

Sleep Country Canada Delivers Record Breaking Q4 2020 Results of 89.4% Net Income Growth, 33.4% Revenue Growth

Powerful digital and brick-and-mortar ecosystem drives biggest quarter in company's 26-year history

TORONTO, March 2, 2021 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or "Sleep Country Canada" or the "Company") (TSX: ZZZ) today proudly released financial results for the fourth quarter and year ended December 31, 2020. Sleep Country's powerful Q4 demonstrates its position as the leading omnichannel sleep retailer in Canada. With 20.1% of its sales derived through eCommerce platforms and a growing network of stores both contributing to best-ever same-store sales (SSS1) growth, the Company's profitable, innovative and expanding ecosystem is defining how Canadians will choose to shop for sleep solutions for years to come.

All financial results are reported in Canadian dollars unless otherwise stated.

Fourth Quarter Highlights

- Revenue increased by 33.4% or \$62.4 million from \$186.5 million in Q4 2019 to \$248.9 million in Q4 2020, of which eCommerce sales represented 20.1% of revenues
- SSS1 increased by 32.4% in Q4 2020 from Q4 2019
- Stores were temporarily closed for 10.5% of operating days¹ as a result of government-mandated closures in Q4 2020
- Third consecutive quarter of triple-digit eCommerce revenue growth for Sleep Country, Dormez-vous? and Endy
- Gross profit margin increased by 1.0% from 32.0% in Q4 2019 to 33.0% in Q4 2020
- Operating EBITDA¹ margin decreased by 0.6% from 22.2% in Q4 2019 to 21.6% in Q4 2020
- Net income increased by 89.4% or \$12.6 million from \$14.0 million in Q4 2019 to \$26.6 million in Q4 2020
- Adjusted diluted EPS increased by 76.2% or \$0.32 from \$0.42 in Q4 2019 to \$0.74 in Q4 2020
- Mattresses and accessories revenues grew by 34.6% and 29.3% respectively
- Ended Q4 2020 with a cash balance of \$38.3 million and an additional \$182.0 million of liquidity available under the existing credit agreement
- Successfully launched exclusive Canadian partnership with Purple Innovation, leader in comfort and creator of the renowned Purple® Mattress

CEO's Commentary and Outlook

"Sleep Country's exceptional Q4 results conclude the biggest quarter and year in our company's 26-year history, with our strongest growth, profitability and cash flow. Our business showed remarkable resilience during this past year and we are grateful to our team of Associates for their unparalleled dedication and commitment.

Loyal and new customers turned to us and trusted us for their sleep needs more than ever. Our best-in-class teams were ready and there to serve our customers and thrived, notwithstanding the environment and difficult market conditions. Our powerful eCommerce platforms and store network, combined with our exclusive and leading brand partnerships, stable supply chain and superior customer experience, served Canadians well during these times," said Dave Friesema, CEO, Sleep Country Canada.

"I am delighted to see Canadians embrace both our eCommerce and brick-and-mortar business. Wherever, and however, their journey begins and concludes, we have proven to be there for them and make their shopping experience a seamless and satisfying one. We are still early on in our digital journey, and we see significant opportunity to continue to grow our eCommerce business and market share.

We continue to generate the desired impact and returns through strategic investments and purposeful innovation, resulting in an enhanced model for Sleep Country across infrastructure, channel, partnership, experience and brand, including Endy. This model has enabled us to evolve ahead of Canadians' needs to provide them with the world's most innovative sleep solutions wherever and however they choose to shop.

With this quarter's excellent growth in revenue, same-store sales and net income, our strategy is clearly working. These outstanding results were achieved despite our store network being closed for 10.5% of operating days¹ this quarter, including 65% of stores closed during Boxing Week – the most significant retail week in our calendar.

We are better positioned for profitability, growth and market share expansion than ever before. Sleep Country's future is very bright as we continue to grow and optimize our enhanced model to help Canadians achieve their best sleep as a pillar of health and wellbeing. We remain committed to building long-term value for our customers, employees, communities and shareholders as Canada's sleep partner and the sleep solutions destination of choice," concluded Friesema.

(C\$ thousands unless otherwise stated; other than store and share data)

	Q4 2020	Q4 2019	% Change	2020	2019	% Change
Revenues	\$248,861	\$186,490	33.4%	\$757,699	\$712,372	6.4%
SSS1	32.4%	1.9%		N/A ²	0.3%	
Gross profit margin	33.0%	32.0%		32.3%	31.3%	
Stores opened	2	1		6	12	
Stores renovated/relocated	12	5		21	26	
Operating EBITDA¹	\$53,848	\$41,310	30.4%	\$171,469	\$155,932	10.0%

Operating EBITDA margin¹	21.6%	22.2%		22.6%	21.9%	
Net Income	\$26,571	\$14,027	89.4%	\$63,307	\$55,460	14.1%
Adjusted Net Income¹	\$27,506	\$15,744	74.7%	\$72,148	\$59,251	21.8%
Earnings per share - Basic	\$0.72	\$0.38	89.5%	\$1.73	\$1.50	15.3%
Adjusted Earnings Per Share - Basic¹	\$0.75	\$0.43	74.4%	\$1.97	\$1.60	23.1%
Adjusted Earnings Per Share - Diluted¹	\$0.74	\$0.42	76.2%	\$1.95	\$1.59	22.6%

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

2 See the "Revenues" subsection of "Factors Affecting the Results of Operations" section of the Q4 2020 MD&A.

Dividend Declaration

On February 9, 2021, the Board declared a dividend of \$0.195 per share, payable on February 26, 2021 to shareholders of record at the close of business on February 18, 2021. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Summary of Fourth Quarter Financial Results

Revenues increased by \$62.4 million or 33.4% from \$186.5 million in Q4 2019 to \$248.9 million in Q4 2020. The increase is primarily driven by a 32.4% increase in SSS1, 2 new stores and wrap stores. In Q4 2020, eCommerce sales were 20.1% of Revenues.

