Sleep Country Canada Reports 17th Consecutive Quarter of Growth with Third Quarter 2017 Earnings

Revenue increased 10.1% on strong same store sales growth of 7.3%

TORONTO, Nov. 1, 2017 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported strong financial results for the third quarter and nine months ended September 30, 2017. All financial results are reported in Canadian dollars unless otherwise stated.

Third Quarter Highlights

- Revenue increased 10.1% to $177.1 million from $160.8 million in Q3 2016.
- Same store sales ("SSS1") growth was 7.3% on top of 7.7% SSS1 in Q3 2016.
- Gross profit increased 12.1% to $58.4 million, or 33.0% of revenue, from $52.1 million, or 32.4% of revenue in Q3 2016.
- Operating EBITDA1 increased 6.5% to $35.8 million, or 20.2% of revenue, from $33.6 million, or 20.9% of revenue in Q3 2016.
- Adjusted net income1 increased 7.6% to $23.5 million from $21.9 million in Q3 2016.
- Adjusted earnings per share1 increased 8.6% to $0.63 from $0.58 in Q3 2016.
- Opened two new stores.

Nine Month Highlights

- Revenue increased 11.9% to $434.5 million from $388.4 million in the comparative 2016 period.
- SSS1 was 8.6%, compared to 10.1% SSS1 a year ago.
- Gross profit increased 14.1% to $128.3 million, or 29.5% of revenue, from $112.4 million, or 28.9% of revenue a year ago.
- Operating EBITDA1 increased 12.5% to $74.2 million or 17.1% of revenue, from $65.9 million, or 17.0% of revenue a year ago.
- Adjusted net income1 increased 17.0% to $46.2 million from $39.4 million a year ago.
- Adjusted earnings per share1 increased 17.1% to $1.23 from $1.05 a year ago.
- Opened 9 new stores and renovated 21 previously existing stores.

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

CEO'S Commentary

"We are very pleased with our overall performance, both revenue and earnings, in this past quarter. SSS of 7.3% exceeds the 3% to 6% long term guidance we gave two years ago when we went public. At the same time we successfully completed several major initiatives that we have been strategically planning for well over a year, and are very pleased with our position for future growth," stated David Friesema, Sleep Country's Chief Executive Officer. "The strategy to invest in ecommerce, our new Bloom brand, real estate, both stores and distribution centres, as well as our team was strengthened in 2017. We are very pleased with the progress on ecommerce and Bloom since our launch in May. Our Mattress in a Box brand, Bloom, is showing growth, and we are well positioned with our omni-channel offering to grow this category amidst a new competitive landscape. We remain laser focused on opportunities in this area as demonstrated by our advertising investment in this new brand. We have also completed our 5th DC move in 12 months with our Toronto DC and Head Office. We opened two new stores in Q3 and nine YTD. Through all this, we've continued to focus on improving our teams with better communication and training, not to mention delivering our 17th consecutive quarter of same store sales growth. Throughout this period we have never lost sight of our day-to-day business while accomplishing such big projects for today and the future. The EBITDA drag in Q3 due to these strategic initiatives is in-line with the guidance we provided over the last several quarters."

Dividend Declaration

On November 1, 2017, the Board of Directors declared a dividend on the Company's common shares of $0.165 per share, payable on November 27, 2017 to shareholders of record at the close of business on November 17, 2017. 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 2017	**Q3 2016**	**% Change**	**YTD 2017**	**YTD 2016**	**% Change**
Revenue	$177,123	$160,847	+10.1%	$434,455	$388,357	+11.9%
SSS1	7.3%	7.7%	N/A	8.6%	10.1%	N/A
Stores opened	2	1	-	9	10	-
Stores renovated	-	-	-	21	10	-
Operating EBITDA1	$35,808	$33,624	+6.5%	$74,166	$65,922	+12.5%
Net income from operations	$22,805	$21,402	+6.6%	$44,291	$38,397	15.4%
Adjusted net income from operations1	$23,537	$21,874	+7.6%	$46,161	$39,448	+17.0%
Earnings per share (basic)	$0.61	$0.57	+7.0%	$1.18	$1.02	15.7%
Adjusted earnings per share1	$0.63	$0.58	+8.6%	$1.23	$1.05	+17.1%

