

Sleep Country reports strong YTD revenue growth of 5.6%, YTD diluted EPS growth of 13.2% and a decline in Q3 revenues of 8.3%

TORONTO, Nov. 4, 2022 /CNW/ - Sleep Country Canada Holdings Inc. ("Sleep Country" or the "Company") (TSX: ZZZ) today released its financial results for the third quarter and nine-month period ended September 30, 2022.

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

Third Quarter Financial Highlights

- Revenues decreased by \$22.8 million or 8.3% to \$251.0 million in Q3 2022 from \$273.8 million in Q3 2021;
- SSS¹ decreased by 11.1% in Q3 2022 from Q3 2021;
- eCommerce sales represented 18.5% of Revenues in Q3 2022;
- Gross profit margin increased by 100 basis points to 38.5% in Q3 2022 from 37.5% in Q3 2021;
- Operating EBITDA¹ decreased by \$8.1 million or 10.9% to \$65.6 million in Q3 2022 from \$73.7 million in Q3 2021;
- Operating EBITDA¹ margin decreased by 80 basis points to 26.1% in Q3 2022 from 26.9% in Q3 2021;
- Net income attributable to the Company decreased by \$7.6 million or 20.7% to \$28.9 million in Q3 2022 from \$36.5 million in Q3 2021;
- Adjusted net income attributable to the Company¹ decreased by \$7.2 million or 18.3% to \$32.5 million in Q3 2022 from \$39.7 million in Q3 2021;
- Diluted earnings per share ("**EPS**") decreased by \$0.19 or 19.4% to \$0.79 in Q3 2022 from \$0.98 in Q3 2021;
- Diluted adjusted EPS¹ decreased by \$0.18 or 16.8% to \$0.89 in Q3 2022 from \$1.07 in Q3 2021;
- Repurchased for cancellation 527,576 common shares (YTD 2022 - 1,362,877 common shares) for \$13.8 million (YTD 2022 - \$35.8 million) in Q3 2022 against the Company's NCIB; and
- Subsequent to quarter-end, on November 4, 2022, the Board declared a dividend of \$0.215 per share payable on November 30, 2022, to shareholders of record at the close of business on November 21, 2022. The dividend was designated as an "eligible dividend" for Canadian tax purposes.

Business Highlights

- Opened one new store in Q3 2022 in St. Thomas, Ontario increasing the store count to 287;
- Started the next phase of its Sleep Country/Dormez-vous Express stores in Walmart Supercentres with the opening of a new Express store in Scarborough, Ontario, extending the Company's partnership with Walmart Canada;
- Following the release of its inaugural Environmental, Social and Governance ("**ESG**") report, the Company announced its partnership with BrainBox AI to install ground-breaking AI technology to help reduce the Company's CO₂ emissions;
- Donated \$100,000 to Canadian Mental Health Association ("**CMHA**") to support the Company's back-to-school campaign, reinforcing sleep as the most essential school supply;
- Donated more than \$375,000 worth of mattresses, sheets, pillows and bedding to the Ukrainian Canadian Congress in Quebec in August 2022, bringing the total in-kind donations in support of community partners helping Ukrainians displaced by the war to \$640,000; and
- Subsequent to quarter-end, Hush opened its first retail experience -- a pop-up store at Yorkdale Shopping Mall -- to bring the Hush brand to life for customers.

President & CEO Commentary and Outlook

"In Q3, we saw the sentiment in consumer spending change rapidly as the quarter progressed. Despite a decline in Revenues due to consumer uncertainty fueled by rising interest rates and concern of a possible recession, we are very proud of our sustained growth in market share that we have achieved over the past three years. We are lapping considerable SSS¹ growth from Q3 2020 and Q3 2021, which delivered a two-year stacked SSS¹ growth of 25.1%, and despite our negative SSS¹ growth in Q3 2022, we are pleased with our three-year stacked SSS¹ growth of 14.0%," said Stewart Schaefer, President and CEO of Sleep Country.

"Our teams continue to do a great job navigating our business through a very difficult environment including successfully managing our inventory through the continued supply chain disruptions, coupled with a volatile Canadian dollar, to well position us for the fourth quarter."

