

Sleep Country Canada Celebrates 25th Anniversary in Q4 2019 with 16.5% Revenue Increase

Advancements in strategic agenda result in robust revenue and profit growth

TORONTO, March 4, 2020 /CNW/ - Sleep Country Canada 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, 2019. The Company strengthened its leading market share position by serving the total sleep needs of more Canadians through the addition of Endy, enhanced digital platform, growing network of stores and new strategic partnerships, while also investing for future growth. All financial results are reported in Canadian dollars unless otherwise stated.

Fourth Quarter Highlights

- Revenue increased by \$26.4 million (16.5%) to \$186.5 million from \$160.1 million in Q4 2018
- Same Store Sales ("SSS1") increased by 1.9% (excluding Endy)
- Mattress revenue increased by 15.4% to \$146.2 million from \$126.7 million in Q4 2018
- Accessory revenue increased by 20.6% to \$40.3 million from \$33.4 million in Q4 2018
- Gross profit margin expanded to 32.0% from 29.6% in Q4 2018; pro-forma2 gross profit margin for Q4 2018 is 30.6%
- Operating EBITDA1 increased by 59.5% to \$41.3 million (22.2% of revenue), from \$25.9 million in Q4 2018 (16.2% of revenue); pro-forma2 Operating EBITDA in Q4 2018 was \$36.2 million (22.6% of revenue)
- Achieved Diluted Earnings Per Share (EPS) of \$0.38 and Adjusted Diluted EPS1 of \$0.42
- Opened 1 new store, bringing total store count to 276 across the country
- Launched new cloud-based Oracle eCommerce platform and the first phase of new Enterprise Resource Planning (ERP) platform
- Purchased 510,829 common shares under the Company's Normal-Course Issuer Bid (NCIB) Program for cancellation at an average price of \$19.59

Annual Highlights

- Revenue increased by \$89.4 million (14.3%) to \$712.4 million from \$623.0 million in 2018
- Same Store Sales ("SSS1") increased by 0.3% (excluding Endy)
- Mattress revenue increased by 13.7% to \$564.7 million from \$496.6 million in 2018
- Accessory revenue increased by 16.9% to \$147.7 million from \$126.4 million in 2018
- Gross profit margin expanded to 31.3% from 29.0% in 2018; pro-forma2 gross profit margin for 2018 is 29.9%
- Operating EBITDA1 increased by 47.4% to \$155.9 million (21.9% of revenue), from \$105.8 million in 2018 (17.0% of revenue); pro-forma2 Operating EBITDA in 2018 was \$145.0 million (23.3% of revenue)
- Achieved Diluted EPS of \$1.49 and Adjusted Diluted EPS1 of \$1.59
- Opened 12 new stores, bringing total store count to 276 across the country
- Purchased 510,829 common shares under the Company's Normal-Course Issuer Bid (NCIB) Program for cancellation at an average price of \$19.59

CEO's Commentary

"The final quarter of 2019 was strong, propelled by robust Black Friday and Boxing Week results across our Sleep Country, Dormez-vous? and Endy brands. Our 16.5% total revenue growth and accelerated market share expansion reflect the strength and relevance of our evolving business model and strategic agenda. We are pleased with the progress we've made to reach more Canadians any way they choose to shop. The launch of our Oracle eCommerce platform in Q4 enriched our online and mobile presence, with results exceeding our expectations. To further bolster our reach, we opened 12 new stores in 2019. Combined with accelerated same store sales growth in the fourth quarter and profitable revenue growth from Endy, the strength of our network and our ability to deliver results is clear," said Dave Friesema, Chief Executive Officer, Sleep Country Canada. "Sleep Country's distinctive combination of store growth, dynamic digital footprint and powerful logistics and delivery infrastructure differentiates us from our competitors, uniquely positioning us to win in today's environment."

"New and loyal customers continue to respond positively to our expanding mattress and sleep accessory collections, which increased 15.4% and 20.6% respectively in Q4, demonstrating our ability to serve the sleep needs of Canadians. Our fundamentals remain strong as we continue to see increased total traffic in-store and online, growing conversion rates of shoppers to buyers and strong gross margin expansion. In short, we continue to successfully and profitably evolve with our customers."

