

## **Sleep Country Canada Reports Second Quarter 2016 Performance Including 33.8% Operating EBITDA Increase on 12.2% Growth in Same Store Sales Increases Quarterly Dividend by 15% to 15 Cents per Share**

TORONTO, July 28, 2016 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported financial results for the second quarter and six months ended June 30, 2016, both periods of strong same store sales and profit growth.

### **Second Quarter Highlights**

- Revenues increased 17.3% to \$120.2 million from \$102.5 million in Q2 2015.
- Same store sales growth ("SSSG1") was 12.2%, on top of 7.7% SSSG in Q2 2015 - the 12th consecutive quarter of SSSG.
- Gross profit increased 24.8% to \$33.7 million or 28.0% of sales, from \$27.0 million, or 26.3% of sales in Q2 2015.
- Operating EBITDA1 increased 33.8% to \$17.9 million or 14.9% of sales, from \$13.4 million, or 13.0% of sales in Q2 2015.
- Adjusted net income1 increased 42.0% to \$10.1 million from \$7.1 million in Q2 2015.
- Adjusted earnings per share1 increased 41.6% to \$0.27 from \$0.19 in Q2 2015.
- Opened five new stores, renovated five others.

### **Six Month Highlights**

- Revenues increased 17.2% to \$227.5 million from \$194.1 million in the comparative 2015 period.
- SSSG1 was 11.9%, on top of 9.0% SSSG a year ago.
- Gross profit increased 22.6% to \$60.3 million or 26.5% of sales, from \$49.2 million, or 25.4% of sales a year ago.
- Operating EBITDA1 increased 34.1% to \$32.3 million or 14.2% of sales, from \$24.1 million, or 12.4% of sales a year ago.
- Adjusted net income1 increased 35.6% to \$17.6 million from \$13.0 million a year ago.
- Adjusted earnings per share1 increased 35.3% to \$0.47 from \$0.35 a year ago.
- Opened nine new stores, renovated 10 others.

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

### **Dividend Declaration**

On July 28, 2016, the Board of Directors declared a dividend on the Company's common shares of \$0.15 per share, payable on August 26, 2016 to shareholders of record at the close of business on August 16, 2016. The previous dividend of \$0.13 per share was paid on May 30, 2016. The Board made the decision to increase the dividend by 15% as a result of the growth in EBITDA1, reduction in long term debt and reduced leverage over the past 12 months. The reduction in leverage allows for the dividend increase, even after giving consideration to the capital required to fund new stores, store renovations and the Company's significant organic growth opportunities. The dividend is designated as an "eligible dividend" for Canadian tax purposes. Also as a result of excess cash generation, the Board formally cancelled the Dividend Reinvestment Plan (DRIP), which had previously been suspended on February 24, 2016.

### **CEO'S Commentary**

"For the 12th consecutive quarter, Sleep Country achieved strong growth in same store sales as consumers continued to demonstrate their affinity to the brand's exceptional in-store experience, leading product offerings and efficient home delivery service," said David Friesema, Chief Executive Officer. "We're pleased to note that mattress sales grew 13.7% and accessories sales were up 32.5% compared to last year at this time - a validation of our merchandising approach. We also brought Sleep Country closer to customers by opening five new stores, one in a new market, PEI, two in in-fill locations, to improve our existing market penetration, and two in satellite markets. Additionally, we continued to introduce our enhanced store design by renovating five more stores in the quarter to drive future growth. This brings the total count of stores in our new enhanced design to 50 in our chain. As a result of the improved leverage afforded by our store and product expansion strategies, Sleep Country delivered good results for shareholders including support for a 15% increase in the common share dividend - a very positive outcome."

## **Second Quarter Financial Results**

Second quarter revenues grew 17.3% to \$120.2 million from \$102.5 million in the second quarter of 2015. The increase was primarily attributable to 12.2% growth in SSSG and was further supported by the addition of 15 net new stores since the end of Q2 2015. The year-over-year increase was comprised of a 13.7% increase in mattress sales (to \$94.5 million from \$83.1 million in Q2 2015) and a 32.5% increase in accessory sales (\$25.7 million from \$19.4 million in Q2 2015). The mattress industry is affected by seasonality. On average over the past three years, Sleep Country has generated 21% of its revenue in the first quarter, 23% in the second quarter, 31% in the third quarter and 25% in the fourth quarter.

Second quarter gross profit increased 24.8% to \$33.7 million, or 28.0% of sales, from \$27.0 million, or 26.3% of sales in the second quarter of 2015. Gross profit margin performance reflected three factors. Sales and distribution compensation expense decreased to 16.8% of sales from 17.2% in the second quarter of 2015. Store occupancy costs decreased to 9.6% of sales from 10.5% in the second quarter of 2015 reflecting improved leverage. Inventory and other directly related expenses, net of volume rebates, decreased to 44.9% from 45.3% in the second quarter of 2015.

