

Sleep Country Drives Growth in Q2 2021 with 67% Revenue Increase and 269% Expansion in Adjusted Diluted Earnings per Share

TORONTO, Aug. 3, 2021 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ) today released financial results for the second quarter and six months ended June 30, 2021. Sleep Country continued to advance its strategy, resulting in solid performance across all key metrics including strong expansion of topline revenue and a net income increase of \$17.5 million. As the Company embarks on the next chapter of its growth story, the unique combination of its purpose-driven strategy, capable and agile team, differentiated omnichannel sleep ecosystem and commitment to exceptional customer experience position Sleep Country better than ever for a sustained and profitable future.

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

Second Quarter Highlights

- The Company's retail store network was closed for an average of 32.7% of normal operating days¹ as a result of COVID-19 government-mandated closures in Q2 2021 compared to 54.0% of normal operating days¹ in Q2 2020
- Revenues increased by \$77.3 million or 67.3% from \$114.9 million in Q2 2020 to \$192.2 million in Q2 2021; Same store sales (SSS)¹ were 65.5% in Q2 2021
- eCommerce sales represented 29.6% of revenue in Q2 2021
- Gross profit margin increased by 2.3% from 32.2% in Q2 2020 to 34.5% in Q2 2021
- Operating EBITDA¹ margin increased by 1.4% from 21.3% in Q2 2020 to 22.7% in Q2 2021
- Net income increased by \$17.5 million from a net loss of \$0.5 million in Q2 2020 to \$17.0 million in Q2 2021
- Adjusted diluted earnings per share¹ (EPS) increased by 269.2% from \$0.13 in Q2 2020 to \$0.48 in Q2 2021
- Mattresses and accessories revenues grew by 66.6% and 69.8%, respectively, from Q2 2020 to Q2 2021
- Opened four new stores, bringing total store count to 287 across the country
- Announced the opening of two new storage hubs to increase overall warehouse capacity by 65.0%; Subsequent to quarter end, opened the first of the two hubs in July 2021
- Expanded digital footprint in partnership with Best Buy Canada to retail a selection of sleep solutions on the Best Buy Marketplace, including exclusive supply of traditional mattresses on BestBuy.ca
- Launched the Endy Sofa with tremendous success in its first month on the market
- Launched brand ambassador campaign with tennis Grand Slam champion, Bianca Andreescu
- Subsequent to quarter end, announced Stewart Schaefer's appointment to CEO and President of Sleep Country following current CEO Dave Friesema's retirement at the end of fiscal 2021

CEO Commentary and Outlook

"The second quarter was yet another example of how our strategy, executed by our best-in-class team, delivers solid and sustained growth. Due to ongoing investments in our omnichannel sleep ecosystem and disciplined execution, we delivered strong results this quarter with robust performance in revenue, net income and gross profit margin – all of which were achieved with store closures impacting 32.7% of our total quarter's operating days. Despite these headwinds, our differentiated service model served the sleep needs of new and loyal customers, underscoring our ability to adapt, excel and capture market share in any environment," said Dave Friesema, CEO, Sleep Country.

"We remain focused on realizing customer-centric growth across our three strategic platforms. In Q2, we made important progress with several transformative milestones, including expanding our digital footprint through an exclusive partnership with Best Buy Marketplace, our first wellness-focused brand ambassador campaign with tennis Grand Slam champion Bianca Andreescu and the expansion of the Endy brand and product line with the launch of the Endy sofa. In addition, we announced the opening of two new storage hubs that will drive operational efficiencies, improve the opportunity for margin expansion and fuel the next chapter of our exciting growth roadmap," added Friesema.

