Sleep Country Investor Relations

Sleep Country Canada Achieves 10.4% Revenue Expansion in Q1 2019 and Continues to Invest in Accelerated Growth Strategies

Robust growth driven by strength of omnichannel platform

TORONTO, May 6, 2019 /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 March 31, 2019. The Company's continued increase in market share and recent investments strengthen its position as a leading omnichannel retailer and solidify its long-term, profitable growth. All financial results are reported in Canadian dollars unless otherwise stated.

First Quarter Highlights

- Revenue increased 10.4% to $149.3 million from $135.3 million in Q1 2018, including first full quarter with Endy
- Mattress revenue increased 9.6% to $118.7 million from $108.3 million in Q1 2018
- Accessories revenue grew by 13.6% to $30.7 million from $27 million in Q1 2018
- Gross profit increased 24.7% to $42.4 million from $34 million in Q1 2018
- Gross profit margin expanded to 28.4% from 25.1% in Q1 2018 (Pro-forma1 gross profit margin for Q1 2018 was 26.2%)
- Operating EBITDA2 increased 52.6% to $29.5 million (19.7% of revenue), from $19.3 million (14.3 % of revenue) (Operating EBITDA2 increased 3.1% compared to pro-forma1 Operating EBITDA for Q1 2018, which was at $28.6 million (21.1 % of revenue))
- Achieved Diluted EPS of $0.21 and Adjusted Diluted EPS of $0.23 in Q1 2019. EPS partially impacted by additional interest expense related to Endy acquisition
- Same Store Sales ("SSS2") decreased by 3.4%, on top of 5.1% growth in Q1 2018
- Opened one store, and renovated 13 stores
- Launched partnership with Walmart.ca to offer the full Bloom collection
- Launched the Simba Hybrid mattress online and continued roll out in-stores
- TSX accepted Normal Course Issuer Bid (NCIB)
- Adopted IFRS 16 (Lease) accounting standards as of January 1, 2019

Highlights Subsequent to Quarter End

- Increased dividend by 5.4% to $0.195 per share per quarter
- Opened three new stores, including the first interior mall store for Dormez-vous?
- Expanded merchandising assortment to include crib mattresses
- Announced retirement of Co-Chair Stephen K. Gunn

CEO's Commentary and Outlook

"We're excited about the significant investments we continue to make to increase our growth in multiple channels and grow our customer base, taking greater market share. Those investments include: the acquisition of Endy, partnerships with Simba and Walmart, advertising spend and brand evolution to 'All for Sleep', increasing our accessories offering, and a new cloud-based Oracle eCommerce platform and ERP, all of which support our long-term, profitable growth strategy and reinforce our position as Canada's premier omnichannel sleep retailer," said Dave Friesema, Chief Executive Officer, Sleep Country Canada.

"While reported same store sales were softer than expected in January and February, not surprising given the weather, they improved in March. Our conversion rate was strong and we believe we took market share in both the mattress and accessories categories. This includes posting the strongest opening quarter for bedding accessories in Sleep Country's history. Our rapidly growing online presence, 269 strategically located stores, 16 distribution centres and established white glove delivery service collectively put us in a unique position to best serve today's omnichannel customer.

Our overall revenue growth of 10.4% reflects a strengthening market share position. Double-digit accessories growth is the result of an expanded assortment of innovative bedding essentials and an investment in targeted advertising, while our new stores continue to exceed expectations, demonstrating that our real estate strategy is effective in driving results.

Our entire team would like to extend a warm thank-you to our Co-Founder and Co-Chair, Stephen Gunn, for his decades of contribution and leadership of our business. His legacy of growth-focused strategies will continue as we move further into our 25th year and beyond with strong fundamentals and a platform for long-term and profitable expansion."

(C$ thousands unless otherwise stated; other than store and share data)	Q1 2019	Q1 2018 As reported		Q1 2018 Pro-forma1	
			% Change		% Change
Revenues	$149,322	$135,281	10.4%	$135,281	10.4%
SSS2	(3.4%)	5.1%		5.1%	
Gross profit margin	28.4%	25.1%		26.2%	
Stores opened	1	3		3	
Stores renovated/relocated	13	11		11	
Operating EBITDA2	29,450	19,293	52.6%	28,573	3.1%
Operating EBITDA margin2	19.7%	14.3%		21.1%	
Net Income	7,775	10,320	(24.7%)	9,640	(19.3%)
Adjusted Net Income2	8,634	11,029	(21.7%)	10,349	(16.6%)
Earnings per share – Basic	0.21	0.28	(25.1%)	0.26	(19.5%)
Adjusted Earnings Per Share – Basic2	0.23	0.30	(21.9%)	0.28	(16.7%)
Adjusted Earnings Per Share – Diluted2	0.23	0.29	(21.6%)	0.28	(16.4%)

