

Sleep Country Canada achieves 20th consecutive quarter of strong same store sales growth

Strong results with revenue, gross margins and operating EBITDA, all posting strong year over year growth

TORONTO, Aug. 2, 2018 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ), the leading specialty mattress retailer in Canada, today reported strong financial results for the three months ended June 30, 2018. All financial results are reported in Canadian dollars unless otherwise stated.

Second Quarter Highlights

- Revenue increased 8.1% to \$143.7 million from \$132.9 million in Q2 2017.
- Same Store Sales ("SSS1") growth was 4.4% on top of 7.5% SSS1 growth in Q2 2017.
- Gross profit increased 10.3% to \$41.2 million, from \$37.4 million in Q2 2017.
- Operating EBITDA¹ increased 13.2% to \$22.9 million (15.9% of revenue), from \$20.2 million (15.2% of revenue) in Q2 2017.
- Net Income increased 9.1% to \$12.3 million from \$11.3 million in Q2 2017.
- Adjusted Net Income¹ increased 12.4% to \$13.4 million from \$11.9 million in Q2 2017.
- Earnings per share increased 10.0% to \$0.33 from \$0.30 in Q2 2017.
- Adjusted Earnings Per Share¹ increased 12.5% to \$0.36 from \$0.32 in Q2 2017.
- Opened six new stores.
- Renovated nine stores.

Six Month Highlights

- Revenues increased 8.5% to \$279 million from \$257.1 million in the comparative 2017 period.
- SSS1 growth was 4.7%, on top of 9.5% SSS1 growth a year ago.
- Gross profit increased 10.5% to \$77.4 million, from \$70.1 million a year ago.
- Operating EBITDA¹ increased 9.7% to \$42.2 million (15.1% of revenue), from \$38.4 million (15.0% of revenue) a year ago.
- Net Income increased 4.8% to \$22.6 million from \$21.6 million a year ago.
- Adjusted net income¹ increased 7.6% to \$24.4 million from \$22.7 million a year ago.
- Earnings per share increased 7.0% to \$0.61 from \$0.57 a year ago.
- Adjusted earnings per share¹ increased 10.0% to \$0.66 from \$0.60 a year ago.
- Opened nine new stores.
- Renovated 20 stores.

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

CEO'S Commentary

"This most recent quarter marked our 20th consecutive quarter of impressive growth." said David Friesema, Chief Executive Officer of Sleep Country Canada. "Much of our growth was driven by two of our largest strategic initiatives: first, increasing mattress units sold, with a focus on growing our market share in the below \$1000 price category. Our pricing analysis, and the fact that our mattress average unit selling price actually increased in the quarter clearly indicates that we attracted more customers and expanded our base. Secondly, increasing our awareness as a sleep accessory retailer. Q2 saw a marked increase in customer visits to buy accessories only.

"We experienced weak traffic in April as reported by other retailers, however this was offset by solid store traffic in May and June. All other KPI's were positive for the quarter. Of particular importance we experienced accelerated mattress unit growth even in comparison to 2017."

Dividend Declaration

On August 2, 2018, the Board of Directors declared a dividend on the Company's common shares of \$0.185 per share, payable on August 30, 2018 to shareholders of record at the close of business on August 20, 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)

	Q2 2018	Q2 2017	% Change	YTD 2018	YTD 2017	% Change
Revenues	\$143,693	132,922	+8.1%	\$278,974	\$257,128	+8.5%
SSS1	4.4%	7.5%	N/A	4.7%	9.5%	N/A
Gross profit margin	28.7%	28.1%	N/A	27.8%	27.3%	N/A
Stores opened	6	5	-	9	7	-
Stored renovated	9	7	-	20	21	-
Operating EBITDA1	\$22,893	\$20,222	+13.2%	\$42,186	\$38,441	+9.7%
Operating EBITDA Margin1	15.9%	15.2%	N/A	15.1%	15.0%	N/A
Net income	\$12,279	\$11,258	+9.1%	\$22,599	\$21,569	+4.8%
Adjusted net income1	\$13,406	\$11,924	+12.4%	\$24,435	\$22,707	+7.6%
Earnings per share (basic)	\$0.33	\$0.30	+10.0%	\$0.61	\$0.57	+7.0%
Adjusted earnings per share - Basic1	\$0.36	\$0.32	+12.5%	\$0.66	\$0.60	+10.0%
Adjusted earnings per share - Diluted1	\$0.36	\$0.31	+16.1%	\$0.65	\$0.60	+8.3%

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

Summary of Second Quarter Financial Results

Second quarter revenue grew 8.1% to \$143.7 million from \$132.9 million in the second quarter of 2017. The increase is primarily attributable to the continued SSS1 growth of 4.4% and the addition of 14 new stores opened since the end of Q2 2017. Both mattress revenue and accessory revenue increased in comparison with Q2 2017, with 6.3% growth in mattress revenue (\$115.8 million from \$108.4 million) and 13.7% growth in accessory revenue (\$27.9 million from \$24.5 million).

The mattress industry is affected by seasonality. On average over the past three fiscal 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. Cold winter weather in many parts of the country is a factor that typically lowers customers' desire to shop and tends to impact consumer spending in the first quarter. This year, winter conditions extended into April, likely affecting customer spending in the beginning of the second quarter.