"Looking ahead, we are guided by the entrepreneurial spirit, strategic mindset and disciplined focus that has driven our storied growth over the last 27 years. We remain committed to our purpose of transforming lives through sleep and to our promise of providing new and loyal customers with world-class experiences across our sleep ecosystem. As we emerge from the pandemic, we are seeing Canadians investing in sleep as a pillar of their wellbeing, and our Sleep Country Canada, Dormez-vous and Endy brands are uniquely poised to capture this investment for years to come. We are executing against an exciting strategic plan and are confident in our ability to deliver sustained, profitable growth for our customers, communities, associates and shareholders,"

said Stewart Schaefer, President, Sleep Country.

| (C\$ thousands unless otherwise stated; other than store and share data) | Q2 2021 | Q2 2020 | % Change |
|--|-----------|-----------|----------|
| Revenues | \$192,175 | \$114,900 | 67.3% |
| SSS 1 | 65.6% | N/A | |
| Gross profit margin | 34.5% | 32.2% | |
| Stores opened | 4 | - | |
| Stores renovated/relocated | 5 | - | |
| Operating EBITDA 1 | \$43,706 | \$24,470 | 78.6% |
| Operating EBITDA margin 1 | 22.7% | 21.3% | |
| Net Income (Loss) | \$17,019 | (\$471) | n.m.f.2 |
| Adjusted Net Income 1 | \$18,036 | \$4,866 | 270.7% |
| Earnings (Loss) per share - Basic | \$0.46 | (\$0.01) | n.m.f.2 |
| Adjusted Earnings Per Share - Basic 1 | \$0.49 | \$0.13 | 276.9% |
| Adjusted Earnings Per Share - Diluted 1 | \$0.48 | \$0.13 | 269.2% |

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

2 No meaningful figure

Dividend Declaration

On August 3, 2021, the Board declared a dividend of \$0.195 per share, payable on August 30, 2021 to shareholders of record at the close of business on August 20, 2021. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Summary of Second Quarter Financial Results

Revenues increased by \$77.3 million or 67.3% from \$114.9 million in Q2 2020 to \$192.2 million in Q2 2021. This increase was mainly driven by a 65.5% increase in SSS1, four new stores and wrap stores while the Company's retail store network was temporarily closed for an average of 32.7% of its normal operating days¹ in Q2 2021 versus 54.0% of its normal operating days in Q2 2020. In Q2 2021, eCommerce sales were 29.6% of revenues.

Gross profit increased by \$29.4 million from \$37.0 million in Q2 2020 to \$66.4 million in Q2 2021. The gross profit margin increased by 2.3% from 32.2% in Q2 2020 to 34.5% in Q2 2021 primarily due to an increase in average unit selling prices, lower product costs, leveraging of fixed distribution, occupancy and depreciation costs. These efficiencies were partially offset by higher COVID-19 PPE, delivery and inventory adjustment costs, in addition to higher compensation costs that were favourably impacted by wage subsidies under the Canada Emergency Wage Subsidy (CEWS) program in Q2 2020.

Total G&A expenses increased by \$11.3 million or 40.4% from \$27.8 million in Q2 2020 to \$39.1 million in Q2 2021. This change was mainly driven by an increase in media and advertising, compensation that was favourably impacted by wage subsidies under the CEWS program in Q2 2020, telecommunication and information technology and occupancy expenses.

Finance related expenses decreased by \$5.1 million from \$9.7 million in Q2 2020 to \$4.6 million in Q2 2021. This change was mainly due to decreases in the Company's interest expense on its senior secured credit facility and a one-time \$4.3 million adjustment in Q2 2020 on Endy's contingent consideration liability, in addition to the \$0.7 million periodic accretion expense related to the Endy acquisition. These decreases were partly offset by increases in the revolver commitment fees and interest expense on the Company's lease liabilities.

Operating EBITDA¹ was \$43.7 million for Q2 2021, or 22.7% of revenue, compared to \$24.5 million for Q2 2020, or 21.3% of revenue, representing an increase of \$19.2 million or 78.6% mainly due to strong revenue growth in Q2 2021 combined with an improved gross profit margin and partially offset by an increase in G&A expenses.

Net Income increased by \$17.5 million from a net loss of \$0.5 million ((\$0.01) per share) in Q2 2020 to \$17.0 million (\$0.46 per share) in Q2 2021. 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 Q2 2021 increased by \$13.1 million from \$4.9 million (\$0.13 per share) in Q2 2020 to \$18.0 million (\$0.49 per share) in Q2 2021.

