Sleep Country Investor Relations

Sleep Country Canada Reports Strong Performance for Second Quarter of 2017

Revenue increased 10.7% on strong same store sales growth of 7.5%
Earnings per share increased by 15.4%

TORONTO, Aug. 2, 2017 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported its 16th consecutive quarter of strong results for the three and six months ended June 30th, 2017.

Second Quarter 2017 Highlights

- Revenues increased 10.7% to $133.0 million from $120.2 million in Q2 2016.
- Same store sales ("SSS") growth was 7.5%, on top of 12.2% SSS growth in Q2 2016.
- Q2 2017 marked Sleep Country's 16th consecutive quarter of SSS growth.
- Gross profit increased by $3.6 million to $37.3 million, or 28.1% of revenue, from $33.7 million, or 28.0% of revenue in Q2 2016.
- Operating EBITDA1 increased 12.9% to $20.2 million, or 15.2% of revenue, from $17.9 million, or 14.9% of revenue in Q2 2016.
- Adjusted net income1 increased 18.2% to $11.9 million from $10.1 million in Q2 2016.
- Adjusted earnings per share1 increased 18.5% to $0.32 from $0.27 in Q2 2016.
- Successfully launched new corporate website and eCommerce platform.
- Renovated seven stores and opened five new stores.
- Completed relocation of three strategic distribution centers aimed to improve the efficiency and capacity for both the immediate and longer term planned growth initiatives.

Six Month Highlights

- Revenues increased 13.1% to $257.3 million from $227.5 million in the comparative 2016 period.
- SSSG1 was 9.5%, on top of 11.9% SSSG a year ago.
- Gross profit increased 15.9% to $69.9 million or 27.2% of revenue, from $60.3 million, or 26.5% of revenue a year ago.
- Operating EBITDA1 increased 18.8% to $38.4 million or 14.9% of revenue, from $32.3 million, or 14.2% of revenue a year ago.
- Adjusted net income1 increased 28.7% to $22.6 million from $17.6 million a year ago.
- Adjusted earnings per share1 increased 27.7% to $0.60 from $0.47 a year ago.
- Opened seven new stores and renovated 21 others.

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

CEO'S Commentary

"Our second quarter was productive," said David Friesema, Chief Executive Officer of Sleep Country Canada. "Not only did we achieve our 16th consecutive quarter of positive same stores sale growth, make gains on our key financial metrics, and complete seven store renovations, we also completed the launch of our eCommerce platform and relocation of three distribution centres. These major milestones position us extremely well for longer term growth and improved profitability."

Mr. Friesema added, "We were able to achieve success by following our proven strategy that is aimed at driving same stores sales growth, renovating select stores to our enhanced store design and opening new stores in our core markets. This strategy will help to sustain our growth as we head into the second half of the year, which historically has been our busiest sales period."

Dividend Declaration

On August 2, 2017, the Board of Directors declared a dividend on the Company's common shares of $0.165 per share, payable on August 28, 2017 to shareholders of record at the close of business on August 18, 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)

	Q2 2017	Q2 2016	% Change	YTD 2017	YTD 2016	% Change

Revenues	$133,049	$120,212	+10.7%	$257,332	$227,510	+13.1%
SSSG	7.5%	12.2%	N/A	9.5%	11.9%	N/A
Stores opened	5	5	-	7	9	-
Stored renovated	7	5	-	21	10	-
Operating EBITDA[1]	$20,192	$17,884	+12.9%	$38,358	$32,298	+18.8%
Net income from operations	$11,228	$9,699	+15.8%	$21,486	$16,695	+26.4%
Adjusted net income from operations[1]	$11,894	$10,061	+18.2%	$22,624	$17,574	+28.7%
Earnings per share (basic)	$0.30	$0.26	+15.4%	$0.57	$0.45	+26.7%
Adjusted earnings per share[1]	$0.32	$0.27	+18.5%	$0.60	$0.47	+27.7%

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

Summary of Second Quarter Financial Results
Revenue for the second quarter of 2017 grew by 10.7% to $133.0 million, from $120.2 million in Q2 2016. The increase in revenue was largely the result of continued same store sales growth of 7.5% combined with the addition of nine new stores since June 30, 2016. Both mattress revenue and accessory revenue increased in comparison with Q2 2016, with 12.6% growth in mattress revenue ($106.4 million from $94.5 million) and 3.9% growth in accessory revenue ($26.7 million from $25.7 million).

