Sleep Country Investor Relations

Sleep Country Canada Strengthens Position as Canada's Premier Sleep Retailer in Q4 2018 with Solid Performance and the Acquisition of Endy

Record revenue and profitability, increased customer traffic, gross profit margin expansion and strong accessories growth round out a successful fiscal year.

TORONTO, Feb. 26, 2019 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ) today released financial results for the fourth quarter and 12 months ended December 31, 2018. The company achieved record revenue and profitability. With an expanded physical and online footprint, Sleep Country has reinforced its clear role as Canada's leading total sleep solutions provider and is well-positioned for growth. All financial results are reported in Canadian dollars unless otherwise stated.

Fourth Quarter Highlights

- Acquired Endy in December 2018.
- Revenue increased 4.2% to $160.1 million from $153.6 million in Q4 2017.
- Mattress revenue increased by 3.1% to $126.7 million from $122.9 million in Q4 2017.
- Accessories revenue grew by 8.7% to $33.4 million from $30.7 million in Q4 2017.
- eCommerce platform sales continued to increase in Q4, growing by triple-digits.
- Same Store Sales ("SSS1") decreased 2.7% on top of 9.3% growth in Q4 2017.
- Gross profit increased by 6.7% to $49.9 million from $46.8 million in Q4 2017.
- Gross profit margin expanded to 31.2% from 30.5% in Q4 2017.
- Opened four new stores and renovated or relocated 12 stores in Q4 2018.

Annual Highlights

- Total revenue increased by 6.1% to $623.0 million from $586.9 million in 2017.
- Mattress revenue increased by 4.8% to $497 million from $474.1 million in 2017.
- Accessories increased by 11.7% to $126 million from $112.8 million in 2017.
- SSS1 increased by 1.4%, on top of 8.8% SSS1 growth in 2017.
- Gross profit increased by 8.1% to $189.5 million from $175.3 million in 2017.
- Gross profit margin expanded to 30.4% from 29.9% in 2017.
- Addition of 17 new stores, including four mall stores – the most in Sleep Country Canada history, and renovated or relocated 32 stores since December 31, 2017.
- Operating EBITDA1 increased by 5.8% to $105.8 million from $100 million in 2017.

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

CEO's Commentary

"In 2018, we saw continued revenue growth and tremendous development in many areas of our business. We opened 17 new stores and renovated or relocated 32 for a total of 49 new concept locations. Our new stores continue to perform well, exceeding our expectations, and thus demonstrating that our real estate strategy is on mark and delivering results. The expanded Bloom offering on our eCommerce platform drove accelerated growth in the second half of 2018 with triple-digit online growth in our fourth quarter," said Dave Friesema, Chief Executive Officer, Sleep Country Canada. "Our 11.7% growth in accessories illustrates the continued success of our strategy to expand into this market area, as we match Canadians with more products for a better night's sleep. I am pleased to report that Q4 total revenues, driven by the expansion of each of our underlying platforms, remain strong despite a challenging economic environment affecting consumer confidence. Our fundamentals remain solid as we continue to see increased customer traffic in our stores, growing conversion rates of shoppers to buyers and growing market share."

"One of our most exciting strategic initiatives for 2018 was the acquisition of Endy. This newly formed partnership will reinforce our position in Canada as the top mattress retailer for years to come, serving Canadians in any way they choose to shop for a mattress. It is still very early days with the Endy Team, but we continue to execute very well on our plan with great brainstorming, sharing of ideas and best practices. We are very excited about the long-term benefits this partnership will bring to all our customers and investors."

Dividend Declaration

On February 5, 2019, the Board of Directors declared a dividend on the Company's common shares of $0.185 per share, payable on February 26, 2019 to shareholders of record at the close of business on February 15, 2019. 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)	Q4 2018	Q4 2017	% Change	YTD 2018	YTD 2017	% Change
Revenues	$160,104	$153,620	4.2%	$622,977	$586,948	6.1%
SSS1	(2.7%)	9.3%		1.4%	8.8%	
Gross profit margin	31.2%	30.5%		30.4%	29.9%	
Stores opened	4	3		17	12	
Stores renovated/relocated	12	10		32	31	
Operating EBITDA1	$25,896	$25,750	0.6%	$105,775	$100,022	5.8%
Operating EBITDA margin1	16.2%	16.8%		17.0%	17.0%	
Net Income	$13,313	$14,849	(10.3%)	$59,641	$59,246	0.7%
Adjusted Net Income1	$14,776	$15,900	(7.1%)	$63,861	$62,167	2.7%
Earnings per share – Basic	$0.36	$0.40	(10.0%)	$1.61	$1.58	1.9%
Adjusted Earnings Per Share – Basic1	$0.40	$0.42	(4.8%)	$1.72	$1.65	4.2%
Adjusted Earnings Per Share – Diluted1	$0.40	$0.42	(4.8%)	$1.71	$1.64	4.3%

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

Summary of Fourth Quarter Financial Results

Fourth quarter revenue grew by 4.2% to $160.1 million from $153.6 million in the fourth quarter of 2017. This increase was aided by mattress and accessories revenue. The former increased by 3.1% to $126.7 million compared to $122.9 million in Q4 2017, while accessories revenue grew by 8.7% to $33.4 million compared to $30.7 million last year. Revenue also increased by the addition of 16 new, renovated, or relocated stores in the quarter and was partially offset by a decrease in SSS1 of 2.7%.

Gross profit during the fourth quarter increased to $49.9 million from $46.8 million in the same period of 2017. Gross profit margin expanded to 31.2% from 30.5% last year. 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 45.6% to 44.7%;
- **Sales and distribution compensation** expenses were 14.5% of revenue compared to 15.1% of revenue in Q4 2017; and
- **Store occupancy costs,** which increased as a percentage of revenue from 8.2% to 9.0%.

