

## **Sleep Country Canada Shares Q1 2020 Earnings and Business Continuity Initiatives During COVID-19**

TORONTO, May 4, 2020 /CNW/ - Sleep Country Canada Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ) today released financial results for the first quarter and three months ended March 31, 2020. All financial results are reported in Canadian dollars unless otherwise stated.

"We at Sleep Country offer our sincere gratitude to the COVID-19 frontline workers, and our thoughts are with the individuals and families who deal with the devastating realities of this crisis every day," said Dave Friesema, CEO, Sleep Country Canada. "At this time, our primary objectives are employee safety and employment, serving customer needs, government and community support, near-term business continuity alongside suppliers and landlords and the long-term prosperity of our company."

### **First Quarter Highlights**

- Revenue increased by \$2.3 million (1.5%) to \$151.6 million in Q1 2020 from \$149.3 million in Q1 2019
- Same Store Sales ("SSS"<sup>1</sup>) decreased by 0.9% in Q1 2020 compared to Q1 2019
  - As of the end of February 2020, SSS<sup>1</sup> increased by 13.1% compared to the same period in Q1 2019
- Mattress revenue increased by 2.8% to \$122.0 million in Q1 2020 from \$118.7 million in Q1 2019
- Accessory revenue decreased by 3.3% to \$29.6 million in Q1 2020 from \$30.6 million in Q1 2019
- Gross profit margin decreased to 27.1% in Q1 2020 from 28.4% in Q1 2019
- Operating EBITDA<sup>1</sup> decreased by 5.4% to \$27.9 million (18.4% of revenue) in Q1 2020 from \$29.5 million (19.7% of revenue) in Q1 2019
- Diluted Earnings Per Share (EPS) of \$0.14 and Adjusted Diluted EPS<sup>1</sup> of \$0.17 in Q1 2020
- Strong cash position of \$52.7 million as at March 31, 2020 compared to \$13.6 million as at March 31, 2019
- Experienced 143% eCommerce growth across all brands following store closures

### **Actions Taken to Mitigate COVID-19 and Support the Sleep Country Community**

Following the pandemic-related events of mid-March 2020, management's focus shifted towards health and safety, compliance with health authority and government guidelines and continuity of critical business operations. Efforts on this front include:

- Closure of 276 retail stores on March 21, 2020
- Shift of all business to online operations for Sleep Country, Dormez-vous? and Endy
- Retention of variable workforce at partial income by transitioning employees to paid leave of absence and subsequent application to the Canada Emergency Wage Subsidy (CEWS) program
- Implementation of a contactless delivery process
- Acceleration of digital roadmap and investments in new online capabilities to serve the changing customer
- Launch of Sleep Expert Chat program to help Canadians navigate their purchase of sleep necessities online through chat or phone
- Subsequent to quarter end, a commitment to donate up to \$1.5 million in mattress and bedding essentials to vulnerable communities currently under severe strain due to COVID-19, beginning with \$150,000 in product to the City of Toronto's Rapid Housing Access Initiative

### **Actions to Manage Liquidity Subsequent to Quarter End**

Sleep Country is implementing proactive measures which include the following:

- Expanding the Company's senior secured credit agreement with an incremental \$50 million
- Suspending both the dividend and NCIB program, intending to resume both initiatives upon return to normal operating conditions
- Postponing capital expenditure and guidance for 2020 related to the new store openings and renovations, continued investment in a new in-store Point-of-Sale system and Phase 2 of the ERP system
- Qualification and application to the CEWS program, providing the Company with 75% wage subsidy on eligible remuneration for up to 12 weeks, subject to limits per employee and retroactive to March 15, 2020
- Deferring 100% of the Board of Director's 2020 unpaid cash compensation
- Deferring 50% of the salaries of the Chief Executive Officer and President, Dormez-vous? & Chief Business

- Development Officer, and 25% of the salaries of remaining named executive officers
- Implementing additional cost-saving measures across the business including marketing, procurement and sales expenditure
- Investing in online capabilities to service customers virtually

The Company continues to actively monitor market conditions and remains in close contact with its landlords and suppliers to assess impacts and mitigate risks.

## CEO's Commentary and Outlook

"The story of this year's opening quarter is a dichotomy of before and after COVID-19. Sleep Country began the quarter with powerful growth across our entire company. With rapid eCommerce expansion in all three brands, promising market share capture, solid free cash flow and the strongest same store sales performance we had seen in years, we entered the health crisis from a position of financial strength. Once the full impact of COVID-19 became apparent in mid-March, we swiftly closed our retail stores to protect our associates and customers while also shifting the entirety of our business online," continued Friesema.

"Our past investments in our omnichannel platform across Sleep Country, Dormez-vous? and Endy allowed us to rapidly pivot to serve customers' needs online. Our crisis response has been characterized by agile innovation and acceleration of our digital roadmap, including the immediate launch of a Sleep Expert Chat program. Since the program's inception, we have seen chat sessions grow exponentially, driving a higher average unit selling price and improvement in customer satisfaction.

We have taken proactive measures to manage our financial position, ensuring we remain sustainable and liquid through the COVID-19 pandemic and recovery period. With these prudent initiatives, we are confident that our business will rebound with vigour and remain Canada's premier mattress and bedding retailer.

Over the past 25 years, we have successfully navigated many challenging economic downturns and each time we have emerged stronger than before. Our resilient model allows our business to be well-positioned as we look to the other side of this valley. We remain focused on our people, our communities, our long-term strategic agenda and delivering shareholder value."