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

Summary of Third Quarter Financial Results
Third quarter revenue grew 10.1% to $177.1 million from $160.8 million in the third quarter of 2016. The increase is primarily attributable to the continued SSS1 growth of 7.3% and the addition of 11 net new stores opened since the end of Q3 2016. Both mattress revenue and accessory revenue increased in comparison with Q3 2016, with 11.5% growth in mattress revenue ($140.7 million from $126.2 million) and 5.2% growth in accessory revenue ($36.4 million from $34.6 million). 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 20% of its revenue in the first quarter, 23% in the second quarter, 31% in the third quarter and 26% in the fourth quarter.

Gross profit during the third quarter increased 12.1% to $58.4 million, or 33.0% of revenue, from $52.1 million, or 32.4% of revenue in the same period in 2016. Gross profit margin performance was positively impacted by two main factors. Primarily, sales and distribution compensation expense decreased from 14.2% of revenue in Q3 2016 to 13.7% in the third quarter of 2016. Leverage was improved on store occupancy costs, which decreased to 7.2% of revenue from 7.5% in Q3 2016. This was partially offset by inventory and other directly related expenses, net of volume rebates, which increased as a percentage of revenue from 45.4% to 45.7%, mainly due to a change in mix of product.

Total G&A expenses increased by 23.2% to $23.3 million from $18.9 million in Q3 2016. This increase was primarily due to an increase in advertising expense of $2.4 million, an increase in credit card and finance charges of $0.6 million and an increase in warehouse rent and other occupancy costs of $0.7 million. Media and advertising expenses increased by $2.4 million mainly due to $0.6 million spent in additional digital advertising on eCommerce, $0.7 million spent in traditional media advertising to launch the new Bloom brand and the balance of $1.1 million to provide increased support to the overall business as well as new satellite markets.

During the third quarter of 2017 operating EBITDA1 increased 6.5% or $2.2 million to $35.8 million, or 20.2% of revenue, from $33.6 million, or 20.9% of revenue in Q3 2016. The increase was primarily due to strong growth in revenue year-over-year, as well as improved gross profit margins, and partially offset by an increase in total General and Administration ("G&A") expenses. Operating EBITDA was impacted by a number of planned initiatives within the third quarter of 2017:

- The new eCommerce platform contributed to an EBITDA drag of $0.6 million;
- traditional media advertising spend of $0.7 million to support the launch of the new Bloom brand;
- additional one-time overlap occupancy costs of $0.4 million as a result of the relocation of four distribution centres during 2017;
- a successful lifestyle base promotion offered to customers included a free gift card with purchase, with an

expiry of December 31, 2017. These gift cards resulted in a net decline in EBITDA of $0.3 million during Q3, however the gift cards will positively impact EBITDA in Q4 2017 when the gift cards expire or are used by the customers; and
- Q3 2016 operating EBITDA was helped by the reversal of a legal dispute accrual relating to a supplier amounting to $0.3 million.

After taking into account the various initiatives described above, operating EBITDA would have increased at a faster pace than sales (approx. 13%).

Adjusted net income1 increased 7.6% in the third quarter of 2017 to $23.5 million ($0.63 per share) compared with $21.9 million ($0.58 per share) in the third quarter of 2016. Growth in adjusted net income1 resulted from higher operating EBITDA1, partially offset by higher depreciation and amortization expense and an increase in income tax expense.

Net income in Q3 2017 was $22.8 million ($0.61 per share) compared to $21.4 million ($0.57 per share) in the comparable period in 2016. The increase in net income is primarily due to improvements in EBITDA1 partially offset by a higher depreciation and amortization expense and income tax expense.

