

Sleep Country Canada Reports Record Results for Third Quarter 2016

Revenues Increased 12.5% to \$160.8 million; Operating EBITDA Up 17% to \$33.6 million; Same Store Sales Grew 7.7%

TORONTO, Nov. 1, 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 third quarter and nine months ended September 30, 2016, marking the 13th consecutive quarter of strong same store sales growth and record profits.

Third Quarter Highlights

- Revenues increased 12.5% to \$160.8 million from \$142.9 million in Q3 2015.
- Same store sales growth ("SSSG1") was 7.7%, on top of 13.4% SSSG in Q3 2015, marks the 13th consecutive quarter of positive SSSG.
- Gross profit increased 15.6% to \$52.1 million, or 32.4% of sales, from \$45.0 million, or 31.5% of sales in Q3 2015.
- Operating EBITDA¹ increased 17.0% to \$33.6 million, or 20.9% of sales, from \$28.7 million, or 20.1% of sales in Q3 2015.
- Adjusted net income¹ increased 22.8% to \$21.9 million from \$17.8 million in Q3 2015.
- Adjusted earnings per share¹ increased 22.4% to \$0.58 from \$0.47 in Q3 2015.
- Opened one new store.
- Approved the quarterly distribution of \$0.15 per share.
- Added to the S&P/TSX Composite Index, effective after market close on September 16, 2016.

Nine Month Highlights

- Revenues increased 15.2% to \$388.4 million from \$337.1 million in the comparative 2015 period.
- SSSG1 was 10.1%, on top of 10.8% SSSG a year ago.
- Gross profit increased 19.2% to \$112.4 million or 28.9% of sales, from \$94.3 million, or 28.0% of sales a year ago.
- Operating EBITDA¹ increased 24.8% to \$65.9 million or 17.0% of sales, from \$52.8 million, or 15.7% of sales a year ago.
- Adjusted net income¹ increased 28.2% to \$39.4 million from \$30.8 million a year ago.
- Adjusted earnings per share¹ increased 27.9% to \$1.05 from \$0.82 a year ago.
- Opened 10 new stores and renovated 10 others.

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

CEO'S Commentary

"Our third quarter results were the best ever in our history, and we established new benchmarks for a number of our key financial metrics, including revenue of \$160.8 million, operating EBITDA of \$33.6 million, and adjusted earnings per share of \$0.58," said David Friesema, Chief Executive Officer of Sleep Country Canada. "These new quarterly record highs, which also included our 13th consecutive quarter of positive same store sales growth, underscore the strength of our brand, the success of our advertising campaigns, sales training, and the effectiveness of our strategy to grow accessory sales."

"Combined, these factors contributed to mattress sales revenue growth of 10.3% to \$126.2 million and increased accessory revenue by 21.4% to \$34.6 million in Q3. The continued accelerated growth of accessory sales, which we are seeing throughout our chain, supports our plans to renovate stores to our new and enhanced design. As of September 30, 2016 we have a total of 53 stores featuring our new design, including the renovations of 10 existing stores and the addition of 10 new stores made since the start of 2016."

Dividend Declaration

On November 1, 2016, the Board of Directors declared a dividend on the Company's common shares of \$0.15 per share, payable on November 28 2016 to shareholders of record at the close of business on November 18, 2016. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Select Financial and Operational Results

(All amounts in thousands except store and share data)

	Q3	Q3	%	YTD	YTD	%
	2016	2015	Change	2016	2015	Change
Revenues	\$160,847	\$142,946	+12.5%	\$388,357	\$337,079	+15.2%
SSSG	7.7%	13.4%	N/M2	10.1%	10.8%	N/M2
Stores opened	1	6		10	12	
Stores renovated	-	-	-	10	5	
Operating EBITDA	\$33,624	\$28,742	+17.0%	\$65,922	\$52,834	+24.8%
Net income from operations	\$21,402	\$8,047	+166.0%	\$38,397	(\$60,310)	N/M2
Adjusted net income from operations	\$21,874	\$17,811	+22.8%	\$39,448	\$30,772	+28.2%
Earnings per share (basic)	\$0.57	\$0.39	+46.1%	\$1.02	(\$2.52)	N/M2
Adjusted earnings per share	\$0.58	\$0.47	+22.4%	\$1.05	\$0.82	+27.9%

2 N/M – Not meaningful

Summary of Third Quarter Financial Results

Third quarter revenue grew 12.5% to \$160.8 million from \$142.9 million in the third quarter of 2015. The increase was primarily attributable to the 7.7% increase in SSSG and the addition of 10 net new stores opened since the end of Q3 2015. Both mattress sales and accessory sales grew significantly year-over-year, with mattress sales increasing 10.3% (to \$126.2 million from \$114.4 million in Q3 2015) and a 21.4% increase in accessory sales (\$34.6 million from \$28.5 million in Q3 2015). The mattress industry is affected by seasonality with third quarter sales typically the highest during the year. 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.

