Sleep Country Canada announces 21st consecutive quarter of sales growth

TORONTO, Nov. 1, 2018 /CNW/ - Sleep Country Canada Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ) today released financial results for the three months ended September 30, 2018. The company's 21st consecutive quarter of same store sales growth accentuates their continued market share growth and underscores their position as Canada's leading specialty mattress retailer. All financial results are reported in Canadian dollars unless otherwise stated.

Third Quarter Highlights

- Revenue increased 4.4% to $183.9 million from $176.2 million in Q3 2017.
- Same Store Sales ("SSS1") increased 0.2%, on top of 7.3% SSS1 growth in Q3 2017.
- Gross profit increased 6.4% to $62.2 million, from $58.4 million in Q3 2017.
- Operating EBITDA1 increased 5.2% to $37.7 million (20.5% of revenue), from $35.8 million (20.3% of revenue) in Q3 2017.
- Net Income increased 3.9% to $23.7 million from $22.8 million in Q3 2017.
- Adjusted Net Income1 increased 4.6% to $24.7 million from $23.6 million in Q3 2017.
- Earnings per share increased 4.9% to $0.64 from $0.61 in Q3 2017.
- Adjusted Earnings Per Share1 increased 6.3% to $0.67 from $0.63 in Q3 2017.
- Accessories revenue grew by 12.8% to $37.7 million from $33.4 million last year.
- eCommerce sales more than doubled.
- Opened four new stores.
- Welcomed Zabeen Hirji as director on the Company's Board.

Nine Month Highlights

- Revenues increased 6.8% to $462.9 million from $433.3 million in the comparative 2017 period.
- SSS1 increased 2.9%, on top of 8.6% SSS1 growth a year ago.
- Gross profit increased 8.6% to $139.6 million, from $128.5 million a year ago.
- Operating EBITDA1 increased 7.5% to $79.9 million (17.3% of revenue), from $74.3 million (17.1% of revenue) a year ago.
- Net Income increased 4.3% to $46.3 million from $44.4 million a year ago.
- Adjusted Net Income1 increased 6.1% to $49.1 million from $46.3 million a year ago.
- Earnings per share increased 5.9% to $1.25 from $1.18 a year ago.
- Adjusted Earnings Per Share1 increased 8.1% to $1.33 from $1.23 a year ago.
- Opened 13 new stores compared to nine new openings at the same period last year.
- Renovated 19 stores.
- Recycled and donated over 140,000 mattresses and boxsprings.

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

CEO's Commentary

"While this quarter was successful in profitability measures and we were pleased with growth in many areas of the business, same store sales growth was lower than we expected", said Dave Friesema, Chief Executive Officer, Sleep Country Canada. Sales growth varied on a regional basis even though Sleep Country executes the same operational and marketing strategies across the country. We were particularly happy with the results of our new stores that opened in 2017 and 2018 and together with online growth, our business contributed to a positive quarter."

"New product innovation coupled with a more targeted investment in infomercials and our enhanced store design bolstered our accessories business – as seen in all our stores, and online. Compared to this time last year, our accessories business grew by 12.8% to $37.7 million from $33.4 million. Recognizing the value of optimal sleep and that no one product fits all, we introduced a suite of products that support our commitment to providing customers with access to total sleep solutions. From a more segmented offering in our Bloom mattress-in-a-box line, to top-of-bed items like weighted blankets or throws, to linen sprays and even dog beds, we have found that providing a wide array of sleep-related accessories to our customers has been positively received."

Dividend Declaration

On November 1, 2018, the Board of Directors declared a dividend on the Company's common shares of $0.185 per share, payable on November 29, 2018 to shareholders of record at the close of business on November 19, 2018. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Select Financial and Operational Results

(C$ thousands unless otherwise stated; other than store and share data)	Q3 2018	Q3 2017	% Change	YTD 2018	YTD 2017	% Change
Revenues	$183,899	$176,200	4.4%	$462,873	$433,328	6.8%
SSS1	0.2%	7.3%		2.9%	8.6%	
Gross profit margin	33.8%	33.2%		30.2%	29.7%	
Stores opened	4	2		13	9	
Stores renovated	-	-		19	21	
Operating EBITDA1	$37,693	$35,831	5.2%	$79,879	$74,272	7.5%
Operating EBITDA margin1	20.5%	20.3%		17.3%	17.1%	
Net Income	$23,729	$22,828	3.9%	$46,328	$44,397	4.3%
Adjusted Net Income1	$24,650	$23,560	4.6%	$49,085	$46,267	6.1%
Earnings per share (basic)	$0.64	$0.61	4.9%	$1.25	$1.18	5.9%
Adjusted Earnings Per Share – Basic1	$0.67	$0.63	6.3%	$1.33	$1.23	8.1%
Adjusted Earnings Per Share – Diluted1	$0.66	$0.62	6.5%	$1.31	$1.22	7.4%

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

Summary of Third Quarter Financial Results
Third quarter revenue grew by 4.4% to $183.9 million from $176.2 million in the third quarter of 2017. This increase was aided by SSS1 growth of 0.2% on top of strong, previously reported quarters, and further bolstered by the addition of 16 news stores since September 30, 2017. Mattress revenue was also a key driver when compared to Q3 2017, increasing by 2.4% to $146.2 million from $142.8 million. A true highlight of the quarter was accessories revenue which – driven by a more diverse product assortment, broader price segmentation, eCommerce growth and browser-to-buyer conversion via enhanced design – saw double-digit growth of 12.8%, rising to $37.7 million from $33.4 million at the same period last year.