"We expanded our retail footprint with a Sleep Country store opening in August, followed by a Dormez-vous

store opening in October. Additionally, we began the next phase of our partnership with Walmart, opening our 11th Sleep Country/Dormez-vous Express store in Scarborough, Ontario in August, with seven additional Express locations to be opened in Q4. Our stores continue to be a critical part of our omnichannel strategy, featuring the world's leading mattress and sleep accessory brands. As Canada's leading sleep partner, we are well positioned to capitalize on a rebound in consumer confidence."

"Our balance sheet remains strong, as we continue to return cash to our shareholders with a healthy dividend and executing our most robust share buyback program in our Company's history, while maintaining leverage well below historical levels. We remain bullish on executing our growth plans and driving our strategic vision, while continuing to grow shareholder value," concluded Schaefer.

Dividend Declaration

On November 4, 2022, the Board declared a dividend of \$0.215 per share, payable on November 30, 2022 to shareholders of record at the close of business on November 21, 2022. The dividend is designated as an "eligible dividend" for Canadian tax purposes.

Summary of Third Quarter Financial Results

<i>(C\$ thousands unless otherwise stated; other than store and share data)</i>	Q3 2022	Q3 2021	Change
Revenues	\$ 251,026	\$ 273,840	(8.3) %
SSS ¹	(11.1) %	10.6 %	
Gross profit margin %	38.5 %	37.5 %	
Stores opened	1	-	
Stores closed	1	-	
Stores renovated/relocated	-	-	
Operating EBITDA ¹	\$ 65,603	\$ 73,659	(10.9) %
Operating EBITDA margin % ¹	26.1 %	26.9 %	
Net income attributable to the Company	\$ 28,926	\$ 36,458	(20.7) %
Adjusted net income attributable to the Company ¹	\$ 32,457	\$ 39,707	(18.3) %
Basic EPS	\$ 0.80	\$ 0.99	(19.2) %
Diluted EPS	\$ 0.79	\$ 0.98	(19.4) %
Basic adjusted EPS ¹	\$ 0.90	\$ 1.08	(16.7) %
Diluted adjusted EPS ¹	\$ 0.89	\$ 1.07	(16.8) %

Notes:

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

Revenues decreased by \$22.8 million or 8.3% from \$273.8 million in Q3 2021 to \$251.0 million in Q3 2022 mainly driven by an 11.1% decrease in SSS¹, partially offset by incremental revenue earned from Hush which was acquired in Q4 2021, net two new store openings in YTD 2022, and wrap stores opened in 2021. The Company experienced a shift in pent-up sales from Q2 2021 to Q3 2021 as stores reopened in late June 2021 following store closures due to the COVID-19 pandemic, which contributed to the 11.1% decrease in SSS¹ in Q3 2022. SSS¹ is comping over our two-year stacked SSS¹ growth from Q3 2020 and Q3 2021 of 25.1% resulting in a three-year stacked SSS¹ growth of 14.0%.

Gross profit margin increased by 100 basis points from 37.5% for Q3 2021 to 38.5% for Q3 2022 due to an increase in average unit selling prices partially offset by higher product, delivery and transport expenses and deleveraging of occupancy and depreciation expenses.

Total G&A expenses increased by \$1.0 million or 2.0% from \$48.8 million in Q3 2021 to \$49.8 million in Q3 2022. This change was mainly driven by an increase in media and advertising and depreciation expenses partially offset by lower compensation, professional fees, credit card and financing charges and occupancy costs.

Finance related expenses increased by \$2.3 million from \$4.0 million in Q3 2021 to \$6.3 million in Q3 2022. This change was mainly due to an increase in accretion expense for the redemption liabilities related to the Hush

acquisition in Q4 2021, a loss on shares repurchased under the ASPP, partially offset by an increase in the unrealized gain on the interest rate swap.

Operating EBITDA¹ was \$65.6 million for Q3 2022, or 26.1% of Revenues, compared to \$73.7 million for Q3 2021, or 26.9% of Revenues, representing a decrease of \$8.1 million or 10.9% due to lower revenues in Q3 2022. This decrease was partially offset by an improved gross profit margin and a decrease in G&A spend (excluding the impact of depreciation expenses).

Income taxes decreased by \$2.1 million from Q3 2021 to Q3 2022. The change is driven by the decrease in net income before income taxes of \$9.6 million from \$49.9 million in Q3 2021 to \$40.3 million in Q3 2022, partially offset by the impact of an increase in the Company's effective income tax rate by 120 basis points from 26.9% in Q3 2021 to 28.1% in Q3 2022.

