

Sleep Country Reports Fourth Quarter 2021 Financial Results

Sleep Country delivers revenue growth of 9.0% in Q4 2021 and record revenue growth of \$162.5 million or 21.4% in 2021

TORONTO, March 3, 2022 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ) today released financial results for the fourth quarter and year ended December 31, 2021. Sleep Country achieved strong revenue growth in Q4 and fiscal 2021 to reinforce its position as Canada's leading sleep retailer. Driven by its purpose to awaken Canadians to the power of sleep, the Company continued to deliver on its multi-year channel and product innovation strategy.

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

Fourth quarter highlights

- Revenues increased by \$22.3 million or 9.0% to \$271.2 million in Q4 2021 from \$248.9 million in Q4 2020;
- Revenues increased by \$84.7 million or 45.4% to \$271.2 million in Q4 2021 from \$186.5 million in Q4 2019;
- Gross profit margin increased by 300 basis points to 36.0% in Q4 2021 from 33.0% in Q4 2020;
- EBITDA1 increased by \$4.5 million or 8.5% to \$57.3 million in Q4 2021 from \$52.8 million in Q4 2020;
- Same Store Sales (SSS)1 increased by 3.2% from Q4 2020 to Q4 2021;
- eCommerce sales represented 20.9% of revenues in Q4 2021;
- Net income attributable to the Company decreased by \$0.2 million or 0.5% to \$26.4 million in Q4 2021 from \$26.6 million in Q4 2020;
- Adjusted net income attributable to the Company1 increased by \$3.6 million or 13.0% to \$31.0 million in Q4 2021 from \$27.4 million in Q4 2020;
- Diluted adjusted earnings per share1 increased by \$0.09 or 12.2% to \$0.83 in Q4 2021 from \$0.74 in Q4 2020;
- Basic earnings per share remained unchanged at \$0.72 in Q4 2021 and Q4 2020;
- Opened 10 new pilot "Sleep Country/Dormez-vous Express" stores in Walmart Supercentres in Ontario and Quebec, expanding the Company's existing partnership with Walmart Canada;
- Acquired 52% of the issued and outstanding common shares of Hush Blankets Inc. ("Hush"), a direct-to-consumer sleep retailer, for cash consideration of \$23.3 million;
- Joined forces with Well.ca, Canada's leading health and wellness eCommerce retailer, to promote sleep health;
- Announced \$0.5 million investment for a 25% ownership stake of Sleepout Inc. ("Sleepout"), a Canadian direct-to-consumer start-up specializing in portable blackout curtains for the bedroom;
- Amended its existing credit facility of \$260.0 million to include an additional \$100.0 million accordion and extend its maturity date to October 22, 2026;
- Subsequent to quarter-end, in January 2022, the Company announced the launch of the Sleep Country Store on Loblaw marketplace, offering customers leading assortment of sleep products across all Loblaw online grocery platforms; and
- Subsequent to quarter-end, on February 8, 2022, the Board declared a dividend of \$0.195 per share, payable on February 28, 2022 to shareholders of record at the close of business on February 18, 2022. The dividend was designated as an "eligible dividend" for Canadian tax purposes.

Annual highlights

- Revenues increased by \$162.5 million or 21.4% to \$920.2 million in 2021 from \$757.7 million in 2020;
- Gross profit margin increased by 220 basis points to 34.5% in 2021 from 32.3% in 2020;
- EBITDA1 increased by \$33.1 million or 19.9% to \$199.5 million in 2021 from \$166.4 million in 2020;
- Same Store Sales (SSS)1 increased by 18.3% from 2020 to 2021;
- eCommerce sales represented 23.5% of revenues in 2021;
- Net income attributable to the Company increased by \$25.3 million or 40.0% to \$88.6 million in 2021 from \$63.3 million in 2020;
- Adjusted net income attributable to the Company1 increased by \$26.7 million or 37.4% to \$98.3 million in 2021 from \$71.6 million in 2020;
- Diluted adjusted earnings per share1 increased by \$0.70 or 36.1% to \$2.64 in 2021 from 1.94 in 2020; and
- Basic earnings per share increased by \$0.68 or 39.3% to \$2.41 in 2021 from \$1.73 in 2020;

CEO Commentary and Outlook

"We delivered strong performance in the fourth quarter, with exceptional two-year stacked revenue growth of 45.4% driven by increased consumer demand for our portfolio of products across our brands and channels. We

continued to build our sleep ecosystem, expanded our product line-up and eCommerce platforms with the acquisition of Hush and investment in Sleepout, and grew our retail footprint with our exclusive Express stores in Walmart Supercentres," said Stewart Schaefer, CEO and President of Sleep Country.

"Despite the resurgence of COVID-19 later in the quarter and the supply chain challenges associated with the pandemic, our investments in distribution, inventory, digital and customer experience, combined with outstanding execution by our best-in-class team, enabled us to deliver to our customers wherever they chose to shop."

