

Sleep Country Canada Reports Strong Performance for Fourth Quarter of 2017
Revenue increased 13.4%, recorded our 18th consecutive quarter of strong Same Store Sales¹ growth at 9.3% and Adjusted Earnings Per Share¹ increased by 35.5%



TORONTO, March 1, 2018 /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 fourth quarter and 12 months ended December 31, 2017. All financial results are

reported in Canadian dollars unless otherwise stated.

Fourth Quarter Highlights

- Revenue increased 13.4% to \$153.6 million from \$135.4 million in Q4 2016.
- Same store sales ("SSS1") growth was 9.3% on top of 9.6% SSS1 growth in Q4 2016.
- Gross profit increased 19.6% to \$46.7 million, or 30.4% of revenue, from \$39.0 million, or 28.8% of revenue in Q4 2016.
- Operating EBITDA¹ increased 34.3% to \$25.7 million, or 16.7% of revenue, from \$19.1 million, or 14.1% of revenue in Q4 2016.
- Adjusted Net Income¹ increased 35.8% to \$15.8 million from \$11.7 million in Q4 2016.
- Adjusted Earnings Per Share¹ increased 35.5% to \$0.42 from \$0.31 in Q4 2016.
- Opened three new stores and renovated 10 stores.

Annual Highlights

- Revenue increased 12.3% to \$588.0 million from \$523.8 million in 2016.
- SSS1 growth was 8.8% on top of 10.0% SSS1 growth in 2016.
- Gross profit increased 15.6% to \$175.0 million, or 29.8% of revenue, from \$151.4 million, or 28.9% of revenue a year ago.
- Operating EBITDA¹ increased 17.4% to \$99.8 million or 17.0% of revenue, from \$85.0 million, or 16.2% of revenue a year ago.
- Adjusted Net Income¹ increased 21.3% to \$62.0 million from \$51.1 million a year ago.
- Adjusted Earnings Per Share¹ increased 21.3% to \$1.65 from \$1.36 a year ago.
- Opened 12 new stores and renovated 31 stores.

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

CEO'S Commentary

"We are very pleased with our achievements in the fourth quarter and for the year as a whole. In a challenging retail environment, Sleep Country continues to perform well thanks to the efforts of our associates who everyday create a great customer experience."

Mr. Friesema added, "Our performance in Q4 was enhanced by our increased marketing spend in the second half of the year and our strategic initiatives throughout the year. In 2017 we also launched our eCommerce platform, completed the relocations of four largest distribution centers, opened 12 new and renovated 31 stores, and launched our mattress-in-a-box brand, Bloom. The success of these strategies is evident in our overall 2017 financial performance and reinforces the direction that we plan to continue into 2018.

Dividend Declaration

On January 26, 2018, the Board of Directors declared a dividend on the Company's common shares of \$0.165 per share, payable on February 26, 2018 to shareholders of record at the close of business on February 16, 2018. 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)

	Q4 2017	Q4 2016	% Change	YTD 2017	YTD 2016	% Change
Revenue	\$153,559	\$135,430	+13.4%	\$588,014	\$523,787	+12.3%
SSS1	9.3%	9.6%	N/A	8.8%	10.0%	N/A
Stores opened	3	1	-	12	11	-
Stores renovated & relocated	10	9	-	31	20	-
Operating EBITDA1	\$25,681	\$19,123	+34.3%	\$99,847	\$85,045	+17.4%
Net income	\$14,780	\$11,177	+32.2%	\$59,071	\$49,574	+19.2%
Adjusted net income1	\$15,831	\$11,655	+35.8%	\$61,992	\$51,103	+21.3%
Earnings per share (basic)	\$0.39	\$0.30	+30.0%	\$1.57	\$1.32	+18.9%
Adjusted earnings per share1	\$0.42	\$0.31	+35.5%	\$1.65	\$1.36	+21.3%

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

Summary of Fourth Quarter Financial Results

Fourth quarter revenue grew 13.4% to \$153.6 million from \$135.4 million in the fourth quarter of 2016. The increase is primarily attributable to the continued SSS1 growth of 9.3% and the addition of 12 new stores opened since the end of Q4 2016. Both mattress revenue and accessory revenue increased in comparison with Q4 2016, with 13.9% growth in mattress revenue (\$122.7 million from \$107.7 million) and 11.2% growth in accessory revenue (\$30.9 million from \$27.8 million). In Q4 2017 a decision was made to re-classify the revenue from the sale of metal frames from the accessories category to the mattress category. Based on historical categorization, revenues in the mattress and accessories categories grew by 14.7% and 8.6% respectively. In our 2017 MD&A, which is available on SEDAR at www.sedar.com, we have included mattress and accessories revenues for the past two years, showing results under the re-classified and historical categorizations.

The mattress industry is affected by seasonality with fourth quarter sales typically the second 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 fourth quarter increased 19.6% to \$46.7 million, or 30.4% of revenue, from \$39.0 million, or 28.8% of revenue in the same period in 2016. Gross profit margin performance was positively impacted by two main factors. Primarily, sales and distribution expenses decreased from 15.4% of revenue in Q4 2016 to 15.1% in the fourth quarter of 2017, due to improved cost control. Leverage was improved on store occupancy costs, which decreased to 8.2% of revenue from 8.8% in Q4 2016. Inventory and other directly related expenses, net of volume rebates, decreased as a percentage of revenue from 46.3% to 45.6%, mainly due to higher raw product margins and lower inventory provisions and write offs.

