profit increased 21.6% to \$32.6 million, or 27.3% of sales, from \$26.8 million, or 26.6% of sales in Q4 2014. The increase in gross profit margin reflected a combination of lower sales and distribution compensation as a percentage of sales and improved leverage on store occupancy costs, partially offset by higher inventory and other directly related expenses, net of volume rebates.

Q4 2015 Operating EBITDA¹ increased 19.9% to \$16.3 million, or 13.7% of sales, from \$13.6 million, or 13.5% of sales. The increase largely reflected the strong year-over-year growth in revenue combined with improved gross profit margins, despite an increase in G&A expenses. G&A expenses were 19.6% higher than a year ago driven by increases in advertising, professional fees and bank and finance charges but were consistent with last year as a percentage of sales.

Adjusted net income¹ increased 19.4% in Q4 2015 to \$8.5 million from \$7.2 million a year ago due to higher Operating EBITDA¹, partially offset by an increase in post-IPO finance-related expenses and income tax expense. Fourth quarter net income was \$8.6 million (\$0.16 per share) compared to \$3.3 million (loss of \$0.01 per share) in the fourth quarter of 2014 due to an increase in EBITDA and lower finance-related expenses, partially offset by an increase in income tax expense.

Annual Financial Results

In 2015, revenues increased 15.2% to \$456.2 million from \$396.1 million in 2014 due primarily to the 11.3% growth in SSSG. Sales growth also reflected contributions from 12 net new stores opened in 2015 and four net new stores opened in 2014. Mattress sales revenue increased 13.1% in 2015 to \$365.6 million and accessory revenue increased by 24.2% to \$90.6 million.

Gross profit in 2015 was \$126.8 million, or 27.8% of sales, compared to \$103.4 million or 26.1% of sales in 2014, due to lower inventory and other directly related expenses, net of volume rebates, lower sales and distribution compensation expense as a percentage of sales and improved leverage on store occupancy costs.

Operating EBITDA¹ in 2015 grew 36.6% to \$69.1 million, or 15.2% of sales, from \$50.6 million, or 12.8% of sales in 2014 on strong revenue growth, improved gross margins on a more favourable product mix and solid operating leverage on fixed costs including G&A expenses.

Adjusted net income¹ increased 55.6% to \$39.3 million from \$25.3 million in 2014 due to improved Operating EBITDA¹, partially offset by higher finance-related and tax expenses.

During 2015, 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 from continuing operations for 2015 was \$51.7 million (\$1.90 loss per share) compared to a loss of \$17.1 million (\$1.52 loss per share) in 2014. The items that impacted the net loss in 2015 were i) an increase in the non-cash accelerated interest accretion expense upon the early repayment of the subordinated debt and convertible shares amounting to \$105.3 million, ii) non-recurring bonus relating to the legacy option plan that existed prior to the IPO of \$6.9 million, iii) non-recurring professional fees related to the IPO of \$2.4 million, iv) an acceleration of amortization of debt issuance costs relating to the senior credit facility that existed prior to the IPO in the amount of \$1.2 million, v) management compensation of \$0.7 million that has reduced since the IPO, and vi) share-based compensation of \$0.2 million associated with the new management compensation plan. In aggregate, these items amounted to \$91.2 million on an after-tax basis.

Looking Ahead

With a strong platform in place, the Company believes it has a low-risk path to growth and expansion within its existing markets and is well positioned to continue to grow revenue, profitability and cash flows. It will achieve these goals by continuing to drive SSSG, adding stores in both new and existing markets and expanding its merchandising opportunities in accessories.

"We feel confident in our growth strategies, which have proven to be effective over the quarters in bringing more shoppers to our stores and converting them into valued Sleep Country customers," said Mr. Friesema. "Accordingly, we will stay the course and focus on investing in marketing and sales training and good business execution so that we can deliver on our commitments to creating value as Canada's leading retailer of mattresses."

Conference Call

David Friesema, CEO will host a conference call for analysts and investors on Wednesday, February 25, 2016 at 9:00 a.m. (ET). The dial-in numbers for the conference call are as follows:

Toll Free (North America) Dial-in Number:
International Dial-in Number:

(888) 231-8191
(647) 427-7450

This conference call will be recorded and available for replay until March 3, 2016. To listen to the replay, please dial (416) 849-0833 or (855) 859-2056 and use passcode 34192025.

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. At December 31, 2015, Sleep Country had 224 stores and 17 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 similarly titled measures presented by other publicly traded 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 additional insight into the business, 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. 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 for Q4 2015 and the 2015 fiscal year, which is available on SEDAR at www.sedar.com.

Forward-Looking Information

Certain information in this news release contains forward-looking information and forward-looking statements which reflect the current view of management with respect to the Company's objectives, plans, goals, strategies, outlook, results of operations, financial and operating performance, prospects and opportunities. Wherever used, the words "may", "will", "anticipate", "intend", "estimate", "expect", "plan", "believe" and similar expressions identify forward-looking information and forward-looking statements. Forward-looking information and forward-looking statements should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether, or the times at which, such events, performance or results will be achieved. All of the information in this news release containing forward-looking information or forward-looking statements is qualified by these cautionary statements.

Forward-looking information and forward-looking statements are based on information available to management at the time they are made, underlying estimates, opinions and assumptions made by management and management's current good faith belief with respect to future strategies, prospects, events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, those described in the Company's 2015 annual information form (the "AIF") filed on February 24, 2016. A copy of the AIF can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be less significant may also adversely affect the Company.

SOURCE Sleep Country Canada Holdings Inc. Investor Relations

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<https://ir.sleepcountry.ca/2016-02-24-Sleep-Country-Canada-Reports-12-9-Increase-in-Fourth-Quarter-Same-Store-Sales-and-19-9-Growth-in-Operating-EBITDA.-Achieving-Record-Performance-in-2015>