Net income attributable to the Company for Q3 2022 decreased by \$7.6 million from \$36.5 million (\$0.99 per share) in Q3 2021 to \$28.9 million (\$0.80 per share) in Q3 2022.

Adjusted net income attributable to the Company¹ for Q3 2022 decreased by \$7.2 million from \$39.7 million (\$1.08 per share) in Q3 2021 to \$32.5 million (\$0.90 per share) in Q3 2022.

Summary of YTD Financial Results

Revenues increased by \$36.6 million or 5.6% from \$649.0 million in YTD 2021 to \$685.6 million in YTD 2022. This increase was mainly driven by a 2.2% increase in SSS¹, incremental revenue earned from Hush which was acquired in Q4 2021, net two new store opening in YTD 2022, and wrap stores opened in 2021.

Gross profit margin increased by 270 basis points from 33.8% for YTD 2021 to 36.5% for YTD 2022 due to an increase in average unit selling prices, lower delivery costs and leveraging of depreciation expenses. In addition to the aforementioned, YTD 2021 was impacted by higher wage costs as a result of the Company's stores remaining open for curbside pick-up during the temporary store closures which did not repeat in YTD 2022. These changes were partially offset by higher product and transport costs, higher sales salaries including higher sales commission costs due to the shift of revenues earned from the Company's eCommerce platforms to its retail stores.

Total G&A expenses increased by \$16.6 million or 13.7% from \$122.0 million in YTD 2021 to \$138.6 million in YTD 2022. This change was mainly driven by an increase in media and advertising, compensation, credit card and financing charges, telecommunication and information technology, depreciation and other expenses partially offset by a decrease in professional fees and occupancy expenses.

Finance related expenses increased by \$2.0 million from \$12.6 million in YTD 2021 to \$14.6 million in YTD 2022. This change was mainly due to an increase in accretion expense for the redemption liabilities related to the Hush acquisition in Q4 2021, a loss on shares repurchased under the ASPP and partially offset by an increase in the unrealized gain on the interest rate swap.

Operating EBITDA¹ was \$165.6 million for YTD 2022, or 24.1% of Revenues, compared to \$148.8 million for YTD 2021, or 22.9% of Revenues, representing an increase of \$16.8 million or 11.2% due to strong revenue growth in YTD 2022 combined with an improved gross profit margin. These increase were partially offset by an increase in G&A spend (excluding the impact of depreciation expenses).

Income taxes increased by \$4.7 million from YTD 2021 to YTD 2022. The change is driven by the increase in net income before taxes of \$12.4 million from \$84.6 million in YTD 2021 to \$97.0 million in YTD 2022 as well as an increase in the Company's effective income tax rate by 150 basis points from 26.5% in YTD 2021 to 28.0% in YTD 2022.

Net Income attributable to the Company for YTD 2022 increased by \$7.8 million from \$62.2 million (\$1.69 per share) in YTD 2021 to \$70.0 million (\$1.91 per share) in YTD 2022.

Adjusted Net Income attributable to the Company¹ for YTD 2022 increased by \$11.6 million from \$67.4 million (\$1.83 per share) in YTD 2021 to \$79.0 million (\$2.16 per share) in YTD 2022.

Conference Call

Sleep Country's President and CEO, Stewart Schaefer, and CFO, Craig De Pratto, will host a conference call for analysts and investors on November 7, 2022 at 8:00 a.m. ET. The dial-in numbers for the conference call are 416-764-8659 or 888-664-6392. This conference call will be recorded and available for replay until November 14, 2022. To listen to the replay, please dial 416-764-8677 or 888-390-0541 and use passcode 648853#.

About Sleep Country

Sleep Country is Canada's leading specialty sleep retailer with a national retail store network and multiple robust eCommerce platforms. The Company has 288 corporate-owned stores and 20 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". 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.ir.sleepcountry.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", "Basic adjusted EPS" and "Diluted adjusted EPS". 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 Q3 2022 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 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

For further information: Craig De Pratto, Chief Financial Officer, Sleep Country Canada,
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<https://ir.sleepcountry.ca/2022-11-04-Sleep-Country-reports-strong-YTD-revenue-growth-of-5-6-,YTD-diluted-EPS-growth-of-13-2-and-a-decline-in-Q3-revenues-of-8-3>