"We continued to be guided by our purpose of awakening Canadians to the power of sleep through our partnership with Well.ca to promote sleep as an essential part of health and well-being, and our support of community partners with donations that helped hundreds of families in need get a better night's sleep. With World Sleep Day just ahead, what better time to remind Canadians of the importance of a good night's sleep."

"As we look forward to the year ahead, we are positioned better than ever to continue to lead Canada's sleep space and differentiate our brands with the best assortment of mattresses and sleep products across the most relevant distribution channels in the country," concluded Schaefer.

Summary of Fourth Quarter Financial Results

(C\$ thousands unless otherwise stated; other than store and share data)	Q4 2021	Q4 2020	% Change	2021	2020	% Change
Revenues	\$271,158	\$248,861	9.0%	\$920,194	\$757,699	21.4%
SSS1	3.2%	32.4%		18.3%	N/A2	
Gross profit margin %	36.0%	33.0%		34.5%	32.3%	
Stores opened3	-	2		6	6	
Stores closed	2	1		2	1	
Stores renovated/relocated	1	12		11	21	
Operating EBITDA1	\$62,065	\$53,848	15.3%	\$210,889	\$171,469	23.0%
Operating EBITDA margin %1	22.9%	21.6%		22.9%	22.6%	
Net Income attributable to the Company	\$26,433	\$26,571	(0.5%)	\$88,603	\$63,307	40.0%
Adjusted Net Income attributable to the Company1	\$30,977	\$27,404	13.0%	\$98,342	\$71,593	37.4%
Earnings per share - Basic	\$0.72	\$0.72	0.0%	\$2.41	\$1.73	39.3%
Adjusted Earnings Per Share - Basic1	\$0.84	\$0.75	12.0%	\$2.67	\$1.95	36.9%
Adjusted Earnings Per Share - Diluted1	\$0.83	\$0.74	12.2.%	\$2.64	\$1.94	36.1%

Notes:

1 See the "Non-IFRS and Other Measures" section of this news release.

2 The temporary closure of the Company's retail stores in 2020 resulted in the Company's retail stores being closed for an average of 19.8% of its normal operating days (see "Non-IFRS and Other Measures"). As a result, the Company did not report 2020 SSS as it was not a representative measure of the Company's performance.

3 This figure does not include the ten pilot Sleep Country Express/Dormez-vous Express stores opened in Q4 2021 in Walmart Canada licensee spaces.

Revenues increased by \$22.3 million or 9.0% from \$248.9 million in Q4 2020 to \$271.2 million in Q4 2021. This increase was mainly driven by a 3.2% increase in SSS1, four net new stores opened in 2021 and post-acquisition revenue from Hush acquired on October 22, 2021. In Q4 2021, eCommerce sales represented 20.9% of Revenues.

Gross profit increased by \$15.5 million from \$82.2 million in Q4 2020 to \$97.7 million in Q4 2021. Gross profit margin increased by 300 basis points from 33.0% for Q4 2020 to 36.0% for Q4 2021 primarily due to an increase in average unit selling prices, and the leveraging of occupancy and depreciation expenses. These decreases were partially offset by higher transport and delivery and sales salaries.

Total G&A expenses increased by \$12.6 million or 28.9% from \$43.7 million in Q4 2020 to \$56.3 million in Q4 2021. This change was mainly driven by an increase in media and advertising, compensation, professional fees, telecommunication and information technology and depreciation expenses.

Finance related expenses decreased by \$0.5 million from \$4.8 million in Q4 2020 to \$4.3 million in Q4 2021. This change was mainly due to an unrealized gain of \$0.6 million on the Company's interest swap as at December 31, 2021. This unrealized gain was partially offset by an increase in interest expense on the Company's lease liabilities.

Operating EBITDA¹ was \$62.1 million for Q4 2021, or 22.9% of revenue, compared to \$53.8 million for Q4 2020, or 21.6% of revenue, representing an increase of \$8.3 million or 15.3% mainly due to strong revenue growth in Q4 2021 combined with an improved gross profit margin and partially offset by an increase in G&A expenses.

Income taxes increased by \$3.3 million from Q4 2020 to Q4 2021. The change is driven by the increase in net income before taxes by \$3.6 million from \$33.6 million in Q4 2020 to \$37.2 million in Q4 2021 as well as an increase in the Company's effective income tax rate by 7.0% from 21.0% in Q4 2020 to 28.0% in Q4 2021. The change in Company's effective tax rate from Q4 2020 to Q4 2021 was due to the change in the Company's position in Q4 2020 on the deductibility of its LTIP expenses which resulted in a lower effective tax rate in Q4 2020.

Net income attributable to the Company for Q4 2021 decreased by \$0.2 million from \$26.6 million (\$0.72 per share) in Q4 2020 to \$26.4 million (\$0.72 per share) in Q4 2021.

Adjusted net income attributable to the Company¹ for Q4 2021 increased by \$3.6 million from \$27.4 million (\$0.75 per share) in Q4 2020 to \$31.0 million (\$0.84 per share) in Q4 2021.

