

## Sleep Country Canada Accelerates Growth in Q2 2019 with 15.9% Topline Revenue Increase and Continued Omnichannel Expansion

### Growth driven by strength in both mattress revenue and expanded sleep accessories offering

TORONTO, Aug. 8, 2019 /CNW/ - Sleep Country Canada Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ) today released financial results for the second quarter of 2019 ended June 30, 2019. The Company's omnichannel strategy and growth-focused investments in partnerships and product development reinforce its long-term profitability and leading market share. All financial results are reported in Canadian dollars unless otherwise stated.

### Second Quarter Highlights

- Revenue increased by 15.9% to \$166.6 million from \$143.7 million in Q2 2018
- Same Store Sales ("SSS1") increased by 1.9%, building upon 4.4% SSS growth in Q2 2018
- Mattress revenue increased by 15.5% to \$133.7 million from \$115.8 million in Q2 2018, building upon 6.3% growth in Q2 2018
- Accessories revenue grew by 17.9% to \$32.9 million from \$27.9 million in Q2 2018, building upon 13.7% growth in Q2 2018
- Gross profit increased by 27.3% to \$49.7 million from \$39 million in Q2 2018
- Gross profit margin expanded to 29.8% from 27.2% in Q2 2018 (pro-forma2 gross profit margin for Q2 2018 28.2%)
- Operating EBITDA1 increased by 55.6% to \$35.6 million (21.4% of revenue), from \$22.9 million in Q2 2018 (15.9% of revenue) (pro-forma2 Operating EBITDA in Q2 2018 was \$32.6 million (22.7% of revenue))
- Achieved Diluted Earnings per Share (EPS) of \$0.33 and Adjusted Diluted EPS of \$0.33. EPS primarily impacted by incremental finance related expenses related to the Endy acquisition
- Opened six new stores and renovated eight stores
- Celebrated Dormez-vous? 60th store in Quebec

### CEO's Commentary and Outlook

"We are pleased with our Q2 results as we continue to see our long-term strategic investments grow our market share. Highlights from this quarter include solid performance from our existing and new store network, tremendous eCommerce growth fueled by our family of three brands (Sleep Country Canada, Dormez-vous? and Endy), another quarter of accelerated growth in our accessories business, promising progress on our cloud-based Oracle eCommerce platform and ERP, and exposure to an expanding customer base resulting from new partnerships, such as Walmart and Urban Barn. It is clear that our omnichannel strategy is working, and we look forward to expanding our reach and forming new partnerships that resonate with Canadians," said Dave Friesema, Chief Executive Officer, Sleep Country Canada.

"Our topline revenue growth of 15.9% is comprised of double-digit performance from the mattress and accessories categories of our business, increasing 15.5% and 17.9% respectively. Our diverse product assortment and omnichannel accessibility were well-received by our loyal core and new customers. The continued expansion of our sleep accessory selection positions us to continue to take share in this attractive and fragmented market. We maintain focus on our gross profit margin, which expanded to 29.8% this quarter, demonstrating the strength of our core business.

Our commitment to next-generation, omnichannel retailing means that we serve our customers any way they want to shop. We feel strongly that our disciplined and consistent growth-focused model will continue to expand market share and profitability. As we celebrate our 25th year of operation with our talented team, we are confident that each channel of our business is well-positioned for success and that our brand evolution will continue to make us the top destination for every generation of sleepers."

(C\$ thousands unless otherwise stated; other than store and share data)	Q2 2019	Q2 2018		Q2 2018		YTD 2019	YTD 2018		YTD 2018	
		As reported	% Change	Pro-forma2	% Change		As Reported	% Change	Pro-forma2	% Change
<b>Revenues</b>	<b>\$166,587</b>	\$143,693	15.9%	N/C3		<b>\$315,909</b>	\$278,974	13.2%	N/C3	
<b>SSS1</b>	<b>1.9%</b>	4.4%		N/C3		<b>(0.7%)</b>	4.7%		N/C3	
<b>Gross profit margin</b>	<b>29.8%</b>	27.2%		28.2%		<b>29.1%</b>	26.2%		27.2%	
<b>Stores opened</b>	<b>6</b>	6		N/C3		<b>7</b>	9		N/C3	
<b>Stores renovated/relocated</b>	<b>8</b>	9		N/C3		<b>21</b>	20		N/C3	
<b>Operating EBITDA1</b>	<b>\$35,620</b>	\$22,893	55.6%	\$32,577	9.3%	<b>\$65,070</b>	\$42,186	54.2%	\$61,149	6.4%
<b>Operating EBITDA margin1</b>	<b>21.4%</b>	15.9%		22.7%		<b>20.6%</b>	15.1%		21.9%	
<b>Net Income</b>	<b>\$12,175</b>	\$12,279	(0.8%)	\$11,684	4.2%	<b>\$19,950</b>	\$22,599	(11.7%)	\$21,323	(6.4%)
<b>Adjusted Net Income1</b>	<b>\$12,519</b>	\$13,406	(5.6%)	\$12,811	(2.3%)	<b>\$21,153</b>	\$24,435	(13.4%)	\$23,159	(8.7%)
<b>Earnings per share -</b>	<b>\$0.33</b>	\$0.33	-	\$0.32	2.4%	<b>\$0.54</b>	\$0.61	(11.5%)	\$0.58	(6.7%)

