

Sleep Country Canada Demonstrates Flexibility and Strength of Digital Platforms in Q2 2020

TORONTO, Aug. 6, 2020 /CNW/ - Sleep Country Canada Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ) today released financial results for the second quarter and six months ended June 30, 2020. Despite challenges due to the impact of the COVID-19 pandemic, including the closure of its entire physical store network for over half the quarter, Sleep Country benefitted from explosive growth across digital channels and strategic partnerships. All financial results are reported in Canadian dollars unless otherwise stated.

Second Quarter Highlights

- Revenues decreased by \$51.7 million (31.0%) mainly as retail stores were temporarily closed for an average of 54% of normal operating days¹ in Q2 2020
- Generated vigorous triple digit eCommerce growth across all eCommerce platforms (Sleep Country, Dormez-vous? and Endy) in Q2 2020
- Gross profit margins increased by 2.4% from 29.8% in Q2 2019 to 32.2% in Q2 2020
- Operating EBITDA¹ margins decreased by 0.1% from 21.4% in Q2 2019 to 21.3% in Q2 2020
- Net income decreased by \$12.7 million from \$12.2 million in Q2 2019 to a net loss of \$0.5 million in Q2 2020
- Diluted EPS decreased by \$0.34 from \$0.33 in Q2 2019 to (\$0.01) in Q2 2020
- Adjusted Net Income¹ decreased by \$7.5 million from \$12.5 million in Q2 2019 to \$5.0 million in Q2 2020
- Diluted Adjusted EPS¹ decreased by \$0.19 from \$0.33 in Q2 2019 to \$0.14 in Q2 2020
- Maintained a strong cash position of \$99.8 million as at June 30, 2020, with an additional \$50 million of liquidity available under the accordion component of the Company's credit agreement
- Reopened all 276 retail store locations by June 24th with robust health and safety protocols in place
- Donated \$1.5 million in mattress and bedding essentials to vulnerable communities currently under severe strain due to COVID-19
- Recognized in 2020 as a Best Workplace in Retail and Hospitality and a Best Workplace in Ontario by Great Place to Work Canada

CEO's Commentary and Outlook

"Our second quarter results showcase our strategic vision and demonstrate the value and benefit of our ongoing investments in digital platforms and strategic partnerships. Enhanced digital capabilities by Sleep Country and Dormez-Vous?, our 2018 acquisition of Endy, Canada's largest and most profitable online mattress retailer, and value-add partnerships with Walmart, Simba and Malouf all reinforce our ability to best serve the sleep needs of Canadians any way they choose to shop. These investments enabled our business to rapidly pivot and serve our existing and growing customer base online, while retaining leading market share through recent economic turmoil," said Dave Friesema, CEO, Sleep Country Canada.

"Despite the closure of our entire physical store network for much of the quarter, our channel-agnostic strategy and superior brand trust kept us top of mind with Canadians. Our second quarter highlighted the power of our digital infrastructure, which delivered explosive triple-digit eCommerce growth and strong results in this environment. As we navigate through this crisis, we remain confident that our business is best-in-class and poised for continued growth and market share expansion.

Our business' financial position was secured by the immediate measures we took to preserve liquidity and ensure business continuity, including an expanded senior secured credit facility, reduced executive and Board compensation, and suspended NCIB and dividend. While the Canadian retail landscape remains uncertain in the near-term, our business' positive momentum, differentiated omnichannel infrastructure, financial flexibility and exceptional employees position us well to continue to drive profitable growth and deliver shareholder value well into the future," concluded Friesema.

(C\$ thousands unless otherwise stated; other than store and share data)	Q2 2020	Q2 2019	% Change
Revenues	\$114,900	\$166,587	(31.0%)
SSS¹	N/A	1.9%	N/A
Gross profit margin	32.2%	29.8%	
Stores opened	-	6	
Stores renovated/relocated	-	8	
Operating EBITDA¹	\$24,470	\$35,620	(31.3%)
Operating EBITDA margin¹	21.3%	21.4%	(0.1%)

Net Income (Loss)	Q2 2019	Q2 2020	% Change
Adjusted Net Income (Loss)¹	5,009	\$12,519	(60.0%)
Earnings (Loss) per share - Basic	(\$0.01)	\$0.33	(103.0%)
Adjusted Earnings (Loss) Per Share - Basic¹	\$0.14	\$0.34	(58.8%)
Adjusted Earnings (Loss) Per Share - Diluted¹	\$0.14	\$0.33	(57.6%)

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

Summary of Second Quarter Financial Results

The outbreak of the COVID-19 pandemic has had an adverse impact on the Company's operations and financial results for Q2 2020 compared to prior year.

Revenues decreased by \$51.7 million (31.0%) from \$166.6 million in Q2 2019 to \$114.9 million in Q2 2020 mainly as a result of the temporary closure of the Company's 276 retail stores for an average of 54% of its normal operating days.¹ This decline was partially offset by an increase in online revenue.

