

Sleep Country Canada Reports Record Fourth Quarter and 2016 Annual Results

Annual revenues grow 14.8% to \$523.8 million Q4 marked by 14th consecutive quarter of positive Same Store Sales Growth at 9.6%

Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported record results for the three months and year ended December 31, 2016.

Fourth Quarter Highlights

- Revenues increased 13.7% to \$135.4 million from \$119.1 million in Q4 2015.
- Same store sales ("SSS") growth was 9.6%, on top of 12.9% SSS growth in Q4 2015.
- Q4's SSS marked the 14th consecutive quarter of positive SSS growth.
- Gross profit increased 19.8% to \$39.0 million, or 28.8% of revenue, from \$32.6 million, or 27.3% of revenue in Q4 2015.
- Operating EBITDA¹ increased 17.4% to \$19.1 million, or 14.1% of revenue, from \$16.3 million, or 13.7% of revenue in Q4 2015.
- Adjusted net income¹ increased 36.4% to \$11.6 million from \$8.5 million in Q4 2015.
- Adjusted earnings per share¹ increased 36.1% to \$0.31 from \$0.23 in Q4 2015.
- Renovated nine new stores and opened one new store.
- Approved the quarterly distribution of \$0.15 per share.

Annual Highlights

- Revenues increased 14.8% to \$523.8 million from \$456.2 million in 2015.
- SSS growth¹ was 10.0%, on top of 11.3% SSS growth a year ago.
- Gross profit increased 19.4% to \$151.4 million or 28.9% of revenue, from \$126.8 million, or 27.8% of revenue a year ago.
- Operating EBITDA¹ increased 23.0% to \$85.0 million or 16.2% of revenue, from \$69.1 million, or 15.2% of revenue a year ago.
- Adjusted net income¹ increased 30.0% to \$51.1 million from \$39.3 million a year ago.
- Adjusted earnings per share¹ increased 29.7% to \$1.36 from \$1.05 a year ago.
- Opened 11 new stores and renovated 202 others.

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

2 Includes 1 store relocation

CEO'S Commentary

"Our 2016 results clearly demonstrate that our strategy aimed at growing via a combination of new store openings in select markets, increased accessory revenue and enhanced store design and renovation is working," said David Friesema, Chief Executive Officer of Sleep Country Canada. "The effectiveness of our strategy and our ability to execute it were reflected in the improvements made to each of our key financial metrics. Most notably, we surpassed the \$500 million revenue mark for the first time in our history and generated a record Operating EBITDA of \$85.0 million. Equally encouraging, we sustained our trend of positive same store growth for the 14th consecutive quarter at 9.6%."

Mr. Friesema added, "In addition to achieving improved financial results, we also met our targets for store renovations and store additions with the opening of 11 new stores and the renovation of 20 others. With these 20 renovations completed, approximately 27% of our total stores feature our new store design, providing a strong foundation for us to sustain our same store sales growth in the periods ahead."

Dividend Declaration

On January 26, 2017, the Board of Directors declared a dividend on the Company's common shares of \$0.15 per share, payable on February 27, 2017 to shareholders of record at the close of business on February 17, 2017. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Select Financial and Operational Results

(All amounts in thousands of Canadian dollars except store and share data)

Q4 2016	Q4 2015	% Change	Annual 2016	Annual 2015	% Change
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Revenues	\$135,430	\$119,106	+13.7%	\$523,787	\$456,185	+14.8%
SSS1	9.6%	12.9%		10.0%	11.3%	
Stores opened	1	1		11	13	
Stores renovated	9	6		202	13	
Operating EBITDA1	\$19,123	\$16,291	+17.4%	\$85,045	\$69,125	+23.0%
Net income (loss) from operations	\$11,177	\$8,618	+29.7%	\$49,574	(\$51,692)	N/M3
Adjusted net income from operations1	\$11,655	\$8,542	+36.4%	\$51,103	\$39,314	+30.0%
Earnings per share (basic)	\$0.30	\$0.16	+85.6%	\$1.32	(\$1.90)	N/M3
Adjusted earnings per share1	\$0.31	\$0.23	+36.1%	\$1.36	\$1.05	+29.7%

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

2 Includes 1 store relocation

3 N/M - Not meaningful

Summary of Fourth Quarter Financial Results

Revenue increased by 13.7% to \$135.4 million during the fourth quarter of 2016 from \$119.1 million in Q4 2015. Higher revenue was mainly due to a 9.6% increase in SSS as well as the addition of 11 new stores since the end of 2015. Mattress revenue and accessory revenue both grew year-over-year, with a 12.4% increase in mattress revenue (to \$105.3 million from \$93.7 million in Q4 2015) and an 18.7% increase in accessory revenue (\$30.2 million from \$25.4 million in Q4 2015).

The mattress industry is affected by seasonality and fourth quarter revenue is typically the second highest of the year, second only to the third quarter. On average over the past three years, Sleep Country has generated 20% of its revenue in the first quarter, 23% in the second quarter, 31% in the third quarter and 26% in the fourth quarter.

During the fourth quarter gross profit grew by 19.8% to \$39.0 million, or 28.8% of revenue, from \$32.6 million, or 27.3% of revenue in the fourth quarter of 2015. Gross profit margin increased primarily due to three main factors. Most notably, sales and distribution compensation expense decreased from 16.2% of revenue in Q4 2015 to 15.4% in Q4 2016. Gross profit margin also benefitted from improved leverage on store occupancy costs which decreased as a percentage of revenue from 9.7% in Q4 2015 to 8.8% in Q4 2016. Offsetting this, inventory and other directly related expenses, net of volume rebates, increased as a percentage of revenue from 46.1% to 46.3%.