<b>Basic Earnings per share - Diluted</b>	<b>\$0.33</b>	\$0.33	-	\$0.31	4.4%	<b>\$0.53</b>	\$0.60	(11.7%)	\$0.57	(6.3%)
<b>Adjusted Earnings Per Share - Basic<sup>1</sup></b>	<b>\$0.34</b>	\$0.36	(8.3%)	\$0.35	(3.7%)	<b>\$0.57</b>	\$0.66	(13.6%)	\$0.63	(8.9%)
<b>Adjusted Earnings Per Share - Diluted<sup>1</sup></b>	<b>\$0.33</b>	\$0.36	(5.4%)	\$0.34	(2.1%)	<b>\$0.57</b>	\$0.65	(12.3%)	\$0.62	(8.5%)

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

2 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 Q2 2019 have been impacted compared to Q2 2018. The IFRS 16 pro-forma results for Q2 2018 have been compiled and disclosed in the Q2 2019 MD&A to quantify the impact of IFRS 16 on Q2 2018, assuming the standard had been adopted on January 1, 2018. This estimated impact on Q2 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

3 No change

### Dividend Declaration

On August 8, 2019, the Board of Directors declared a dividend on the Company's common shares of \$0.195 per share, payable on August 29, 2019 to shareholders of record at the close of business on August 20, 2019. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

### Summary of Second Quarter Financial Results

Second quarter revenue grew by 15.9% to \$166.6 million from \$143.7 million in the second quarter of 2018. This increase was aided by strong omnichannel growth from the addition of 15 new stores since June 30, 2018 and substantial revenue growth online including the acquisition of Endy. Mattress revenue was also a key driver when compared to Q2 2018, increasing by 15.5% to 133.7 million from \$115.8 million. Accessories revenue increased substantially by 17.9% to \$32.9 million from \$27.9 million.

Gross profit during the second quarter, while not directly comparable to last year due to our adoption of IFRS 16 accounting standards, increased by 27.3% to \$49.7 million from \$39 million in the same period of 2018. Gross profit margin expanded to 29.8% of revenue from 27.2% of revenue last year. The growth of gross profit margin was primarily influenced by the adoption of IFRS 16 which changed the way we account for leases. On a pro-forma<sup>2</sup> basis, the gross profit margin for Q2 2018 was 28.2% of revenue in Q2 2018.

Total General and Administration ("G&A") expenses increased by \$7.2 million, or 34.6%, to \$28 million. This was driven by greater spending in media and advertising, which increased by \$5 million. This increase is mainly attributable to Endy's inclusion and additional planned spends in traditional media and production support for the Sleep Country and Dormez-vous? brands.

Finance related expenses increased by \$4.2 million from \$1.1 million in Q2 2018 to \$5.3 million in Q2 2019. Of this increase, \$2.8 million relates to additional interest on lease liabilities upon adoption of IFRS 16 and the balance primarily relates to the accretion on contingent considerations related to Endy's acquisition and interest expense on the senior secured credit facility.

During the second quarter of 2019, Operating EBITDA<sup>1</sup> increased to \$35.3 million. On a pro-forma<sup>2</sup> basis, this was an increase of 12.2% after accounting for the adoption of IFRS 16. The increase was primarily due to strong revenue growth in Q2 2019 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Net Income for Q2 2019 remained relatively unchanged at \$12.2 million (\$0.33 per share) compared to \$12.3 million (\$0.33 per share) in Q2 2018. This was largely driven by Endy, Sleep Country's investment in marketing and the impact of IFRS 16. Adjusted Net Income<sup>1</sup> decreased to \$12.5 million from \$13.4 million in the same quarter last year. Basic Adjusted Earnings Per Share<sup>1</sup> decreased by 5.6% to \$0.34 per share from \$0.36 per share last year.