Summary of Annual Financial Results

Revenues increased by \$162.5 million or 21.4% from \$757.7 million in 2020 to \$920.2 million in 2021. This increase was mainly driven by an 18.3% increase in SSS1, net four new stores opened in fiscal 2021 and post-acquisition revenue from Hush acquired on October 22, 2021. In 2021, eCommerce sales were 23.5% of revenues.

Gross profit increased by \$72.5 million from \$244.5 million in 2020 to \$317.0 million in 2021. Gross profit margin increased by 220 basis points from 32.3% in 2020 to 34.5% in 2021 primarily due to an increase in average unit selling prices and the leveraging of occupancy and depreciation expenses. These decreases were partially offset by higher delivery costs, in addition to higher compensation costs that were favourably impacted by wage subsidies under the CEWS program in 2020.

Total G&A increased by \$43.3 million or 32.1% from \$134.9 million in 2020 to \$178.2 million in 2021. This change was mainly driven by an increase in media and advertising expenses and compensation expenses that were favourably impacted by wage subsidies under the CEWS program in 2020, in addition to professional fees, telecommunication and information technology, occupancy and depreciation expenses.

Finance related expenses decreased by \$8.6 million from \$25.4 million in 2020 to \$16.8 million in 2021. This change was mainly due to a \$2.2M decrease in the Company's interest expense on its senior secured credit facility and a \$4.3 million adjustment in Q2 2020 on Endy's contingent consideration liability, in addition to the \$3.2 million periodic accretion expense related to the Endy acquisition in 2020. The contingent consideration liability was subsequently paid in full in March 2021. These decreases were partially offset by increases in the revolver commitment fees and interest expense on the Company's lease liabilities.

Operating EBITDA¹ was \$210.9 million for 2021, or 22.9% of revenue, compared to \$171.5 million for 2020, or 22.6% of revenue, representing an increase of \$39.4 million or 23.0% mainly to strong revenue growth in 2021 combined with an improved gross profit margin and partially offset by an increase in G&A expenses.

Income taxes increased by \$12.2 million from 2020 to 2021. The change is driven by the increase in net income before taxes by \$37.8 million from \$84.0 million in 2020 to \$121.8 million in 2021 as well as an increase in the Company's effective income tax rate by 2.3% from 24.6% in 2020 to 27.0% in 2021. The change in Company's effective tax rate from 2020 to 2021 was due to the change in the Company's position in 2020 on the deductibility of its LTIP expenses which resulted in a lower effective tax rate in 2020.

Net Income attributable to the Company for 2021 increased by \$25.3 million from \$63.3 million (\$1.73 per share) in 2020 to \$88.6 million (\$2.41 per share) in 2021.

Adjusted Net Income attributable to the Company¹ for 2021 increased by \$26.7 million from \$71.6 million (\$1.95 per share) in 2020 to \$98.3 million (\$2.67 per share) in 2021.

Conference Call

Sleep Country CEO and President, Stewart Schaefer, and CFO, Craig De Pratto, will host a conference call for analysts and investors on March 4, 2022 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 March 11, 2022. To listen to the replay, please dial 416-764-8677 or 888-390-0541 and use passcode 459451#.

About Sleep Country

Sleep Country is Canada's leading omnichannel specialty sleep retailer with a national retail store network and multiple robust eCommerce platforms. The Company has 286 corporate-owned stores and 20 corporately-run warehouses across Canada and operates under retail banners: "Sleep Country Canada", with omnichannel operations in Canada excluding Québec; "Dormez-vous" with omnichannel operations in Québec; "Endy", Canada's leading direct-to-consumer online sleep solutions retailer; and recently acquired Hush Blankets Inc., one of Canada's fastest-growing digital retailers. Sleep Country is a purpose-led organization dedicated to transforming lives by awakening Canadians to the power of sleep, and is committed to building a company culture of inclusion and diversity where differences are embraced and valued. The Company meaningfully and positively supports its environment and the communities where it operates through its comprehensive mattress and foundation recycling program that keeps mattresses out of landfills, as well as its bed donation program that contributes new and gently used mattresses and foundations to Canadian charities to help families and children in need get a good night's sleep. For more information about the Company visit www.sleepcountryir.ca.

Non-IFRS and Other Measures

This news release refers to certain measures that are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS, including "Same Store Sales" or "SSS", "EBITDA", "Operating EBITDA", "Operating EBITDA margin", "Adjusted Net Income attributable to the Company", "Adjusted Earnings Per Share - Basic" and "Adjusted Earnings Per Share - Diluted". For more information on these Non-IFRS and other measures as well as a reconciliation to the most comparable IFRS measure, refer to "Non-IFRS and Other Measures" in the Company's MD&A for Q4 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 in the Q4 2021 MD&A 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 2021 annual information form (the "AIF") filed on March 3, 2022. 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/2022-03-03-Sleep-Country-Reports-Fourth-Quarter-2021-Financial-Results>