Gross profit increased by \$22.5 million from \$59.7 million in Q4 2019 to \$82.2 million in Q4 2020. The gross profit margin increased by 1.0% from 32.0% in Q4 2019 to 33.0% in Q4 2020 primarily due to leveraging of fixed distribution costs, occupancy costs and depreciation costs. This increase was partially offset by higher inventory, delivery and compensation costs.

Total General and Administrative ("G&A") expenses increased by \$8.9 million or 25.6% from \$34.8 million in Q4 2019 to \$43.7 million in Q4 2020. The change was mainly driven by an increase in compensation and media and advertising expenses.

Finance related expenses decreased by \$0.5 million from \$5.3 million in Q4 2019 to \$4.8 million in Q4 2020 mainly due to the decrease in interest expenses on the senior secured credit facility.

Operating EBITDA¹ increased by \$12.5 million, or 30.4%, from \$41.3 million for Q4 2019 to \$53.8 million for Q4 2020. The increase was primarily due to strong revenue growth in Q4 2020 combined with an improved gross profit margin and partially offset by an increase in G&A expenses. It was also favourably impacted by adjustments related to the ERP implementation and lower share-based compensation expenses.

Net Income increased by \$12.6 million from \$14.0 million (\$0.38 per share) in Q4 2019 to \$26.6 million (\$0.72 per share) in Q4 2020. This increase was mainly driven by the increase in EBITDA¹ and decrease in finance related expenses and partially offset by an increase in income taxes.

Adjusted Net Income¹ for Q4 2020 increased by \$11.8 million from \$15.7 million (\$0.43 per share) in Q4 2019 to \$27.5 million (\$0.75 per share) in Q4 2020.

Summary of Annual Financial Results

Revenues increased by \$45.3 million or 6.4% from \$712.4 million in 2019 to \$757.7 million in 2020 mainly driven by an increase in SSS1, 6 new stores and wrap stores. The increase in revenue, which includes growth of eCommerce sales to 21.4% of total sales, was partially offset by the decrease of in-store revenue during the temporary closure of the Company's retail stores for an average of 19.8% of its normal operating days¹ in 2020 due to the COVID-19 pandemic.

Gross profit increased by \$21.2 million from \$223.3 million in 2019 to \$244.5 million in 2020. The gross profit margin increased by 1.0% from 31.3% in 2019 to 32.3% in 2020 primarily due to decreased store compensation costs resulting from the shift to eCommerce platforms. Wage subsidies under the Canada Emergency Wage Subsidy (CEWS) program and the leveraging of fixed distribution and depreciation costs also increased gross profit margin. This increase was offset by the higher inventory and delivery costs and personal protective equipment purchased as a result of the COVID-pandemic.

Total G&A expenses increased by \$9.1 million, or 7.2%, from \$125.8 million in 2019 to \$134.9 million in 2020 mainly driven by an increase in compensation, depreciation and mattress recycling and donations expenses.

Finance related expenses increased by \$4.3 million from \$21.1 million in 2019 to \$25.4 million in 2020 due to a one-time \$4.3 million adjustment on Endy's contingent consideration liability in addition to the accretion expense related to the Endy acquisition in December 2018. These increases are partially offset due to the decrease in interest expenses on the senior secured credit facility.

Operating EBITDA¹ increased by \$15.6 million from \$155.9 million for 2019 to \$171.5 million for 2020. The increase was primarily due to an increase in revenue combined with improved gross profit margin and partially offset by an increase in G&A expenses. It was also favourably impacted by adjustments related to higher share-based compensation and ERP implementation costs.

Net income increased by \$7.8 million from \$55.5 million (\$1.50 per share) in 2019 compared to \$63.3 million (\$1.73 per share) in 2020. This increase was mainly driven by the increase in EBITDA1 and decrease in income tax expenses, partially offset by an increase in finance related expenses.

Adjusted Net Income¹ increased by \$12.8 million from \$59.3 million (\$1.60 per share) in 2019 to \$72.1 million (\$1.97 per share) in 2020.

Conference Call

Sleep Country Canada CEO, Dave Friesema, will host a conference call for analysts and investors on March 3, 2021 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 10, 2021. To listen to the replay, please dial 416-849-0833 or 855-859-2056 and use passcode 4865579.

About Sleep Country

Sleep Country is Canada's leading omnichannel specialty sleep retailer, with a national brick-and-mortar footprint and robust eCommerce platforms dedicated to supporting the health and wellbeing of Canadians by matching each customer to their best night's sleep. 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 March 2, 2021, Sleep Country has 282 stores and 17 distribution centres across Canada. All of the Company's stores are corporate-owned, enabling the Company to develop and maintain a strong culture of customer service, resulting in a consistent and superior in-store, online 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 www.sleepcountry.ca or Facebook at 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", "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 Q4 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 Q4 2020 MD&A under the sections "Risk Factors" and "Impact of COVID-19 Pandemic on the Company" and those described in the Company's 2020 annual information form (the "AIF") filed on March 2, 2021. 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/2021-03-02-Sleep-Country-Canada-Delivers-Record-Breaking-Q4-2020-Results-of-89-4-Net-Income-Growth,-33-4-Revenue-Growth>