Gross profit increased to $37.3 million for the second quarter of 2017, or 28.1% of revenue, from $33.7 million, or 28.0% of revenue in the second quarter of 2016. Gross profit margin experienced a marginal increase primarily due to sales and distribution expenses decreasing from 16.8% of revenue in Q2 2016 to 16.0% in Q2 2017 as a result of leverage improvements, as well as store occupancy costs decreasing as a percentage of revenue from 9.6% in Q2 2016 to 9.2% in Q2 2017. Offsetting these improvements, inventory and other directly related expenses, net of volume rebates, increased as a percentage of revenue from 44.9% to 46.1% for the second quarter of 2017 mainly due to change in product mix. Additionally, the second quarter of 2016 benefitted from the one-time reversal of a warranty reserve related to an insolvent vendor.

Total general and administration ("G&A") expenses increased by 10.1% or $1.6 million to $17.8 million in Q2 2017 compared with $16.2 million in Q2 2016. G&A expense growth was mainly a result of increases in stock compensation expenses, merit increases, additional hires to support business growth, as well as increases in rent and other occupancy charges related to the relocation of three distribution centres, and lastly due to an increase in credit card and finance charges due to a higher percentage of customers financing sales compared to the second quarter of 2016.

Operating EBITDA[1] in Q2 1017 improved by 12.9% to $20.2 million, or 15.2% of revenue, from $17.9 million, or 14.9% of revenue in Q2 2016. The increase in Operating EBITDA was primarily attributable to growth in revenue and improved gross profit margins, which were partially offset by an increase in total G&A expenses.

During Q2 2017, adjusted net income[1] increased 18.2% to $11.9 million ($0.32 per share) compared to $10.1 million ($0.27 per share) in Q2 2016. Growth in adjusted net income resulted from higher operating EBITDA[1] in addition to a decrease in finance related expenses, partially offset by an increase in income tax expense.

Net income grew to $11.2 million ($0.30 per share) in Q2 2017 an increase of $1.5 million (15.8%) compared to $9.7 million ($0.26 per share) in Q2 2016. Net income increased largely due to improvements in EBITDA[1] and lower finance related expenses partially offset by an increase in income tax expense.

Summary of Six Month Financial Results
In the six months ended June 30, 2017, revenues increased 13.1% to $257.3 million from $227.5 million in the first six months of 2016. This growth was primarily driven by 9.5% increase in same store sales and nine new stores that opened since the end of Q2 2016. Mattress sales revenue increased 14.3% to $204.6 million and accessory revenue increased by 8.7% to $52.8 million.

Gross profit in the first six months of 2017 increased to $69.9 million or 27.2% of revenue, compared to $60.3 million or 26.5% of revenue, in the first six months of 2016. The increase in gross profit margin was attributable to a reduction in sales and distribution expenses to 16.3% of revenue from 17.1% a year ago and improved leverage on store occupancy costs, which decreased to 9.5% of revenue from 10.2% a year ago, offset by an increase in inventory and other directly related expenses, net of volume rebates, increased from 45.3% in 2016 to 46.3% in 2017. The first six months of 2016 also benefitted from a one-time reversal of a warranty reserve.

Operating EBITDA[1] for the first six months of 2017 increased 18.8% to $38.4 million, or 14.9% of revenue, from $32.3 million, or 14.2% of revenue in the first six months of 2016 due to strong revenue growth and improvements in gross profit margins, partially offset by an increase in G&A expenses.

Adjusted net income1 increased 28.7% in the first six months 2017 to $22.6 million ($0.60 per share) from $17.6 million ($0.47 per share) a year ago primarily due to growth in Operating EBITDA1 and lower finance related expenses, partially offset by an increase in income tax expense.

Net income for the first six months of 2017 was $21.5 million ($0.57 per share) compared to $17.0 million ($0.45 per share) in the comparable period in 2016. Net income grew primarily as a result of increases in EBITDA1 and lower finance related expenses, partially offset by an increase in income tax expense.

Outlook
"We are excited about the 2nd half of the year given the progress we made on projects in the first half of 2017," said Mr. Friesema. "Notably, we've opened seven new stores against our target of eight to 12 for the full year, and are pacing ahead on our store renovation target, having completed 21 towards our full year target of 20 to 30. Also, we are excited to have positioned ourselves as an omni-channel retailer with our new e-commerce platform featuring "Bloom" our new and exclusive bed in a box. Finally, we have already completed three of the four distribution centre relocations planned for 2017 which will improve our productivity and customer service."

Conference Call
Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on August 3, 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 August 10, 2017. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 48358484.

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 June 30, 2017, Sleep Country has 242 stores and 16 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 Q2 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 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 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

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