1 See the Non-IFRS Measures section of this news release. On January 1, 2019, the Company adopted the new accounting standard IFRS 16 - Leases and comparative figures have not been restated. As a result, the financial results and the non-IFRS measures for Q1 2019 have been impacted compared to Q1 2018. The IFRS 16 pro-forma results for Q1 2018 has been compiled and disclosed in the Q1 2019 MD&A to quantify the impact of IFRS 16 on Q1 2018, assuming the standard had been adopted on January 1, 2018. This estimated impact on Q1 2018 has been calculated based on the lease information available as of January 1, 2019, and using similar accounting policies and assumptions as in place upon adoption of the standard on January 1, 2019.
2 See the Non-IFRS Measures section of this news release

Dividend Declaration
On May 6, 2019, the Board of Directors declared a dividend on the Company's common shares of $0.195 per share, payable on May 31, 2019 to shareholders of record at the close of business on May 21, 2019. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Summary of First Quarter Financial Results
First quarter revenue grew by 10.4% to $149.3 million from $135.3 million in the first quarter of 2018. This increase was aided by the acquisition of Endy and further bolstered by the addition of 15 new stores since March 31, 2018. Mattress revenue was a key driver when compared to Q1 2018, increasing by 9.6% to $118.7 million from $108.3 million. Accessories revenue increased substantially by 13.6% to $30.7 million from $27 million.

Gross profit during the first quarter, while not directly comparable to last year due to our adoption of IFRS 16 accounting standards, increased 24.7% to $42.4 million from $34 million in the same period of 2018. Gross profit margin expanded to 28.4% of revenue from 25.1% of revenue last year. The growth of gross profit margin was primarily influenced by inventory and other directly related expenses, sales and distribution compensation and the adoption of IFRS 16 which changed the way we account for rent expenses. On a pro-forma1 basis, the gross profit margin for Q1 2018 was 26.2% of revenue in Q1 2018.

Total General and Administration ("G&A") expenses increased by $7.5 million, or 39.7%, to $26.4 million. This was driven by greater spending in media and advertising, which increased by $4.9 million. This increase is mainly attributable to Endy's inclusion, but also because of spend in traditional and digital media for all of our brands, including our "All For Sleep" campaign. G&A expenses also increased due to our adoption of IFRS 16.

During the first quarter of 2019, Operating EBITDA2 increased to $29.5 million. On a pro-forma1 basis, this was an increase of 3.1% after accounting for the adoption of IFRS 16. The increase was primarily due to strong revenue growth in Q1 2019 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Depreciation and amortization expenses increased 257.8% to $12.7 million from $3.5 million in Q1 2018, mainly resulting from the adoption of IFRS 16 and the inclusion of depreciation and amortization expense related to Endy.

Finance related expenses increased by $4.1 million from $1.1 million in Q1 2018 to $5.2 million in Q1 2019. Of this increase, $2.9 million relates to additional interest on lease liabilities upon adoption of IFRS 16 and the balance primarily relates to additional finance expense incurred due to an increase in long term liabilities related to the acquisition of Endy in December 2018.

Net Income for Q1 2019 decreased to $7.8 million ($0.21 per share) compared to $10.3 million ($0.28 per share) in Q1 2018. Again, this was largely driven by Sleep Country's advertising spend, Endy's inclusion and the impact of IFRS 16. Adjusted Net Income2 decreased to $8.6 million from $11.0 million in the same quarter last year. Basic Adjusted Earnings Per Share2 decreased 21.9% to $0.23 per share from $0.30 per share last year.

Conference call
Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on May 7, 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 May 14, 2019 23:59ET. To listen to the replay, please dial (855) 859-2056 or (416) 849-0833 and use passcode 2335789.

About Sleep Country Canada
Sleep Country Canada is Canada's leading omnichannel mattress and bedding retailer and the only specialty mattress and bedding retailer with a national brick and mortar footprint and an online presence. Sleep Country operates under three retail banners: Dormez-vous?, with retail operations in Quebec; Sleep Country Canada, with retail operations in the rest of Canada; and Endy, Canada's leading online mattress-in-a-box brand with the most Canadian 5-star reviews. As of May 6, 2019, Sleep Country has 269 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.

For more information about the company visit sleepcountry.ca, on Facebook at www.facebook.com/SleepCountryCanada and on Twitter @SleepCountryCan.

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", "Adjusted Earnings Per Share" and "Pro-forma – Q1 2018" 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 2019 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.

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