(C\$ millions unless otherwise stated; other than store and share data)	Q4 2019	Q4 2018		Q4 2018		2019	2018		2018	
		As reported	% Change	Pro-forma2	% Change		As reported	% Change	Pro-forma2	% Change
Revenues	\$186,490	\$160,104	16.5%	N/C3		\$712,372	\$622,977	14.3%	N/C3	
SSS (excluding Endy)1	1.9%	(2.7%)		N/C3		0.3%	1.4%		N/C3	
Gross profit margin	32.0%	29.6%		30.6%		31.3%	29.0%		29.9%	
Stores opened	1	4		N/C3		12	17		N/C3	
Stores renovated/relocated	5	12		N/C3		26	32		N/C3	
Operating EBITDA1	\$41,310	\$25,896	59.5%	\$36,224	14.0%	\$155,932	\$105,775	47.4%	\$145,013	7.5%
Operating EBITDA margin1	22.2%	16.2%		22.6%		21.9%	17.0%		23.3%	
Net Income	\$14,027	\$13,313	5.4%	\$12,762	9.9%	\$55,460	\$59,641	(7.0%)	\$57,117	(2.9%)

Adjusted Net Income¹	\$15,744	\$14,776	6.6%	\$14,225	10.7%	\$59,251	\$63,861	(7.2%)	\$61,337	(3.4%)
Earnings per share - Basic	\$0.38	\$0.36	5.6%	\$0.34	10.3%	\$1.50	\$1.61	(6.8%)	\$1.54	(3.0%)
Adjusted Earnings Per Share - Basic¹	\$0.43	\$0.40	7.5%	\$0.38	11.1%	\$1.60	\$1.72	(7.0%)	\$1.66	(3.5%)
Adjusted Earnings Per Share - Diluted¹	\$0.42	\$0.40	5.0%	\$0.38	11.2%	\$1.59	\$1.71	(7.0%)	\$1.64	(3.2%)

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 Q4 2019 and FY 2019 have been impacted compared to Q4 2018 and FY 2018 respectively. The IFRS 16 pro-forma results for Q4 2018 and FY 2018 have been compiled and disclosed in the Q4 2019 and FY 2019 MD&A to quantify the impact of IFRS 16 on Q4 2018 and FY 2018, assuming the standard had been adopted on January 1, 2018. This estimated impact on Q4 2018 and FY 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 February 4, 2020, the Board of Directors declared a dividend on the Company's common shares of \$0.195 per share, payable on February 25, 2020 to shareholders of record at the close of business on February 14, 2020. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Summary of Fourth Quarter Financial Results

Fourth quarter revenue grew by 16.5% to \$186.5 million from \$160.1 million in Q4 2018. This increase was driven by the addition of 12 new stores in 2019, the inclusion of our wrap stores in 2019, revenue from Endy since its acquisition and 1.9% growth in SSS1 (excluding Endy) at Sleep Country Canada and Dormez-vous?. Revenue in the mattresses category increased by 15.4% to \$146.2 million compared to \$126.7 million in Q4 2018, and accessories revenue grew by 20.6% to \$40.3 million compared to \$33.4 million in the same period last year.

Gross profit during the fourth quarter, while not directly comparable to last year due to our adoption of the IFRS 16 accounting standard, increased by 25.8% to \$59.7 million from \$47.4 million in the same period of 2018. Gross profit margin expanded to 32.0% of revenue from 29.6% in the same period 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 as well as the impact of no sales and distribution compensation expense incurred for revenue generated through Endy's online platform. On a pro-forma² basis, the gross profit margin for Q4 2018 was 30.6% of revenue.

Total General and Administrative ("G&A") expenses increased by \$7.6 million, or 27.8%, to \$34.8 million, mainly driven by greater spending in media and advertising, which increased by \$2.6 million. This increase is mainly due to the inclusion of Endy and our investment in growing the brand. The G&A depreciation and amortization expense increased by \$2.1 million mainly due to an increase in intangible depreciation related to the ERP implementation, which was partly completed in Q4 2019. In addition, our salaries, wages and benefits increased by \$1.9 million mainly due to the inclusion of compensation expense related to Endy for the entire fourth quarter of 2019 compared to the partial inclusion post acquisition in Q4 2018.

Finance related expenses increased by \$4.0 million from \$1.3 million in Q4 2018 to \$5.3 million in Q4 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 consideration and additional interest expense on the senior secured credit facility - both related to Endy's acquisition.

During the fourth quarter of 2019, Operating EBITDA¹ increased to \$41.3 million. On a pro-forma² basis, this was an increase of 14.0%. 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 Q4 2019 increased by \$0.7 million to \$14.0 million (\$0.38 per share) compared to \$13.3 million (\$0.36 per share) in Q4 2018. On a pro-forma² basis, this was an increase of \$1.2 million (\$0.04 per share) from Q4 2018. This was largely driven by an increase in gross margin profit expansion, offset by an increase in the G&A expenses and finance related expenses.