Gross profit during the second quarter increased 10.3% to \$41.2 million, or 28.7% of revenue, from \$37.4 million, or 28.1% 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 46.0% to 45.8%, 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 16.0% of revenue in Q2 2017 to 15.4% in the second quarter of 2018. Gross profit during the second quarter of 2018 was partially offset by an increase in store occupancy costs, which grew from 9.2% of revenue in Q2 2017 to 9.5% of revenue in Q2 2018. The increase in store occupancy costs as a percentage of revenue was mainly driven by higher utilities, property taxes and repairs and maintenance of existing stores as well as the effect of incurring pre-opening occupancy costs for new stores.

Total General and Administration ("G&A") expenses increased by 9.1% to \$19.5 million from \$17.8 million in Q2 2017. G&A expense growth was mainly a result of increases in stock compensation expense included in salaries, wages and benefits and credit card and finance charges due to customers' preference towards longer term financing plans compared to the second quarter of 2017. In the second quarter of 2018, media and advertising expenses grew by \$0.2 million to \$6.1 million. G&A expenses benefited from a \$0.2 million year-over-year decrease in warehouse rent and other occupancy charges, which decreased as a result of 2017 adjustments received from landlords in Q2 2018.

During the second quarter of 2018, Operating EBITDA1 increased 13.2%, or \$2.7 million, to \$22.9 million, or 15.9% of revenue, from \$20.2 million, or 15.2% of revenue in Q2 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 total G&A expenses.

Depreciation and amortization expenses increased by \$0.3 million from \$3.3 million in Q2 2017 to \$3.5 million

in Q2 2018 mainly due to the effect of new store openings, store renovations and the impact of relocation of four distribution centres in 2017.

Adjusted Net Income¹ increased 12.4% in the second quarter of 2018 to \$13.4 million (\$0.36 per share) compared to \$11.9 million (\$0.32 per share) in the second 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 expenses, other expenses (income) and income tax expense.

Net income in Q2 2018 increased by \$1 million to \$12.3 million from \$11.3 million in Q2 2017 (Q2 2018-\$0.33 per share; Q2 2017 \$0.30 per share). In Q2 2018, the increase in EBITDA¹ was offset by an increase in the depreciation and amortization expense, finance related expenses, other expenses (income) and income tax expense.

Summary of Six Month Financial Results

In the six months ended June 30, 2018, revenues increased 8.5% to \$279 million from \$257.1 million in the first six months of 2017. This growth was primarily driven by 4.7% increase in same store sales and 14 new stores that opened since the end of Q2 2017. Mattress sales revenue increased 7.5% to \$224.1 million and accessory revenue increased by 12.7% to \$54.9 million.

Gross profit in the first six months of 2018 increased to \$77.4 million or 27.8% of revenue, compared to \$70.1 million or 27.3% of revenue, in the first six months of 2017. The increase in gross profit margin was attributable to a reduction in inventory and other directly related expenses net of volume rebates to 45.9% of revenue from 46.2% of revenue a year ago. Gross profit also benefited from lower sales and distribution expenses, which decreased to 15.9% of revenue from 16.3% a year ago. Increases to gross profit were partially offset by an increase in store occupancy costs to 9.7% of revenue compared to 9.5% of revenue for the first six months of 2017. The increase in store occupancy costs as a percentage of revenue was mainly driven by higher utilities, property taxes and repairs and maintenance of existing stores as well as the effect of incurring pre-opening occupancy costs for new stores.

Operating EBITDA¹ for the first six months of 2018 increased 9.7% to \$42.2 million, or 15.1% of revenue, from \$38.4 million, or 15.0% of revenue in the first six months of 2017 due to strong revenue growth and improvements in gross profit margins, partially offset by an increase in G&A expenses.

Adjusted net income¹ increased 7.6% in the first six months 2018 to \$24.4 million (\$0.66 per share) from \$22.7 million (\$0.60 per share) a year ago primarily due to growth in Operating EBITDA¹ and was partially offset by an increase in depreciation and amortization expense, finance related expense, other expenses (income) and income tax expense.

Net income for the first six months of 2018 was \$22.6 million (\$0.61 per share) compared to \$21.6 million (\$0.57 per share) in the comparable period in 2017. Net income grew primarily as a result of increases in EBITDA¹ and was partially offset by higher finance related expenses, depreciation and amortization expense, other expenses (income) and income tax expense.

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

Outlook

"We enter the second half of 2018 in a strong position to execute on our objectives for the year," added Mr. Friesema. "Last quarter we revised our estimate for store openings, guiding to a minimum of 15 new stores in 2018. With six months left in the year, we are able to commit to opening 17 stores this year, but continue our future guidance at eight to 12 stores per year in 2019 and beyond. We are continuing to expand our mall store initiative and will have seven mall locations by the end of the year. Our financial flexibility has allowed us to increase our planned store openings for the year and take advantage of the favourable location opportunities."

"Lastly, I would like to congratulate our entire team for accomplishing these results, and also for being recognized as industry leaders by two separate organizations. RepTrak® named us as one of the 50 Most Reputable Brands in Canada, and we were also recognised as the most trusted retailer of mattresses by Brandspark."

Conference Call

Sleep Country's CEO, David Friesema, will host a conference call for analysts and investors on August 3, 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 August 10, 2018. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 7171725.

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 June 30, 2018, Sleep Country had 256 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 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

<https://ir.sleepcountry.ca/2018-08-02-Sleep-Country-Canada-achieves-20th-consecutive-quarter-of-strong-same-store-sales-growth>