

Sleep Country Canada Achieves 14.2% Revenue Increase in Q3 2019, Advances Strategic Growth Plan

TORONTO, Oct. 31, 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 September 30, 2019. The Company continues to drive strong growth and further capture market share through its omnichannel strategy, investments in technology, new partnerships and expanded focus on bedding essentials. All financial results are reported in Canadian dollars unless otherwise stated.

Third Quarter Highlights

- Revenue increased by 14.2% to \$210.0 million from \$183.9 million in Q3 2018
- Same Store Sales ("SSS1") increased by 0.5%
- Mattress revenue increased by 14.0% to \$166.7 million from \$146.2 million in Q3 2018
- Accessories revenue grew by 14.9% to \$43.3 million from \$37.7 million in Q3 2018, building upon 12.8% growth in Q3 2018
- Gross profit increased by 19.5% to \$71.6 million from \$59.9 million in Q3 2018
- Gross profit margin expanded to 34.1% from 32.6% in Q3 2018 (pro-forma2 gross profit margin for Q3 2018 33.4%)
- Operating EBITDA1 increased by 31.5% to \$49.6 million (23.6% of revenue), from \$37.7 million in Q3 2018 (20.5% of revenue). Pro-forma2 Operating EBITDA in Q3 2018 was \$47.6 million (25.9% of revenue)
- Achieved Diluted Earnings Per Share (EPS) of \$0.57 and Adjusted Diluted EPS1 of \$0.60
- Opened 4 new stores, bringing total to 275 across the country
- Subsequent to quarter end, launched the first phase of new Enterprise Resource Planning (ERP) platform and are days away from launching new cloud-based Oracle eCommerce platform.

CEO's Commentary and Outlook

"As we celebrate our 25th year in business, I am pleased by our powerful track record of profitable growth and the results of our exciting omnichannel agenda. This quarter, our team drove strong financial performance as evidenced by 14.2% topline revenue expansion, while simultaneously making significant progress towards our strategic growth strategy. Highlights from this quarter include: solid results from our existing and new store network, rapid eCommerce growth fueled by our family of three brands, double digit gains from both the mattress and accessories categories, strong returns through gross margin expansion, and advancing our strategic partnerships, including innovative Bloom pop-up shops at two Walmart locations," said Dave Friesema, Chief Executive Officer, Sleep Country Canada.

"As we complete the quarter, our focus is on two key strategic initiatives: First, we successfully rolled out the first phase of our new ERP platform, and second, we are days away from launching our new cloud-based Oracle eCommerce platform. Our revamped websites will accelerate Sleep Country's revenue growth by offering our extensive lineup of brand name mattresses and sleep accessories online, ensuring that existing and new customers can research and transact with us wherever, whenever and however they prefer. I commend the team for delivering both initiatives on time and on budget, and am confident these capabilities will enable us to serve more Canadians and build upon our executional excellence through enhanced analytics-based decision making, operational agility, and process automation."

(C\$ thousands unless otherwise stated; other than store and share data)	Q3 2019	Q3 2018		Q3 2018		YTD 2019	YTD 2018		YTD 2018	
		As reported	% Change	Pro-forma2	% Change		As Reported	% Change	Pro-forma2	% Change
Revenues	\$209,973	\$183,899	14.2%	N/C3		\$525,882	\$462,873	13.6%	N/C3	
SSS1	0.5%	0.2%		N/C3		(0.2%)	2.9%		N/C3	
Gross profit margin	34.1%	32.6%		33.4%		31.1%	28.7%		29.7%	
Stores opened	4	4		N/C3		11	13		N/C3	
Stores renovated/relocated	-	-		N/C3		21	20		N/C3	
Operating EBITDA1	\$49,551	\$37,693	31.5%	\$47,640	4.0%	\$114,621	\$79,879	43.5%	\$108,789	5.4%
Operating EBITDA margin	23.6%	20.5%		25.9%		21.8%	17.3%		23.5%	
Net Income	\$21,483	\$23,729	(9.5%)	\$23,032	(6.7%)	\$41,433	\$46,328	(10.6%)	\$44,355	(6.6%)
Adjusted Net Income1	\$22,354	\$24,650	(9.3%)	\$23,953	(6.7%)	\$43,507	\$49,085	(11.4%)	\$47,112	(7.7%)
Earnings per share -	\$0.58	\$0.64	(9.4%)	\$0.62	(6.7%)	\$1.12	\$1.25	(10.4%)	\$1.20	(6.9%)