Total General and Administration ("G&A") expenses increased by 8.2% to \$22 million from \$20.4 million in Q4 2016. This increase was primarily due to an increase in advertising expense of \$0.6 million and an increase in salaries, wages, and benefits of \$1.2 million. Media and advertising expenses increased by \$0.6 million mainly due to \$0.3 million spent in additional digital advertising on eCommerce and \$0.2 million spent in traditional media advertising to launch the new Bloom brand. Salaries, wages and benefits increased by \$1.2 million as a result of a \$0.6 million increase in stock compensation expense. The Company also incurred additional compensation expense in the regular course of business as a result of merit increases and additional hires to support growth of the business.

During the fourth quarter of 2017, Operating EBITDA1 increased 34.3%, or \$6.6 million, to \$25.7 million, or 16.7% of revenue, from \$19.1 million, or 14.1% of revenue in Q4 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 G&A expenses.

Adjusted Net Income1 increased 35.8% in the fourth quarter of 2017 to \$15.8 million (\$0.42 per share) compared with \$11.7 million (\$0.31 per share) in the fourth quarter of 2016. Growth in Adjusted Net Income1 resulted from higher Operating EBITDA1, partially offset by an increase in finance related expense and income tax expense.

Net income in Q4 2017 was \$14.8 million (\$0.39 per share) compared to \$11.2 million (\$0.30 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 income tax expense.

Summary of Annual Financial Results

For the year ended December 31, 2017, revenue increased 12.3% to \$588.0 million from \$523.8 million in 2016, driven primarily by 8.8% growth in SSS¹ and 12 net new stores that opened since the end of Q4 2016. Mattress sales revenue increased 12.9% to \$474.6 million and accessory revenue increased by 9.7% to \$113.4 million. In Q4 2017 a decision was made to re-classify the revenue from the sale of metal frames from the accessories category to the mattress category. Based on historical categorization, revenues in the mattress and accessories categories grew by 13.5% and 7.7% respectively.

Gross profit increased to \$175.0 million or 29.8% of revenue, in 2017 compared to \$151.4 million or 28.9% of revenue, in 2016. This improvement reflected a reduction in sales and distribution expenses to 15.2% of revenue from 15.8% a year ago and improved leverage on store occupancy costs, which decreased to 8.5% of revenue from 9.0% a year ago, offset by an increase in inventory and other directly related expenses, net of volume rebates, which increased from 45.6% in 2016 to 45.9% in 2017.

Operating EBITDA¹ for 2017 increased by 17.4% to \$99.8 million, or 17.0% of revenue, from \$85.0 million, or 16.2% of revenue in 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 21.3% in 2017 to \$62.0 million (\$1.65 per share) from \$51.1 million (\$1.36 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 in 2017 was \$59.1 million (\$1.57 per share) compared to \$49.6 million (\$1.32 per share) 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

"Throughout 2017 we delivered strong financial performance and supported that growth with strategic investments resulting in exceptional results," said Mr. Friesema. "As we enter into 2018, we plan to execute on our ongoing objectives by continuing to grow our market share, and exploring new opportunities while improving our current customer experience to drive SSS growth."

Mr. Friesema added, "we also plan to continue with our store renovation program by renovating 25 to 30 stores to expand the benefits we have seen from our new concept stores. To further strengthen our presence across Canada, we intend to open eight to 12 stores per year in 2018 and for the foreseeable future. In addition to enhancing and expanding our brick-and-mortar presence, we will continue to invest in, and explore new opportunities for our eCommerce platform starting with the expansion of our Bloom mattress-in-a-box line up which will feature three new mattresses.

"During 2017, we increased our advertising spend by 19% which translated into significant total revenue and Same Store Sales growth, however the increase in advertising spend was not uniform across all quarters and spend in any one particular quarter can have a delayed effect on revenue in future quarters. In 2018 we plan to continue to invest in our media and advertising platform with the highest growth planned for the first half of the year to continue to support our eCommerce and Bloom brand launch which began in the second half of 2017. Advertising has proven to be one of Sleep Country's most powerful growth drivers and, with the support of a new advertising agency, we have begun the process of refreshing our accessories marketing materials, creating strategies to support the launch of new products and driving further sales through our eCommerce platform.

"As Canada's leading specialty mattress retailer, we enter into 2018 as a highly competitive company that is continuously improving its existing business model, thoughtfully expanding its offering, and aggressively acting on opportunities."

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on March 2, 2018 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 9, 2017. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 6778508.

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 December 31, 2017, Sleep Country had 247 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 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 2017 annual information form (the "AIF") filed on March 1, 2018. 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

Robert Masson, Chief Financial Officer, 289.748.0208, robert.masson@sleepcountry.ca

<https://ir.sleepcountry.ca/2018-03-01-Sleep-Country-Canada-Reports-Strong-Performance-for-Fourth-Quarter-of-2017>