Gross profit during the third quarter increased 15.6% to \$52.1 million, or 32.4% of sales, from \$45.0 million, or 31.5% of sales in the same period in 2015. Gross profit margin performance was positively impacted by three main factors. Primarily, sales and distribution compensation expense decreased from 14.7% of sales in Q3 2015 to 14.2% in the third quarter of 2016. Leverage was improved on store occupancy costs, which decreased to 7.5% of sales from 7.8% in Q3 2015. Lastly, inventory and other directly related expenses, net of volume rebates, improved as a percentage of sales.

During the third quarter of 2016 operating EBITDA¹ increased 17.0% or \$4.9 million to \$33.6 million, or 20.9% of sales, from \$28.7 million, or 20.1% of sales in Q3 2015. The increase was primarily due to strong growth in revenue year-over-year, as well as improved gross profit margins, and a decrease in total general and administration ("G&A") expenses. Total G&A expenses decreased by 25.4% to \$18.9 million from \$25.3 million in Q3 2015. Excluding non-recurring expenses primarily relating to the Company's IPO, G&A expenses increased to 11.8% of sales from 11.4% in Q3 2015. This growth was largely due to increases in advertising expense, salaries and wages, credit card and finance charges, information technology costs, warehouse occupancy costs, professional fees and community involvement costs.

Adjusted net income¹ increased 22.8% in the third quarter of 2016 to \$21.9 million (\$0.58 per share) compared with \$17.8 million (\$0.47 per share) in the third quarter of 2015 due to higher Operating EBITDA¹ and a decrease in non-IPO related finance expenses offset by an increase in income tax expense.

Net income in Q3 2016 was \$21.4 million (\$0.57 per share) compared to \$8.0 million (\$0.39 per share) in the comparable period in 2015. The increase in net income is primarily due to growth in EBITDA¹ and lower finance-related expenses, partially offset by an increase in income tax expense. Comparative results for 2015 partially include results of the operating company, Sleep Country Canada Inc. before its acquisition by Sleep Country Canada Holdings Inc. as part of the Initial Public Offering ("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.

Summary of Nine Month Financial Results

In the nine months ended September 30, 2016, revenues increased 15.2% to \$388.4 million from \$337.1 million in the first nine months of 2015, driven primarily by 10.1% growth in SSSG and 10 net new stores that opened since the end of Q2 2015. Mattress sales revenue increased 12.2% to \$305.2 million and accessory revenue increased by 27.5% to \$83.1 million.

Gross profit increased to \$112.4 million or 28.9% of sales, in the first nine months of 2016 compared to \$94.3 million or 28.0% of sales, in the corresponding period of 2015. This improvement reflected a reduction in sales and distribution compensation to 15.9% of sales from 16.3% a year ago and improved leverage on store occupancy costs, which decreased to 9.1% of sales from 9.7% a year ago, with inventory and other directly

related expenses, net of volume rebates, remaining flat as a percentage of sales for both periods.

Operating EBITDA¹ for the first nine months of 2016 increased 24.8% to \$65.9 million, or 17.0% of sales, from \$52.8 million, or 15.7% of sales in the first nine months of 2015 due to strong revenue growth and improvements in gross profit margins, offset by an increase in G&A expenses (excluding IPO related expenses).

Adjusted net income¹ increased 28.2% YTD 2016 to \$39.4 million (\$1.05 per share) from \$30.8 million (\$0.82 per share) a year ago primarily due to growth in Operating EBITDA¹ and lower finance related expenses partially offset by an increase in depreciation and income tax expense.

Net income for the first nine months of 2016 was \$38.4 million (\$1.02 per share) compared to a loss of \$60.3 million (loss of \$2.52 per share) in the comparable period in 2015. Net income performance in the first nine months of 2016 largely reflected increases in EBITDA¹ and lower finance-related expenses, partially offset by an increase in depreciation and income tax expense. Comparative results for 2015 partially include 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 flow.

"Our efforts in the near term will be focused on the careful execution of our strategy that centres on maximizing the customer experience," said Mr. Friesema. "We plan to add one additional store in 2016, which will result in 11 new stores for the full year. We are also on track to achieve our target of renovating 15 to 20 stores for 2016, having completed 10 renovations in the less busy first six months of the year. Through ongoing investments in advertising and sales training, we also plan to grow same store sales. We will also continue our efforts to drive accessory sales by offering innovative and unique in-store products. Together, these efforts will help to sustain our growth into 2017.

"Over the longer term, we will look to enter new markets while adding ecommerce capabilities to meet consumers' dynamic needs. These strategic initiatives will allow us to add our market leadership position across the country."

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on November 2, 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 November 9, 2016. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 89360741.

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 September 30, 2016, Sleep Country had 234 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.

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 reads 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. 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/2016-11-01-Sleep-Country-Canada-Reports-Record-Results-for-Third-Quarter-2016>