Basic	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
Adjusted Earnings Per Share - Basic¹	\$0.60	\$0.67	(10.4%)	\$0.65	(7.4%)	\$1.17	\$1.33	(12.0%)	\$1.27	(7.9%)		
Adjusted Earnings Per Share - Diluted¹	\$0.60	\$0.66	(9.1%)	\$0.64	(6.6%)	\$1.16	\$1.31	(11.5%)	\$1.26	(7.5%)		

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 Q3 2019 have been impacted compared to Q3 2018. The IFRS 16 pro-forma results for Q3 2018 have been compiled and disclosed in the Q3 2019 MD&A to quantify the impact of IFRS 16 on Q3 2018, assuming the standard had been adopted on January 1, 2018. This estimated impact on Q3 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 October 31, 2019, the Board of Directors declared a dividend on the Company's common shares of \$0.195 per share, payable on November 29, 2019 to shareholders of record at the close of business on November 19, 2019. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Summary of Third Quarter Financial Results

Third quarter revenue grew by 14.2% to \$210 million from \$183.9 million in the third quarter of 2018. This increase was aided by SSS1 growth of 0.5%, coupled with strong omnichannel growth from the addition of 15 new stores since September 30, 2018 and an increased online offering including the acquisition of Endy. Mattress revenue was also a key driver when compared to Q3 2018, increasing by 14.0% to \$166.7 million from \$146.2 million in Q3 2018. Accessories revenue increased significantly, growing by 14.9% to \$43.3 million from \$37.7 million in Q3 2018.

Gross profit during the third quarter, while not directly comparable to last year due to our adoption of IFRS 16 accounting standards, increased 19.5% to \$71.6 million from \$59.9 million in the same period of 2018. Gross profit margin expanded to 34.1% of revenue from 32.6% last year. The growth of gross profit margin was primarily influenced by the adoption of IFRS 16 which changed the way we account for occupancy costs. On a pro-forma² basis, the gross profit margin for Q3 2018 was 33.4% of revenue.

Total General and Administration ("G&A") expenses increased by \$9.8 million, or 36.6%, to \$36.6 million. This was driven by greater spending in media and advertising, which increased by \$6.4 million. This increase is mainly due to the inclusion of Endy and our investment in growing the brand.

Finance related expenses increased by \$4.2 million from \$1.1 million in Q3 2018 to \$5.3 million in Q3 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 the accretion on contingent consideration related to Endy's acquisition and interest expense on the senior secured credit facility.

During the third quarter of 2019, Operating EBITDA¹ increased to \$49.6 million. On a pro-forma² basis, this was an increase of 4.0%. The increase was primarily due to strong revenue growth in the quarter combined with improved gross profit margins, partially offset by an increase in G&A.

Net Income for Q3 2019 decreased by \$2.2 million to \$21.5 million (\$0.58 per share) compared to \$23.7 million (\$0.64 per share) in Q3 2018. On a pro-forma² basis, this was a decrease of \$1.5 million (\$0.04 per share) from Q3 2018. This was largely driven by an increase in the G&A expenses and finance related expenses, partially offset by the favorable impact of an increase in the gross profit margin.

Adjusted Net Income¹ decreased to \$22.4 million from \$24.7 million in the same quarter last year. On a pro-forma² basis, this was a decrease of \$1.6 million from Q3 2018. Basic Adjusted Earnings Per Share¹ decreased 10.4% to \$0.60 per share from \$0.67 per share last year. On a pro-forma² basis, this was a decrease of \$0.05 from Q3 2018.