Gross profit decreased by \$12.7 million from \$49.7 million in Q2 2019 to \$37.0 million in Q2 2020. Gross profit margin increased by 2.4% from 29.8% to 32.2% in Q2 2020 primarily due to wage subsidies under the Canada Emergency Wage Subsidy ("CEWS") program, which favourably impacted sales and distribution compensation. This margin increase was partially offset by the deleveraging of fixed distribution costs, occupancy costs and depreciation costs.

Total General and Administrative ("G&A") expenses decreased by \$0.2 million, or 0.7%, from \$28.0 million in Q2 2019 to \$27.8 million in Q2 2020.

Finance related expenses increased by \$4.4 million from \$5.3 million in Q2 2019 to \$9.7 million in Q2 2020. Due to Endy's financial performance exceeding the Company's initial expectations, Sleep Country expects to pay the maximum earn-out of \$25 million in Q1 2021. As a result, in Q2 2020, there was a one-time adjustment of \$4.3 million to the Company's contingent consideration liability.

Operating EBITDA¹ decreased by \$11.1 million from \$35.6 million for Q2 2019 to \$24.5 million for Q2 2020 due to a decrease in gross profit as a result of the temporary store closures during this period, partially offset by the favourable impact of adjustment related to higher share-based compensation and non-recurring ERP implementation expenses.

Net Income for Q2 2020 decreased by \$12.7 million from \$12.2 million (\$0.33 per share) in Q2 2019 to a loss of \$0.5 million ((\$0.01) per share). This net decrease is attributable to the decrease in gross profit due to the temporary store closures during this period, in addition to an increase in finance related expenses due to the one-time \$4.3 million adjustment on Endy's contingent consideration liability compared to the same period last year.

Adjusted Net Income¹ for Q2 2020 decreased by \$7.5 million from \$12.5 million (\$0.34 per share) in Q2 2019 to \$5.0 million (\$0.14 per share) in Q2 2020.

Summary of Six Month Financial Results

The outbreak of the COVID-19 pandemic has had an adverse impact on the Company's operations and financial results for YTD 2020 compared to prior year.

Revenues decreased by \$49.4 million (15.6%) from \$315.9 million in YTD 2019 to \$266.5 million in YTD 2020 as a result of the temporary closure of the Company's 276 retail stores for an average of 33% of its normal operating days¹ in YTD 2020. This decline was partially offset by an increase in online revenue.

Gross profit decreased by \$14.0 million from \$92.1 million in YTD 2019 to \$78.1 million in YTD 2020. Gross profit margin increased by 0.2% from 29.1% in YTD 2019 to 29.3% in YTD 2020 primarily due to wage subsidies under the CEWS program, which favourably impacted sales and distribution compensation. This margin increase was offset by the deleveraging of fixed distribution costs, occupancy costs and depreciation costs.

Total G&A expenses increased by \$2.3 million, or 4.3%, from \$54.5 million YTD 2019 to \$56.8 million YTD 2020.

Finance related expenses increased by \$4.7 million from \$10.5 million in YTD 2019 to \$15.2 million in YTD 2020. Due to Endy's financial performance exceeding the Company's initial expectations, Sleep Country expects to pay the maximum earn-out of \$25 million in Q1 2021. As a result, in Q2 2020, there was a one-time adjustment of \$4.3 million to the Company's contingent consideration liability.

Operating EBITDA¹ decreased by \$12.8 million from \$65.1 million for YTD 2019 to \$52.3 million for YTD 2020 due to a decrease in gross profit as a result of the temporary store closures during this period, partially offset by the favourable impact of adjustments related to higher share-based compensation and non-recurring ERP implementation expenses.

Net income for YTD 2020 decreased by \$15.5 million from \$20.0 million (\$0.54 per share) in YTD 2019 to \$4.5 million (\$0.12 per share) in YTD 2020. This net decrease is mainly attributable to the decrease in gross profit due to the temporary store closures during this period, in addition to an increase in finance related expenses due to the one-time \$4.3 million adjustment on Endy's contingent consideration liability compared to the same period last year.

Adjusted Net Income¹ for YTD 2020 decreased by \$9.9 million from \$21.2 million (\$0.57 per share) in YTD 2019 to \$11.3 million (\$0.31 per share) in YTD 2020.

Conference Call

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on August 7, 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 August 14, 2020. To listen to the replay, please dial 855-859-2056 or 416-849-0833 and use passcode 1056774.

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 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 August 6, 2020, Sleep Country has 280 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", "Operating Days", "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 Q2 2020 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, 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 and the Q2 2020 MDA filed on August 6, 2020. A copy of the AIF, Q1 2020 and Q2 2020 MDA 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/2020-08-06-Sleep-Country-Canada-Demonstrates-Flexibility-and-Strength-of-Digital-Platforms-in-Q2-2020>