Adjusted Net Income¹ increased to \$15.7 million from \$14.8 million in the same quarter last year. On a pro-forma² basis, this was an increase of \$1.5 million from Q4 2018. Basic Adjusted Earnings per Share¹ increased by 7.5% to \$0.43 per share from \$0.40 per share last year. On a pro-forma² basis, this was an increase of \$0.05 from Q4 2018.

Summary of Annual Financial Results

For the year ended December 31, 2019, revenue increased by 14.3% to \$712.4 million from \$623.0 million in 2018. Sleep Country's total revenue growth was driven by 12 new store openings, SSS1 growth (excluding Endy) of 0.3%, the addition of Endy for the full year, continued accessories diversification and expanded omnichannel footprint. The total revenue from sales of mattresses and accessories also rose significantly; mattress revenue increased by 13.7% to \$564.7 million compared to \$496.6 million in 2018, while accessories grew by 16.9% to \$147.7 million compared to \$126.4 million in 2018.

Gross profit also grew in 2019, increasing by \$42.9 million this year to \$223.3 million, up from \$180.4 million in 2018. Gross profit margin increased by 2.3% to 31.3% of revenue for 2019 from 29.0% of revenue in 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, as well as the impact of no sales and distribution compensation expense incurred for revenue generated through Endy's online platform. On a pro-forma² basis, the gross profit margin for 2018 was 29.9% of revenue.

Total G&A expenses increased by \$32.0 million, or 34.2%, to \$125.8 million from \$93.8 million in 2018. This increase is mainly

attributable to the inclusion of Endy since its acquisition in December 2018 and the adoption of IFRS 16 effective January 1, 2019.

Finance related expenses increased by \$16.6 million from \$4.5 million in 2018 to \$21.1 million in 2019. Of this increase, \$11.6 million relates to additional interest on lease liabilities upon adoption of IFRS 16 and the balance primarily relates to the accretion on contingent consideration and additional interest expense on the senior secured credit facility - both related to Endy's acquisition.

Operating EBITDA¹ in 2019 increased by \$50.1 million, or 47.4%, to \$155.9 million compared to \$105.8 million at this time last year. On a pro-forma² basis this was an increase of \$10.9 million or 7.5% from 2018. This was primarily driven by the adoption of IFRS 16.

There was a decrease in Net Income of \$4.1 million, or 7.0%, to \$55.5 million compared to \$59.6 million in 2018. In the same time period, Basic Earnings per Share decreased by 6.8% to \$1.50 per share from \$1.61 per share in 2018. The decrease was mainly as a result of higher G&A expenses and higher finance related expenses in 2019 compared to 2018, partially offset by the favorable impact of an increase in gross profit, decrease in income tax expense and increase in other income as a result of insurance compensation received. On a pro-forma² basis, this was a decrease of \$1.7 million (\$0.05 per share) from 2018.

The Company's Adjusted Net Income¹ decreased by 7.2% in 2019 to \$59.3 million from \$63.9 million one year ago. As such, Basic Adjusted Earnings per Share¹ decreased by 7.0% to \$1.60 per share in 2019 from \$1.72 per share in 2018. On a pro-forma² basis, the decrease in Adjusted Net Income¹ was \$2.1 million (\$0.06 per share) from 2018.

Outlook

"Looking ahead, we're excited to build upon our track record of profitable growth. In 2020, we will continue to deliver results by executing against our growth strategy including: the continued progress of our leading digital and physical footprints, advancing our strategic retail partnerships, offering Canadians the most globally innovative sleep products and expanding our reach through targeted and compelling marketing," continued Friesema.

"As part of the Sleep Country family for one year now, we're pleased with Endy's performance and look forward to leveraging knowledge and data across our brands to enable future growth and efficiencies. Going forward, we expect that each of our brands will enjoy continued growth, and that our Oracle eCommerce platform and new ERP system will aid expansion in 2020 and beyond. We anticipate deepening our customer base and capturing additional market share, while improving on our existing fundamentals. In addition, we plan to open at least eight new stores and renovate a further 25 to 30 stores.

At Sleep Country, we've been dedicated to enhancing the Canadian sleep experience for 25 years. We look forward to continuing to fulfill our promise, while also investing in future growth for many years to come."

Conference Call

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on March 5, 2020 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 12, 2020. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 6274807.

About Sleep Country

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 February 4, 2020, 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.

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", "Pro-forma Q4 2018", "Pro-forma 2018" 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 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 2019 annual information form (the "AIF") filed on March 4, 2020. 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/2020-03-04-Sleep-Country-Canada-Celebrates-25th-Anniversary-in-Q4-2019-with-16-5-Revenue-Increase>