Summary of YTD 2021 Financial Results

Revenues increased by \$108.7 million or 40.8% from \$266.5 million in YTD 2020 to \$375.2 million in YTD 2021. This increase was mainly driven by a 39.4% increase in SSS1, six new stores and wrap stores while the Company's retail store network was temporarily closed for an average of 33.3% of its normal operating days¹ in YTD 2021 similar to 33.0% of its normal operating days¹ in YTD 2020. In YTD 2021, eCommerce sales were 29.4% of revenues.

Gross profit increased by \$38.5 million from \$78.1 million in YTD 2020 to \$116.6 million in YTD 2021. The gross profit margin increased by 1.8% from 29.3% in YTD 2020 to 31.1% in YTD 2021 primarily due to lower product costs, leveraging of fixed distribution, occupancy and depreciation costs. These decreases were partially offset by higher delivery and inventory adjustment costs, in addition, to higher compensation costs that were favourably impacted by wage subsidies under the CEWS program in YTD 2020.

Total G&A expenses increased by \$16.3 million or 28.7% from \$56.8 million in YTD 2020 to \$73.1 million in YTD 2021. This change was mainly driven by an increase in media and advertising expenses, compensation expenses that were favourably impacted by wage subsidies under the CEWS program in YTD 2020, in addition to telecommunication and information technology and occupancy expenses.

Finance related expenses decreased by \$6.6 million from \$15.2 million in YTD 2020 to \$8.6 million in YTD 2021. This change was mainly due to decreases in the Company's interest expense on its senior secured credit facility and a one-time \$4.3 million adjustment in Q2 2020 on Endy's contingent consideration liability, in addition to the \$1.4 million periodic accretion expense related to the Endy acquisition. The contingent liability was subsequently paid in March 2021 in full. These decreases were partly offset by increases in the revolver commitment fees and interest expense on the Company's lease liabilities.

Operating EBITDA¹ was \$75.2 million for YTD 2021, or 20.0% of revenue, compared to \$52.3 million for YTD 2020, or 19.6% of revenue, representing an increase of \$22.9 million or 43.6% mainly due to strong revenue growth in YTD 2021 combined with an improved gross profit margin and partially offset by an increase in G&A expenses.

Net Income increased by \$21.2 million from \$4.5 million (\$0.12 per share) in YTD 2020 to \$25.7 million (\$0.70 per share) in YTD 2021. 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 YTD 2021 increased by \$16.7 million from \$11.0 million (\$0.30 per share) in YTD 2020 to \$27.7 million (\$0.75 per share) in YTD 2021.

Conference Call

Sleep Country's CEO, Dave Friesema, and President, Stewart Schaefer, will host a conference call for analysts and investors on August 4, 2021 at 8:00 a.m. ET. The dial-in numbers for the conference call are (888) 664-6392 or (416) 764-8659. This conference call will be recorded and available for replay until August 11, 2021 23:59 ET. To listen to the replay, please dial (416) 764-8677 or (888) 390-0541 and use passcode 448781.

About Sleep Country

Sleep Country is Canada's leading omnichannel specialty sleep retailer with a national retail store network and robust eCommerce platforms. The Company operates under three retail banners: "Sleep Country Canada", with omnichannel operations in Canada excluding Québec; "Dormez-vous?" with omnichannel operations in Québec and "Endy", Canada's leading direct-to-consumer online sleep solutions retailer. As of August 3, 2021, Sleep Country has 287 stores, 17 fulfillment centres and 1 storage hub across Canada. Sleep Country is a purpose-led company dedicated to transforming lives by awakening Canadians to the power of sleep. The company is committed to meaningfully and positively supporting its environment, people and communities including operating a comprehensive Mattress Recycling Program and working 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.sleepcountryir.ca

Non-IFRS Measures

This news release refers 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 2021 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 below under the sections "Risk Factors" and "COVID-19 Business Update", the impact of the novel coronavirus ("COVID-19") pandemic 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/2021-08-03-Sleep-Country-Drives-Growth-in-Q2-2021-with-67-Revenue-Increase-and-269-Expansion-in-Adjusted-Diluted-Earnings-per-Share>