

Sleep Country Canada Reports Strong First Quarter Results

Revenue increased 15.8% on strong same store sales growth of 11.9%

Adjusted earnings per share increased by 45%

Quarterly dividend increased by 10% to \$0.165 per share

TORONTO, May 9, 2017 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported strong results for the three months ended March 31, 2017.

First Quarter Highlights

- Revenues increased 15.8% to \$124.3 million from \$107.3 million in Q1 2016.
- Same store sales ("SSS") growth was 11.9%, on top of 11.7% SSS growth in Q1 2016.
- Q1 2017 was the 15th consecutive quarter of SSS growth.
- Gross profit increased by \$5.9 million to \$32.6 million, or 26.2% of revenue, from \$26.6 million, or 24.8% of revenue in Q1 2016.
- Operating EBITDA¹ increased 26.0% to \$18.2 million, or 14.6% of revenue, from \$14.4 million, or 13.4% of revenue in Q1 2016.
- Adjusted net income¹ increased 42.8% to \$10.7 million from \$7.5 million in Q1 2016.
- Adjusted earnings per share¹ increased 45.0% to \$0.29 from \$0.20 in Q1 2016.
- Renovated 14 stores and opened two new stores.

Highlights Subsequent to Quarter End

- Increased quarterly dividend by 10% to \$0.165 per share.

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

CEO'S Commentary

"We are pleased to deliver a strong performance with significant year over year growth," said David Friesema, Chief Executive Officer of Sleep Country Canada. "Through continued execution of our strategy we delivered a 15.8% increase in revenue compared with the same quarter last year and our 15th consecutive quarter of same store sales growth. We continue to focus on growth through driving more traffic into our stores, an exceptional in-store experience, new store openings in select markets, increasing our accessory revenue and renovating select stores to our enhanced store design. Our strong Q1 results demonstrates that our strategy continues to work and is the reason behind our Board's decision to increase our quarterly dividend by 10% to \$0.165 per share."

Mr. Friesema added, "In addition to our strong financial results, we also had a very busy quarter for store renovations. We invested in, and completed 14 renovations in Q1 in advance of our peak sales season. These renovations are expected to contribute to our future growth and puts us more than half way to meeting our target of 20-30 renovations for the year.

"As we continue to expand our footprint across Canada, we also opened two new stores during the quarter, one each in Quebec and Ontario, bringing our store total up to 237."

Dividend Declaration

On May 9, 2017, the Board of Directors approved an increase of the Company's quarterly dividend to \$0.165, payable on May 29, 2017 to shareholders of record at the close of business on May 19, 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)

	Q1 2017	Q1 2016	% Change
Revenues	\$124,283	\$107,298	+15.8%
SSS ¹	11.9%	11.7%	

Stores opened	←	→	
Stores renovated	14	5	
Operating EBITDA1	\$18,166	\$14,414	+26.0%
Net income (loss) from operations	\$10,258	\$7,296	+40.6%
Adjusted net income from operations1	\$10,730	\$7,513	+42.8%
Earnings per share (basic)	\$0.27	\$0.19	+42.1%
Adjusted earnings per share1	\$0.29	\$0.20	+45.0%

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

Summary of First Quarter Financial Results

Revenue for the first quarter of 2017 was \$124.3 million, a 15.8% increase from \$107.3 million in Q1 2016. Revenue improvement was primarily the result of strong same store sales growth of 11.9% as well as the addition of nine new stores since March 31, 2016. Mattress revenue and accessory revenue both grew when compared with Q1 2016, with a 16.2% increase in mattress revenue (\$98.2 million from \$84.5 million) and a 14.3% increase in accessory revenue (\$26.1 million from \$22.8 million).

Gross profit grew by 22.3% to \$32.6 million in the first quarter of 2017, or 26.2% of revenue, from \$26.6 million, or 24.8% of revenue in the first quarter of 2016. Increased gross profit margin was largely a result of sales and distribution expenses decreasing from 17.4% of revenue in Q1 2016 to 16.6% in Q1 2017, and leverage improvements on store occupancy costs which decreased as a percentage of revenue from 10.9% in Q1 2016 to 9.9% in Q1 2017. Offsetting these improvements, inventory and other directly related expenses, net of volume rebates, increased as a percentage of revenue from 45.7% to 46.6% for the first quarter of 2017.

Total G&A expenses increased by \$2.4 million or 19.7% to \$14.9 million from \$12.5 million in Q1 2016. The growth in G&A expenses was mainly due to planned investments made in advertising, and salaries and wages.

During the first quarter Operating EBITDA1 increased 26.0% to \$18.2 million, or 14.6% of revenue, from \$14.4 million, or 13.4% of revenue in Q1 2016. Operating EBITDA improved primarily as a result of strong growth in revenue and improved gross profit margins, which were partially offset by an increase in total general and administration ("G&A") expenses.

Adjusted net income1 for Q1 2017 was \$10.7 million (\$0.29 per share) an increase of \$3.2 million or 42.8% compared to \$7.5 million (\$0.20 per share) in Q1 2016. The increase resulted from higher operating EBITDA1 in addition to a decrease in finance related expenses, partially offset by an increase in income tax expense.

Net income in Q1 2017 was \$10.3 million (\$0.27 per share) an increase of \$3.0 million (40.6%) compared to \$7.3 million (\$0.19 per share) in Q1 2016. Net income increased primarily due to growth in EBITDA1 and lower finance related expenses partially offset by an increase in income tax expense.

Outlook

"We are excited to have had a strong start to 2017 and we intend to focus on the same initiatives throughout the remainder of 2017 and beyond," said Mr. Friesema. "We are already on track to meet our goals of adding eight to 12 new stores in both existing and current markets, as well as renovating 20 to 30 stores to the new enhanced design.

Mr. Friesema added, "We are also pleased to announce that in the first week of May we went live with our new corporate website and eCommerce platform. This new platform will allow us to better meet our customers' needs as more and more consumers seek the option and convenience of online shopping. The platform will feature "Bloom", our exclusive bed in a box mattress as well as our full line up of accessories. We are now also testing exclusively online, a couple of new categories, featuring for the first time, blankets and throws. While 2017 will be a year of slowly ramping up the eCommerce platform, we believe that longer term, it will become a greater opportunity for us to expand our reach to a broader mix of customers with a larger product offering. This platform provides convenience to our customers in our existing markets and introduces the ability to shop our brand in the markets we have not yet entered.

Finally, we are very pleased to announce that we have initiated the process of relocating four of our distribution centres, one of which has already been successfully completed on May 2, 2017 in Calgary, with two distribution centres in Vancouver to be done at the beginning of Q3 2017 and Toronto the beginning of Q4 2017. While the relocations will have a one-time temporary drag of approx. \$1 million on EBITDA in 2017, these relocations will position us well for the future by allowing us to improve efficiencies and grow our capacity.

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on May 10, 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 May 17, 2017. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 97252049.

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 March 31, 2017, Sleep Country has 237 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 Q1 2017 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.

SOURCE Sleep Country Canada Holdings Inc. Investor Relations

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

<https://ir.sleepcountry.ca/2017-05-09-Sleep-Country-Canada-Reports-Strong-First-Quarter-Results>