Summary of Nine Month Financial Results
In the nine months ended September 30, 2017, revenue increased 11.9% to $434.5 million from $388.4 million in the first nine months of 2016, driven primarily by 8.6% growth in SSS and 11 net new stores that opened since the end of Q3 2017. Mattress sales revenue increased 13.1% to $305.2 million and accessory revenue increased by 7.3% to $89.2 million.

Gross profit increased to $128.3 million or 29.5% of revenue, in the first nine months of 2017 compared to $112.4 million or 28.9% of revenue, in the corresponding period of 2016. This improvement reflected a reduction in sales and distribution expenses to 15.2% of revenue from 15.9% a year ago and improved leverage on store occupancy costs, which decreased to 8.6% of revenue from 9.1% a year ago, offset by an increase in inventory and other directly related expenses, net of volume rebates, increased from 45.4% in 2016 to 46.1% in 2017.

Operating EBITDA1 for the first nine months of 2017 increased 12.5% to $74.2 million, or 17.1% of revenue, from $65.9 million, or 17.0% of revenue in the first nine months of 2016 due to strong revenue growth and improvements in gross profit margins, partially offset by an increase in G&A expenses. Operating EBITDA was impacted by a number of items in the first nine months of 2017:

- the new eCommerce platform contributed to an EBITDA drag of $1.1 million;
- traditional media advertising spend of $0.9 million to support the launch of the new Bloom brand;
- additional one-time overlap occupancy costs of $0.9 million as a result of the relocation of 4 distribution centres during 2017;
- a lifestyle base promotion that offered to customers included a free gift card with purchase, which expires on December 31, 2017. These gift cards resulted in a net decline in EBITDA of $0.3 million during Q3, however the gift cards will positively impact EBITDA in Q4 2017 when the gift cards expire or are used by our customers;
- Q3 2016 operating EBITDA was helped by the reversal of a legal dispute accrual relating to a supplier amounting to $0.3 million; and
- Q2 2016 was helped by a one-time reversal of a reserve related to an insolvent vendor amounting to $1.5 million.

After taking into account the various initiatives described above, operating EBITDA would have increased at a faster pace than sales (approx. 20%).

Adjusted net income1 increased 17.0% YTD 2017 to $46.2 million ($1.23 per share) from $39.4 million ($1.05 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 amortization expense and income tax expense.

Net income for the first nine months of 2017 was $44.3 million ($1.18 per share) compared to $38.4 million ($1.02 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 depreciation and amortization expense and income tax expense.

Outlook

"As we move into the last quarter of the year, we are trending ahead of our expectations in terms of new store openings and renovations," further commented Mr. Friesema. "We plan to complete three more store openings in the fourth quarter, for a total of 12 for the year. We still see a strong market opportunity to continue this growth, targeting eight to 12 store openings per year for the foreseeable future. Additionally, we will finalize the renovation of 10 more stores, for a total of 31 stores by year-end, ahead of our projections of 20 to 30 stores per year.

"As consumer behaviour and the competitive landscape both continue to evolve at a rapid pace, we are very excited about the opportunities that this will have for our business. In addition to having long tenured, well trained team that is passionate about sleep and providing great service, we remain focused on developing advertising strategies that capture consumers' attention, inspire action and result in increased market share. To this end, the expansion of our online presence with a robust eCommerce platform brings with it additional long term benefits for the strength of our brand. We have amplified our digital marketing strategy given this new platform, as well as the launch of Bloom.

"With the completion of our Distribution Centre relocations we are better positioned to take advantage of this evolving landscape through improved efficiencies, greater capacity, and an overall better experience for our customers. All of our strategies are working together to further cement our position as Canada's leading specialty mattress retailer."

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on November 2, 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 November 9, 2017. 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, 2017, Sleep Country had 244 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 Q3 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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