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

### Summary of Six Month Financial Results

In the six months ended June 30, 2019, revenues increased by 13.2% to \$315.9 million from \$279.0 million YTD 2018. Sleep Country's total revenue growth – driven by 15 new stores since June 30, 2018, continued accessories product expansion and increased omnichannel footprint – was impacted by the addition of Endy, while being partially offset by a SSS<sup>1</sup> decline of 0.7%. The total revenue from sales of mattress and accessories also rose significantly; mattress revenue increased by 12.6% to \$252.4 million compared to \$224.1 million in YTD 2018, while accessories revenue grew by 15.8% to \$63.5 million compared to \$54.9 million at the comparative time last year.

Gross profit also rose significantly in the first six months of 2019, increasing by \$19.1 million this year to \$92.1 million, up from \$73.0 million in YTD 2018. Gross profit margin subsequently increased by 2.9% to 29.1% of revenue for YTD 2019 from 26.2% of revenue in YTD 2018.

Total G&A expenses for YTD 2019 increased by \$14.7 million, or 37.0%, to \$54.5 million compared to \$39.8 million in YTD 2018. This increase is mainly attributable to media and advertising in support of Sleep Country, Dormez-vous? and Endy, in addition to salaries, wages and benefits. Other factors in this increase include credit card and finance charges, occupancy charges which were impacted by IFRS 16 and telecommunication costs.

Finance related expenses increased by \$8.4 million from \$2.1 million in YTD 2018 to \$10.5 million in YTD 2019. Of this increase, \$5.7 million relates to additional interest on lease liabilities upon adoption of IFRS 16 and the balance primarily relates to the accretion on contingent considerations related to Endy's acquisition and interest expense on the senior secured credit facility.

Operating EBITDA<sup>1</sup> in YTD 2019 increased by \$22.9 million, or 54.2%, to \$65.1 million compared to \$42.2 million at this time last year. This was primarily driven by the adoption of IFRS 16.

The first six months of 2019 also saw decreases in Net Income, which declined by \$2.6 million, or 11.7%, to \$20 million compared to \$22.6 million during the same time last year. In the same time period, basic earnings per share decreased by 11.5% to \$0.54 per share from \$0.61 per share in YTD 2018. The decrease was mainly as a result of higher G&A expenses and higher finance related expenses in YTD 2019 compared to YTD 2018, partially offset by the favorable impact of increase in gross profit, decrease in income tax expense and an increase in other income as a result of insurance compensation received.

Consequently, the Company's Adjusted Net Income<sup>1</sup> decreased by 13.4% in the first six months of 2019 to \$21.2 million from \$24.4 million one year ago. As such, Basic Adjusted Earnings Per Share decreased by 13.6% to \$0.57 per share in YTD 2019 from \$0.66 per share in YTD 2018.

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

### **Conference call**

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on August 9, 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 August 16, 2019 23:59 p.m. ET. To listen to the replay, please dial (855) 859-2056 or (416) 849-0833 and use passcode 4798431.

### **About Sleep Country Canada**

Sleep Country is Canada's leading omnichannel mattress and bedding retailer and the only specialty sleep products retailer with a national bricks and mortar footprint and an online presence. Sleep Country operates under three retail banners (the "Banners"): "Sleep Country Canada", with omnichannel operations in Canada excluding Québec; "Dormez-vous?" with omnichannel operations in Québec and "Endy", Canada's leading online mattress-in-a-box retailer. As of July 31, 2019, Sleep Country has 274 stores and 17 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](http://sleepcountry.ca), on Facebook at [www.facebook.com/SleepCountryCanada](https://www.facebook.com/SleepCountryCanada).

### **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", "Pro-forma – YTD 2018" and "Pro-forma – Q2 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 Q2 2019 which is available on SEDAR at [www.sedar.com](http://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](http://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/2019-08-08-Sleep-Country-Canada-Accelerates-Growth-in-Q2-2019-with-15-9-Topline-Revenue-Increase-and-Continued-Omnichannel-Expansion>