

Sleep Country Canada Reports Strong Performance for First Quarter of 2018
Revenue increased by 8.9%, while achieving our 19th consecutive quarter of strong Same Store Sales ("SSS1") growth of 5.1% on top of 11.9% SSS1 in Q1 2017
Quarterly Dividend increased by 12% to \$0.185 per share

TORONTO, May 7, 2018 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported their financial results for the three months ended March 31, 2018. All financial results are reported in Canadian dollars unless otherwise stated.



First Quarter Highlights

- Revenue increased 8.9% to \$135.3 million from \$124.2 million in Q1 2017.
- Same store sales ("SSS1") growth was 5.1% on top of 11.9% SSS1 in Q1 2017.
- Gross profit increased 10.7% to \$36.2 million, or 26.8% of revenue, from \$32.7 million, or 26.3% of revenue in Q1 2017.
- Operating EBITDA¹ increased 5.9% to \$19.3 million, or 14.3% of revenue, from \$18.2 million, or 14.7% of revenue in Q1 2017.
- Adjusted Net Income¹ increased 2.3% to \$11.0 million from \$10.8 million in Q1 2017.
- Adjusted Earnings Per Share¹ increased 3.4% to \$0.30 from \$0.29 in Q1 2017.
- Opened three new stores.
- Renovated 10 stores and relocated 1 store.

Highlights Subsequent to Quarter End

- Increased quarterly dividend by 12% to 0.185 per share.
- Opened one new store
- Renovated four stores.

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

CEO'S Commentary

"We are pleased to deliver strong results in the first quarter of 2018," said David Friesema, Chief Executive Officer of Sleep Country Canada. "Despite reports of soft sales across the Canadian mattress industry, somewhat attributed to poor weather, we saw growth across all key financial metrics on top of a very strong Q1 2017. Most notably, we increased our total revenue by 8.9%, same store sales by 5.1%, and gross profit by 10.7%. Our performance in the first quarter of 2018 demonstrates our ability to achieve growth in both mattress and accessory revenue and excel even in unfavourable seasonal conditions."

"We attribute our success to our talented teams and the continued execution of our strategic objectives and strict focus on our growth initiatives," Mr. Friesema added. "During the quarter, we opened three new stores and renovated 10 locations. Since March 2017, we opened 13 new stores and renovated 27 locations. In the first quarter of 2018, we continue to measure the success of our enhanced store design and were delighted to see that the new store concepts are achieving an additional SSS1 growth of 360 basis points higher than our legacy stores. Finally, we were pleased with our planned investments in onboarding our new advertising agency and increased support for our eCommerce business."

"Based on the success of our growth initiatives, the board has decided to increase our dividend for the third time in three years, since going public."

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

Dividend Declaration

On May 7, 2018, the Board of Directors declared a dividend on the Company's common shares of \$0.185 per share, payable on May 31, 2018 to shareholders of record at the close of business on May 22, 2018. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Select Financial and Operational Results

(All amounts in thousands unless otherwise stated; other than store and share data)

	Q1	Q1	%
	2018	2017	Change
Revenue	\$135,281	\$124,206	+8.9%
SSS1	+5.1%	+11.9%	
Stores opened	3	2	
Stores renovated & relocated	11	14	
Operating EBITDA1	\$19,293	\$18,219	+5.9%
Net income	\$10,320	\$10,311	+0.1%
Adjusted net income1	\$11,029	\$10,783	+2.3%
Earnings per share (basic)	\$0.28	\$0.27	+3.7%
Adjusted earnings per share1	\$0.30	\$0.29	+3.4%

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

Summary of First Quarter Financial Results

First quarter revenue grew 8.9% to \$135.3 million from \$124.2 million in the first quarter of 2017. The increase is primarily attributable to the continued SSS1 growth of 5.1% and the addition of 13 new stores opened since the end of Q1 2017. Both mattress revenue and accessory revenue increased in comparison with Q1 2017, with 8.2% growth in mattress revenue (\$108.3 million from \$100.1 million) and 11.8% growth in accessory revenue (\$27.0 million from \$24.1 million).