Second quarter Operating EBITDA1 increased 33.8% to \$17.9 million, or 14.9% of sales, from \$13.4 million, or 13.0% of sales a year ago. The increase largely reflected strong year-over-year growth in revenue and improved gross profit margins, partially offset by an increase in general and administration ("G&A") expenses. Total G&A expenses increased 14.9% to \$16.2 million from \$14.1 million in Q2 2015 reflecting increases in advertising expense, salaries and wages, credit card and finance charges, information technology costs and warehouse occupancy costs partially offset by a decrease in professional fees. However, as a percentage of sales, G&A decreased to 13.5% in Q2 2016 from 13.7% in Q2 2015.

Adjusted net income<sup>1</sup> increased 42.0% in the second quarter of 2016 to \$10.1 million (\$0.27 per share) from \$7.1 million (\$0.19 per share) a year ago due to higher Operating EBITDA1 partially offset by an increase in finance-related expenses, depreciation and income tax expense. Second quarter net income was \$9.7 million (\$0.26 per share) compared to a loss of \$50.7 million (loss of \$2.70 per share) in the second quarter of 2015. Second quarter 2016 performance reflected growth in EBITDA1 and lower finance-related expenses, partially offset by an increase in income tax expense. Comparative results for 2015 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 in July 2015. During 2015, as a result of the IPO, 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.

## **Six Month Financial Results**

In the six months ended June 30, 2016, revenues increased 17.2% to \$227.5 million from \$194.1 million a year ago driven primarily by 11.9% growth in SSSG and contributions from 15 net new stores that opened since the end of Q2 2015. Mattress sales revenue increased 13.7% to \$179.0 million and accessory revenue increased by 32.3% to \$48.5 million.

Gross profit for the first six months of 2016 was \$60.3 million, or 26.5% of sales, compared to \$49.2 million or 25.4% of sales, in the corresponding period of 2015. This improvement reflected a reduction in sales and distribution compensation to 17.1% of sales from 17.5% a year ago and improved leverage on store occupancy costs, which decreased to 10.2% of sales from 11.1% a year ago, partially offset by inventory and other directly related expenses, net of volume rebates, which increased to 45.3% of sales from 45.2% a year ago.

Operating EBITDA1 for the first six months of 2016 grew 34.1% to \$32.3 million, or 14.2% of sales, from \$24.1 million, or 12.4% of sales in the corresponding period of 2015 due to the same factors referenced in the Q3 commentary above.

Adjusted net income<sup>1</sup> increased 35.6% in the first half of 2016 to \$17.6 million (\$0.47 per share) from \$13.0 million (\$0.35 per share) a year ago due to higher Operating EBITDA1, partially offset by an increase in depreciation and income tax expense. Net income for the first half of 2016 was \$17.0 million (\$0.45 per share) compared to a loss of \$68.4 million (loss of \$3.85 per share) in the same period of 2015. Net income performance in the 2016 period reflected growth in EBITDA1 and lower finance-related expenses, partially offset by an increase in depreciation and income tax expense. Comparative results for 2015 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 in July 2015. During 2015, as a result of the IPO, 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.

## **Looking Ahead**

Sleep Country's leading regional market strategy, highly recognizable brand, reputation for excellence in customer service and proven supplier relationships provide it with an effective platform for ongoing growth in

revenue, profitability and cash flows.

"Sleep Country has achieved excellent results to date by executing our strategic plan," said Mr. Friesema. "We are well on track with our long-term goals for new store openings, store renovations, the expansion of our accessories business and most fundamentally, same store sales growth. Accordingly, we will continue to focus on our plan so that we can deliver meaningful value for our customers and shareholders."

### **Conference Call**

David Friesema, CEO will host a conference call for analysts and investors on Friday, July 29, 2016 at 10:00 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 August 5, 2016. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 40864582.

### **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 June 30, 2016, Sleep Country had 233 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 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 for Q2 2016 which is available on SEDAR at [www.sedar.com](http://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 SEDAR at [www.sedar.com](http://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.

Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and forward-looking statements and are cautioned not to place undue reliance on such information and statements. The Company does not undertake to update any such forward-looking information or forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

SOURCE Sleep Country Canada Holdings Inc. Investor Relations

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<https://ir.sleepcountry.ca/2016-07-28-Sleep-Country-Canada-Reports-Second-Quarter-2016-Performance-Including-33-8-Operating-EBITDA-Increase-on-12-2-Growth-in-Same-Store-Sales>