Gross profit during the third quarter increased 6.4% to $62.2 million, comprising 33.8% of revenue, from $58.4 million, or 33.2% of revenue, in the same period of 2017. The growth of gross profit margin was primarily influenced by the following factors:

- **Inventory and other directly related expenses** , net of volume rebates, decreased as a percentage of revenue from 45.3% to 44.8%, mainly as a result of achieving higher raw product margins and lower inventory provisions, partly offset by a decrease in volume rebate income;
- **Sales and distribution compensation expenses** were 13.5% of revenue in Q3 2018 compared to 13.8% of revenue in Q3 2017 mainly as a result of improved efficiencies; and
- **Store occupancy costs** increased as a percentage of revenue to 7.5% compared to 7.3% of revenue in Q3 2017. This was mainly driven by the effect of incurring pre-opening occupancy costs for new stores.

Total General and Administration ("G&A") expenses increased by $2.1 million, or 8.8%, from $23.3 million in Q3 2017 to $25.4 million in Q3 2018. When noted as a percentage of revenue, G&A increased from 13.3% in Q3 2017 to 13.8% in Q3 2018. G&A expense growth was largely driven by greater expenditures in media and advertising, which increased by $1.4 million, from $10.1 million, or 5.8% of revenue, to $11.5 million, or 6.3% of revenue. This increased spend is mainly attributable to increased production spend to support the new "All for Sleep" campaign which was launched in mid-September as well as a shift from traditional radio and print advertising towards more comprehensive digital marketing campaigns that will align with changing consumer media habits, the Company's eCommerce growth, leadership in the mattress and accessories business and transition into a total sleep solutions provider.

Other G&A expenses that contributed to the increase include salaries, wages and benefits, which increased by $0.7 million to $4.9 million, compared to $4.2 million in Q3 2017, largely due to a $0.2 million increase in share-based compensation expenses and additional hires to support Sleep Country's growing business. Credit card and finance charges also grew by 7.3% to $4.4 million compared to $4.1 million at this time last year, attributable to growing basket sizes due to the sale of more lifestyle bases and by customers' preferences towards longer-term financing plans. Warehouse rent and other occupancy charges decreased by $0.6 million to $1.8 million from $2.4 million last year largely due to the relocations that took place in 2017, offset by favourable prior year adjustments received by landlords in this quarter. Finally, Sleep Country is the only mattress retailer in Canada to have a formal bed recycling and donation program. So far this year Sleep Country has recycled and donated over 140,000 mattresses and boxsprings, diverting them from landfills and having a direct and positive impact on the communities in which the Company operates and is a campaign of which Sleep Country is exceptionally proud to lead. The expense of this program has reduced from $0.6 million in Q3 2017 to $0.4 million in Q3 2018 due to improved efficiencies.

During the third quarter of 2018, Operating EBITDA1 increased by 5.2% to $37.7 million, comprising 20.5% of revenue, compared to $35.8 million, or 20.3% of revenue, during the same quarter last year. This increase was largely attributable to revenue growth in Q3 2018, and greatly improved gross profit margins, partially offset by an increase in G&A expenses outlined above.

In 2017 we relocated four of our largest distribution centres. We have also continued to open up new stores and have renovated many of our existing stores to our new store design, with the result that 53% of our store network is now in our new store design. As a result, our depreciation and amortization expenses have increased by $0.6 million from $3.1 million in Q3 2017 to $3.7 million in Q3 2018.

Improved profit margins and Operating EBITDA1 margins, partly offset by an increase in depreciation amortization and income tax expenses, translated into a higher adjusted Net Income1 for Q3 2018. Adjusted Net Income1 increased to $24.7 million compared to $23.6 million in the same quarter last year. Basic Adjusted Earnings Per Share1 were also positively impacted by this growth, rising 6.3% to $0.67 per share in the third quarter from $0.63 per share in the same quarter one year ago.

Similarly, third quarter Net Income increased by $0.9 million to $23.7 million compared to $22.8 million in Q3 2017. Corresponding basic share price earnings were reported at $0.64 per share and $0.61 per share, respectively. Higher EBITDA1 and other income, partially offset by an increase in depreciation and amortization expenses and income tax expenses, contributed to this growth.

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

Summary of Nine Month Financial Results

In the nine months ended September 30, 2018, revenues continued a 21-month growth pattern and increased 6.8% to $462.9 million in YTD 2018 from $433.3 million in YTD in 2017. The combined impact of SSS1 growth of 2.9% added to 8.6% from this time last year, and the addition of 16 new stores since September 30, 2017, including four in-mall stores, drove the YTD gains. A major factor in the continued growth of SSS1 was borne from the enhanced store design, first introduced in certain existing stores in the latter half of 2014. To date, 83 of the Company's stores have been renovated with this enhanced design and have, on average, achieved higher SSS1 than other stores in their regions since their respective reopening dates. The total revenue of mattress sales and accessories sales also rose promisingly; mattress revenue increased by 5.4% to $370.4 million compared to $351.2 million in YTD 2017, while accessories revenue grew significantly by 12.7% to $92.5 million compared to $82.1 million at the comparative time last year.