Summary of Nine Month Financial Results

In the nine months ended September 30, 2019, revenues increased by 13.6% to \$525.9 million from \$462.9 million YTD 2018. Sleep Country's total revenue growth – driven by 15 new stores since September 30, 2018, continued accessories product expansion, and increased omnichannel footprint – was impacted by the addition of Endy, while being partially offset by a SSS1 decline of 0.2%. The total revenue from sales of mattress and accessories also rose significantly; mattress revenue increased by 13.2% to \$419.1 million compared to \$370.4 million in YTD 2018, while accessories revenue grew by 15.4% to \$106.8 million versus \$92.5 million at the comparative time last year.

Gross profit also rose significantly in the first nine months of 2019, increasing by \$30.7 million this year to \$163.6 million, up from \$132.9 million in YTD 2018. Gross profit margin increased by 2.4% to 31.1% of revenue for YTD 2019

from 28.7% of revenue in YTD 2018. The growth of gross profit margin was primarily influenced by the adoption of IFRS 16 which changed the way we account for occupancy costs. On a pro-forma² basis, the gross profit margin for YTD 2018 was 29.7% of revenue.

Total G&A expenses for YTD 2019 increased by \$24.5 million, or 36.8%, to \$91.1 million compared to \$66.6 million in YTD 2018. This increase is mainly attributable to the inclusion of Endy since its acquisition in December 2018 and additional media and advertising spending to grow its brand, along with planned increase to strengthen our Sleep Country and Dormez-vous? brands. Other factors in this increase include salaries, wages, and benefits, credit card and finance changes, and depreciation expenses (net of occupancy charges), which were impacted by IFRS 16, and telecommunication costs.

Finance related expenses increased by \$12.6 million from \$3.2 million in YTD 2018 to \$15.8 million in YTD 2019. Of this increase, \$8.5 million relates to additional interest on lease liabilities upon adoption of IFRS 16 and the balance primarily relates to the accretion on contingent consideration related to Endy's acquisition and interest expense on the senior secured credit facility.

Operating EBITDA¹ in YTD 2019 increased by \$34.7 million, or 43.5%, to \$114.6 million compared to \$79.9 million at this time last year. On a pro-forma² basis this was an increase of \$5.8 million or 5.4% from YTD 2018. This was primarily driven by the adoption of IFRS 16.

The first nine months of 2019 also saw decreases in Net Income, which declined by \$4.9 million, or 10.6%, to \$41.4 million compared to \$46.3 million during the same time last year. In the same time period, basic earnings per share decreased by 10.4% to \$1.12 per share from \$1.25 per share in YTD 2018. The decrease was mainly as a result of higher G&A expenses and higher finance related expenses, partially offset by the favorable impact of an increase in gross profit and a decrease in income tax expense. On a pro-forma² basis, this was a decrease of \$2.9 million (\$0.08 per share) from YTD 2018.

The Company's Adjusted Net Income¹ decreased by 11.4% in the first nine months of 2019 to \$43.5 million from \$49.1 million one year ago. As such, Basic Adjusted Earnings Per Share¹ decreased by 12.0% to \$1.17 per share in YTD 2019 from \$1.33 per share in YTD 2018. On a pro-forma² basis, the decrease in Adjusted Net Income¹ was \$3.6 million (\$0.10 per share) from YTD 2018.

Conference call

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on November 1, 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 November 8, 2019 23:59 p.m. ET. To listen to the replay, please dial (855) 859-2056 or (416) 849-0833 and use passcode 6487095.

About Sleep Country Canada

Sleep Country is Canada's leading omnichannel mattress and bedding retailer and the only specialty sleep 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 October 31, 2019, Sleep Country has 276 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, on Facebook at 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" and "Pro-forma - Q3 2018 and YTD 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 Q3 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.

SOURCE Sleep Country Canada Holdings Inc. Investor Relations

<https://ir.sleepcountry.ca/2019-10-31-Sleep-Country-Canada-Achieves-14-2-Revenue-Increase-in-Q3-2019,-Advances-Strategic-Growth-Plan>