Operating EBITDA1 for the fourth quarter of 2016 increased 17.4% (\$2.8 million) to \$19.1 million, or 14.1% of revenue, from \$16.3 million, or 13.7% of revenue in Q4 2015. Operating EBITDA was positively impacted by strong growth in revenue, in addition to improved gross profit margins, and was partially offset by an increase in total general and administration ("G&A") expenses. Total G&A expenses increased by \$3.9 million or 23.5% to \$20.4 million from \$16.5 million in Q4 2015. The growth in G&A expenses was mainly due to investments made in advertising expense, and salaries and wages.

Adjusted net income1 in Q4 2016 was \$11.7 million (\$0.31 per share) an increase of 36.4% (\$3.1 million) compared to \$8.5 million (\$0.23 per share) in Q4 2015. The increase was a result of higher operating EBITDA1 combined with a decrease in finance related expenses and a decrease in income tax expense, partially offset by an increase in depreciation and amortization expense.

Net income in the fourth quarter of 2016 was \$11.2 million (\$0.30 per share) compared to \$8.6 million (\$0.16 per share) in Q4 2015. The increase in net income was primarily due to growth in EBITDA1 and lower finance related expenses and a decrease in income tax expense.

Summary of Annual Financial Results

For the year ended December 31, 2016, revenue was \$523.8 million, up 14.8% from \$456.2 million in 2015. Revenue increased primarily due to a 10.0% growth in SSS and the addition of 11 new stores that opened since the end of 2015. Mattress revenue increased 12.3% to \$410.5 million from \$365.6 million in 2015 and accessory revenue increased by 25.0% to \$113.3 million from \$90.6 million.

Gross profit for 2016 was \$151.4 million or 28.9% of revenue, an increase of \$24.6 million from 126.8 million or 27.8% of revenue in 2015. This improvement resulted largely from a decrease in sales and distribution compensation to 15.8% of revenue from 16.3% a year ago, and improved leverage on store occupancy costs,

which decreased to 9.0% of revenue from 9.7% in 2015. Inventory and other directly-related expenses, net of volume rebates, experienced a marginal increase to 45.6% in 2016 from 45.5% in 2015.

Operating EBITDA¹ for 2016 increased 23.0% to \$85.0 million, or 16.2% of revenue, from \$69.1 million, or 15.2% of revenue in 2015. Operating EBITDA performance reflected strong revenue growth and improvements in gross profit margins, partially offset by an increase in G&A expenses. Total G&A expenses saw a marginal increase of \$0.1 million to \$67.9 million from \$67.8 million in 2015. Expenses in 2015 included certain non-recurring expenses, excluding these non-recurring expenses, G&A expenses increased to 13.0% of revenue in 2016 from 12.7% in 2015.

Adjusted net income¹ in 2016 increased 30.0% to \$51.1 million (\$1.36 per share) from \$39.3 million (\$1.05 per share) a year ago as a result of improvements in Operating EBITDA¹ and lower finance related expenses partially offset by an increase in depreciation and income tax expense.

Net income for 2016 was \$49.6 million (\$1.32 per share) compared to a loss of \$51.7 million (loss of \$1.90 per share) in 2015. Net income in 2016 was impacted by 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 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.

Outlook

"Building on the successes of 2016, we intend to follow our proven growth strategy through 2017 and beyond," said Mr. Friesema. "As always, we will continue to make investments in advertising and sales training to drive same store sales growth and identify opportunities for expanding our accessory revenue. In addition, we intend to add eight to 12 new stores in both existing and new markets in this fiscal year, thereby increasing our national footprint. We also plan on identifying 20 to 30 stores to update to the new enhanced design, supporting our accessory category."

Mr. Friesema added, "Also from a longer term and strategic perspective, we are readying ourselves for the launch of our eCommerce platform in the coming weeks. This new platform will introduce our exclusive Bed in a Box mattress and our full line up of accessories, allowing us to better meet our customers' needs, as they seek the convenience of shopping online. While 2017 will be a year of ramp up for the platform and may be a near-term drag on EBITDA of approx. \$1 to \$1.5 million, we are excited about this opportunity and believe that it will become a strategic advantage for us and help reach a broader customer base over time. We will also continue to enhance our infrastructure for growth through the relocation of four distribution centres. While this investment will result in a one-time EBITDA drag of approx. \$1 million, these relocations will improve efficiency and grow distribution capacity for the long term.

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on March 1, 2017 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 March 8, 2017. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 49094137.

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 Quebec and Sleep Country Canada, the largest mattress retailer in the rest of Canada. As at December 31, 2016, Sleep Country has 235 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" or "SSS", "EBITDA", "Operating EBITDA", "Adjusted Net Income" and "Adjusted Earnings Per Share" 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 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 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 2016 annual information form (the "AIF") filed on February 28, 2017. 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.

For additional information, please contact:
Robert Masson, Chief Financial Officer
416.242.4774
robert.masson@sleepcountry.ca

<https://ir.sleepcountry.ca/2017-02-08-Sleep-Country-Canada-Reports-Record-Fourth-Quarter-and-2016-Annual-Results>