The first nine months of 2018 saw gross profit also rise significantly. While YTD 2017 posted strong figures at $128.5 million, gross profit grew by $11.1 million this year to $139.6 million. Gross profit margin subsequently increased by 0.5% to 30.2% for YTD 2018 from 29.7% in YTD 2017. This increase was primarily attributable to:

- **Inventory and other directly related expenses** net of volume rebates decreased as a percentage of revenue from 45.9% to 45.5% mainly as a result of achieving higher raw product margins and lower inventory provisions, partially offset by a decrease in volume rebate income and an increase in third party logistics delivery expenses;
- **Sales and distribution compensation expenses** were 15.0% of revenue in YTD 2018 compared to 15.3% of revenue in YTD 2017 mainly as a result of improved efficiencies; and
- **Store occupancy costs,** which increased as a percentage of revenue from 8.6% to 8.8% mainly driven by the effect of incurring pre-opening occupancy costs for new stores.

Total G&A expenses for YTD 2018 increased by $6.4 million, or 11.3%, to $62.5 million compared to $56.1 million in YTD 2017. As a percentage of revenue, this G&A increase represented 13.5% and 13.0%, respectively.

Expenses that contributed to total G&A increases include media and advertising, which rose by $3.0 million to $22.9 million, representing 4.9% of revenue, compared to $19.9 million, or 4.6% of revenue, in YTD 2017. Media and advertising expenses increased by $3.0 million mainly due to an increase in production spend, primarily around the launch of our 'All for Sleep' campaign, additional TV infomercials, primarily to support our accessories business, a shift of media spend from traditional radio and print media advertising towards digital marketing to support the eCommerce website and drive traffic to stores and higher fees and other onboarding costs of a new advertising agency. Additional hires to support the business and share-based compensation drove G&A expenses for salaries, wages and benefits up by $1.8 million to $14.8 million in YTD 2018 compared to $13 million in YTD 2017. Rent and other occupancy charges decreased in YTD 2018 by $0.7 million to $ 5.9 million compared to $6.6 million in YTD 2017, largely due to the relocation costs of four distribution centres.

Operating EBITDA1 in YTD 2018 increased by $5.6 million, or 7.5%, to $79.9 million compared to $74.3 million at this time last year. Primarily driven by strong revenue growth and improved gross profit margins, this was also partially offset by an increased in G&A expenses outlined above.

Subsequently, the Company's Adjusted Net Income1 enjoyed growth in the first nine months of 2018, rising 6.1% to $49.1 million from $46.3 million one year ago. Higher Operating EBITDA1, partially offset by an increase in depreciation and amortization expenses, finance related expenses and income tax expenses, were the main factors in this increase. As such, Basic Adjusted Earnings Per Share grew by 8.1% to $1.33 per share in YTD 2018 from $1.23 per share in YTD 2018.

The first nine months of 2018 also saw gains in Net Income, which rose by $1.9 million, or 4.3%, to $46.3 million compared to $44.4 million during the same time frame last year. This translated to a rise in basic earnings per share, which jumped 5.9% to $1.25 from $1.18 in YTD 2017. EBITDA1 and other income, partially offset by an increase in depreciation and amortization expenses, finance related expenses and income tax expenses, acted as catalysts.

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

Outlook

"As we enter the final months of 2018, we are confident that we are well-positioned to grow our share in both the mattress and accessory categories, generate strong free cash flow and achieve our key initiatives," said Friesema. "We revised our guidance last quarter to opening 17 new stores, including four mall stores; to date, 13 new stores have been opened and there will be seven mall stores opened by the end of the calendar year. We are maintaining our future guidance of opening eight to 12 stores per year beginning in 2019. Renovating stores to fit our enhanced design also continues to be a priority. In the fourth quarter we plan to renovate a further 10 stores bringing the full year renovation count to 29.

"Diversifying our business is our most important customer-facing initiative. As such, we will continue to ramp up our eCommerce platform, increase the digital marketing and advertising spend to promote not only our online Bloom mattress-in-a-box brand, but also our expanding online and retail footprint. As we enhance our ability to offer our customers comprehensive sleep solutions we will continued to expand merchandising opportunities in our accessory and bedding segments."

"Finally, I would like to extend congratulations to our entire team for a successful quarter and for being certified as a Great Place to Work and a Great Place to Work for Millennials by Great Place to Work®."

Conference Call

Sleep Country Canada CEO, David Friesema, will host a conference call for analysts and investors on November 2, 2018 at 8:00 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, 2018. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 4056128.

About Sleep Country

Sleep Country is Canada's leading sleep retailer and the only specialty mattress and bedding retailer with a national footprint in Canada. Sleep Country operates under two 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 October 31, 2018, Sleep Country has 262 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 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