The mattress industry is affected by seasonality with the first quarter sales typically the lowest during the year as consumers tighten their budget after the holiday season along with cold winter weather in many parts of the country lowering customers desire to shop. 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 first quarter increased 10.7% to \$36.2 million, or 26.8% of revenue, from \$32.7 million, or 26.3% of revenue in the same period in 2017. Gross profit margin performance was positively impacted by two main factors. Primarily, inventory and other directly related expenses, net of volume rebates, decreased as a percentage of revenue from 46.5% to 46.1%, mainly as a result of achieving higher raw product margins, partially offset by an increase in third party logistics delivery expenses. In addition, sales and distribution compensation expenses decreased from 16.6% of revenue in Q1 2017 to 16.4% in the first quarter of 2018.

Total General and Administration ("G&A") expenses increased by 17.8% to \$17.6 million from \$15.0 million in Q1 2017. This increase was primarily due to an increase in advertising expense of \$1.5 million and an increase in other G&A expenses. Media and advertising expenses increased by \$1.5 million mainly due to the execution on our planned investment in advertising in 2018, with higher spend planned in the first half of 2018.

Approximately \$1 million of the increase was attributable to the increase in digital marketing spend, to drive online traffic, higher fees and onboarding costs of a new advertising agency. The balance was mainly attributable to additional infomercials, primarily to support our accessories business, along with additional traditional media advertising on television and radio to provide increased support to the overall business. Other G&A expenses increased by \$0.6 million mainly due to the reversal of a one-time accrual in Q1 2017 related to a legal dispute and other miscellaneous provisions made in Q1 2018.

During the first quarter of 2018, Operating EBITDA1 increased 5.9%, or \$1.1 million, to \$19.3 million, or 14.3% of revenue, from \$18.2 million, or 14.7% of revenue in Q1 2017. 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 advertising and other G&A expenses.

Depreciation and amortization expenses increased by \$0.8 million from \$2.8 million in Q1 2017 to \$3.5 million in Q1 2018 mainly due to the effect of higher capital expenditure incurred since March 31, 2017 mainly due to the relocation of four distribution centres, 27 renovations of existing stores to an enhanced store design and the addition of 13 new stores.

Adjusted Net Income1 increased 2.3% in the first quarter of 2018 to \$11.0 million (\$0.30 per share) compared with \$10.8 million (\$0.29 per share) in the first quarter of 2017. Growth in Adjusted Net Income1 resulted from higher Operating EBITDA1, partially offset by an increase in depreciation and amortization expense and finance related expense.

Net income in Q1 2018 remained relatively unchanged at \$10.3 million compared to Q1 2017 (Q1 2018-\$0.28 per share; Q1 2017 \$0.27 per share). In Q1 2018, the increase in EBITDA1 was offset by an increase

in the depreciation and amortization expense and finance related expenses.

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

Outlook

"Our investment in marketing during Q1 grew traffic, increased conversion in our stores, and produced increases in both mattress and accessory revenue. We plan to continue these investments in Q2 to capitalize on the seasonally stronger quarters ahead," said Mr. Friesema. "Our enhanced digital advertising resulted in strong growth in traffic on our eCommerce website in Q1 and we will also continue to grow our digital advertising in future quarters. Our Omni-channel business will also be accelerated with 3-4 new mattress-in-a-box offerings being introduced starting in Q2."

"We are also pleased to announce that we will exceed our expected growth in new store openings for the year and are raising our 2018 guidance to at least 15 stores. We reaffirm our guidance to opening eight-12 stores per year in 2019 and beyond. Also, with 14 store renovations completed to date, we are confident that we will achieve our 25-30 renovations in 2018. This is particularly exciting as our renovated stores continue to outperform the growth of our legacy stores.

"Our teams across the country achieved strong results in Q1 by focusing on the initiatives that have generated 19 quarters of same store sales growth. That focus, paired with the investments we continue to make, will help us capitalize on the changes currently happening in the Canadian market, and will allow us to help even more Canadians sleep soundly with a new mattress and sleep accessories.

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on May 8, 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 May 15, 2018. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 7589387.

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 March 31, 2018, Sleep Country had 250 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 Q1 2018 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

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<https://ir.sleepcountry.ca/2018-05-07-Sleep-Country-Canada-Reports-Strong-Performance-for-First-Quarter-of-2018>