(C\$ thousands unless otherwise stated; other than store and share data)	Q1 2020	Q1 2019	% Change
<b>Revenues</b>	\$151,586	\$149,322	1.5%
<b>SSS1</b>	(0.9%)	(3.4%)	
<b>Gross profit margin</b>	27.1%	28.4%	
<b>Stores opened</b>	-	1	
<b>Stores renovated/relocated</b>	9	13	
<b>Operating EBITDA1</b>	\$27,858	\$29,450	(5.4%)
<b>Operating EBITDA margin1</b>	18.4%	19.7%	
<b>Net Income</b>	\$4,993	\$7,775	(35.8%)
<b>Adjusted Net Income1</b>	\$6,267	\$8,634	(27.4%)
<b>Earnings per share - Basic</b>	\$0.14	\$0.21	(33.3%)
<b>Adjusted Earnings Per Share - Basic1</b>	\$0.17	\$0.23	(26.1%)
<b>Adjusted Earnings Per Share - Diluted1</b>	\$0.17	\$0.23	(26.1%)

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

## Summary of First Quarter Financial Results

The outbreak of the COVID-19 pandemic has adversely impacted the Company's operations and financial results for the month of March 2020 compared to prior year. Specifically, the gradual decline of customer traffic since the onset of the pandemic and temporary closure of all 276 retail locations starting March 21, 2020 has had a significant adverse impact on the revenue for March 2020.

Q1 revenue grew by 1.5% to \$151.6 million from \$149.3 million in Q1 2019. This increase was partly offset by a decrease in SSS1 by 0.9% caused by the impact of the COVID-19 pandemic experienced nationally in Q1 2020. Prior to the onset of the pandemic in March 2020, YTD February SSS1 increased by 13.1%. SSS1 experienced a sharp decline to negative 26.4% in March as the pandemic significantly reduced store traffic and revenue and was heavily impacted by the closure of our stores on March 21, 2020. Mattresses revenue increased by 2.8% to \$122.0 million compared to \$118.7 million in Q1 2019. Accessories revenue decreased by 3.3% to \$29.6 million

compared to \$30.6 million in the same period last year.

Gross profit in Q1 2020 decreased by 2.9% to \$41.2 million from \$42.4 million in Q1 2019. Gross profit margin decreased to 27.1% of revenue from 28.4% in Q1 2019. The decrease in gross profit margin by 1.3% was primarily due to sales and distribution compensation, store occupancy costs and cost of sales depreciation from our right-to-use assets. This decrease was favourably impacted by lower product costs and other directly related expenses.

Total General and Administrative ("G&A") expenses increased by \$2.6 million, or 9.6%, to \$29.0 million, mainly driven by an increase in professional fees due to various non-recurring projects; an increase in warehouse operating costs; an increase in salaries, wages, benefits and merit incurred in regular course of business; and an increase in credit card and finance charges due to providing customers with longer term financing options. These increases were partially offset by a reduction in media and advertising expenses.

The G&A depreciation and amortization expense increased by \$0.3 million mainly due to an increase in intangible depreciation related to the revamped eCommerce implementation platform, of which the first phase was completed in Q1.

Finance related expenses increased by \$0.2 million to \$5.4 million in Q1 2020 from \$5.2 million in Q1 2019. The accretion of the contingent consideration related to the Endy acquisition in December 2018 constitutes \$0.1 million of this increase, and the remaining \$0.1 million increase in interest expense was due to the senior secured credit facility. The Company's average debt balance increased mainly due to the additional debt taken build up the Company's cash reserves in Q1 2020 in response to the COVID-19 pandemic.

During Q1 2020, Operating EBITDA<sup>1</sup> decreased to \$27.9 million, compared to \$29.5 million in Q1 2019. The decrease was mainly due to an increase in cost of sales (net of depreciation) and G&A expenses (net of depreciation); partially offset by a growth in total revenue and the favourable impact of an adjustment related to ERP implementation costs incurred in Q1 2020.

Net Income for Q1 2020 decreased by \$2.8 million to \$5.0 million (\$0.14 per share) compared to \$7.8 million (\$0.21 per share) in Q1 2019. This decrease was attributable to the decrease in gross profit, increase in G&A expenses and finance related expenses; partially offset by the decrease in income tax expenses in Q1 2020 compared to Q1 2019.

Adjusted Net Income<sup>1</sup> decreased to \$6.3 million from \$8.6 million in the same quarter last year. The change is mainly due to the decrease in net income, partially offset by the favourable impact of the adjustment related to the ERP implementation costs incurred in Q1 2020. Basic Adjusted EPS<sup>1</sup> decreased by 26.1% to \$0.17 per share from \$0.23 per share in Q1 2019.

## **Conference Call**

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on May 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 May 12, 2020. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 8788094.

## **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 May 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" 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 Q1 2020 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 2019 annual information form (the "AIF") filed on March 4, 2020 and in the Q1 2020 Management's Discussion and Analysis of Financial Condition and Results of Operations of

Sleep Country Canada Holdings Inc. ("MDA") filed on May 4, 2020. A copy of the AIF and MDA 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.

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<https://ir.sleepcountry.ca/2020-05-04-Sleep-Country-Canada-Shares-Q1-2020-Earnings-and-Business-Continuity-Initiatives-During-COVID-19>