Total General and Administration ("G&A") expenses increased by $3.5 million, or 16.1%, to $25.6 million from $22.1 million in Q4 2017. G&A expense growth was largely driven by greater expenditures in media and advertising, which increased to by $2.6 million to $10.9 million. This increased spend is mainly attributable to increased production spend to support our "All for Sleep" campaign and to initiate support for Endy.

During the fourth quarter of 2018, Operating EBITDA1 increased by 0.6% to $25.9 million compared to $25.8 million, during the same quarter last year. The increase was primarily due to strong revenue growth in Q4 2018 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Depreciation and amortization expenses increased to $4.1 million from $3.3 million in Q4 2017, mainly resulting from new store openings and renovations.

Net Income for Q4 2018 decreased to $13.3 million ($0.36 per share) compared to $14.8 million ($0.40 per share) in Q4 2017, driven by increasing depreciation, amortization and finance-related expenses. Adjusted Net Income1 decreased to $14.8 million from $15.9 million in the same quarter last year. Basic Adjusted Earnings Per Share1 decreased 4.8% to $0.40 per share from $0.42 per share last year.

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

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

Summary of Annual Financial Results

In the twelve months ended December 31, 2018, revenues increased 6.1% to $623 million from $586.9 million in FY 2017. The combined impact of SSS1 growth of 1.4% added to 8.8% from this time last year, and the addition of 49 new, renovated or relocated stores since December 30, 2017 drove the 2018 gains.

As at December 31, 2018, there were 155 stores or 59% of the store network that featured the new store design, of which 54 were new stores, 93 were renovated stores and 8 were relocations of existing stores. Over time, the Company will select additional stores to renovate, and will open all new stores in this design.

The sale of mattresses and accessories contributed a larger portion to the Company's total revenue in 2018 than in any year previously, owing largely to an expanded physical and online footprint and diverse product offering. Mattress revenue increased by 4.8% to $497.0 million compared to $474.1 million in 2017. Accessories revenue saw double-digit growth with an increase of 11.7% to $126.0 million compared to $112.8 million at the comparative time last year.

Fiscal 2018 also saw gross profit rise. While 2017 posted impressive figures at $175.3 million, gross profit grew by $14.2 million to $189.5 million – the company's highest top line profitability in 24 years. Gross profit margin expanded by 0.5% to 30.4% for 2018 from 29.9% in 2017. This increase was primarily attributable to:

- **Inventory and other directly related expenses,** net of volume rebates decreased as a percentage of revenue from 45.8% to 45.3%;
- **Sales and distribution compensation expenses** were 14.8% of revenue in 2018 compared to 15.2% of revenue in 2017; and
- **Store occupancy costs**, which increased as a percentage of revenue from 8.5% to 8.9%.

Total G&A expenses increased by $9.9 million, or 12.6%, to $88.1 million from $78.2 million in 2017. G&A expense growth was largely driven by media and advertising, which increased by $5.6 million to $33.8 million. This is attributable to initiatives including a shift from traditional radio and print to digital marketing, additional TV informercials, the launch of our "All for Sleep" campaign and advertising support for Endy.

Operating EBITDA1 in 2018 increased by $5.8 million, or 5.8%, to $105.8 million compared to $100 million at this time last year. The increase was primarily due to strong revenue growth in 2018 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Sleep Country's Net Income increased by $0.4 million, or 0.7%, to $59.6 million ($1.61 per share) compared to $59.2 million ($1.58) per share last year.

Subsequently, the Company's Adjusted Net Income1 increased in 2018, rising 2.7% to $63.9 million from $62.2 million last year. The increase was primarily due to higher Operating EBITDA1, partially offset by an increase in depreciation, amortization and finance-related and income tax expenses.

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

Outlook

"In 2018 we delivered the strongest revenue and profitability results in our company's history," continued Friesema. "As we look to 2019, we are confident in our ability to continue to grow market share in both mattresses and accessories, delivering an extraordinary customer experience in-store and online, offering the most innovative products that match our customer's needs and reaching Canadians in new and exciting ways."

"This coming year marks Sleep Country Canada's 25th anniversary. Over the past quarter century, our company has evolved into the most recognized brand in our category. To continue our remarkable growth story, we will continue to invest and drive initiatives to better serve our customers and the company broadly in 2019 and beyond. For instance, the planned implementation of a new cloud-based eCommerce platform and ERP system will better serve our stores with operational benefits as well as marketing and communications advances. In addition, we plan to open 8-12 stores while renovating a further 25-30 locations. We are also exploring and expanding relevant partnerships in addition to the recent partnerships with Endy and Simba. All our initiatives, as they have always been, are designed to enhance our product offering and customer experience."

"This past year has been a year of great growth and development. I would like to extend a thank you to all our employees for a historic year. I would also like to warmly welcome the entire Endy Team into our family and look forward to enhancing our sleep advisor capabilities together."

Conference Call

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on February 27, 2019 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 March 6, 2019. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 3088304.

About Sleep Country

Sleep Country is Canada's leading sleep retailer. Sleep Country is the only specialty mattress retailer with a national footprint in Canada. Sleep Country operates under three retail banners: Dormez-vous, the largest retailer of mattresses in Quebec; Sleep Country Canada, the largest mattress retailer in the rest of Canada; and Endy, Canada's leading online mattress brand with the most Canadian 5-star reviews. As of February 26, 2019, Sleep Country has 265 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 experience. Sleep Country also works closely with Canadian charities to donate new and gently used mattresses to families and children in need.

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 Q4 and FY 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 2018 annual information form (the "AIF") filed on February 26, 2019. 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
